

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 27	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2015 - * 100	Amendment No. (req. for Amendments *)
Filing by NASDAQ OMX PHLX LLC. Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934				
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>
			Section 19(b)(3)(B) * <input type="checkbox"/>	
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule <input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(3) <input type="checkbox"/> 19b-4(f)(6)	
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934	
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>	Section 3C(b)(2) * <input type="checkbox"/>		
Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>			
<b>Description</b>				
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).				
<input type="text" value="A proposal to introduce a new Options Floor Broker Management System feature."/>				
<b>Contact Information</b>				
Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.				
First Name *	<input type="text" value="Edith"/>	Last Name *	<input type="text" value="Hallahan"/>	
Title *	<input type="text" value="Principal Associate General Counsel"/>			
E-mail *	<input type="text" value="edith.hallahan@nasdaq.com"/>			
Telephone *	<input type="text" value="(215) 496-5179"/>	Fax	<input type="text"/>	
<b>Signature</b>				
Pursuant to the requirements of the Securities Exchange Act of 1934,				
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.				
(Title *)				
Date	<input type="text" value="12/04/2015"/>	<input type="text" value="Executive Vice President and General Counsel"/>		
By	<input type="text" value="Edward S. Knight"/>	<input type="text"/>		
(Name *)		<input type="text" value="edward.knight@nasdaq.com"/>		
NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.				

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”) proposes to introduce a new Options Floor Broker Management System (“FBMS”) feature, as described in detail below.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and the text of the amended rules is attached hereto as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The Board of Directors of the Exchange approved the submission of this proposed rule change on July 10, 2015. No other action by the Exchange is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to Edith Hallahan, Principal Associate General Counsel, Nasdaq, Inc., at 215-496-5179.

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<sup>1</sup> 15 U.S.C. 78s(b)(1)

<sup>2</sup> 17 CFR 240.19b-4.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

a. Purpose

Currently, the Exchange offers two versions of FBMS - FBMS 1 and FBMS 2.<sup>3</sup>

The proposed new FBMS (hereinafter FBMS 3) will replace both the old FBMS (“FBMS 1”) and new FBMS (“FBMS 2”) versions in operation today, as described further below.

FBMS 3 will offer all of the same functionality as FBMS 2 as well as one additional feature, as described below. Accordingly, FBMS 2 and 3 functionality is being summarized herein merely as background.

New Feature - Snapshot

FBMS 3 will offer a new feature, called Snapshot, to improve upon the highly automated aspects of FBMS 2 in capturing a fulsome audit trail for options orders entered by Floor Brokers. Specifically, the Snapshot feature, which is voluntary, will take an electronic snapshot of the market for a particular option series reflecting the market conditions for such option series at the time the order is being verbally represented in the trading crowd on the Exchange’s trading floor.

Today, FBMS 2 enforces applicable priority and trade through rules, as described below, based on the market at the time the System receives the order for execution. Specifically, FBMS 2 validates whether an execution is appropriate using the market when the order is received by the System, and the fact that the market for that option series (a potentially fast moving market) may have changed during the brief period before the order is processed for execution can, today, prevent the Floor Broker from receiving

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<sup>3</sup> The Exchange filed to continue the concurrent operation of FBMS 1 and FBMS 2 until November 3, 2015. See Securities Exchange Act Release No. 73586 (November 13, 2015), 79 FR 68931 (November 19, 2014) (SR-Phlx-2014-71).

an execution by the System because FBMS 2 looks at the market when the option order is submitted for execution rather than the actual market that the Floor Broker, contra-parties and the trading crowd as a whole experienced when the trade was represented.

In contrast, when a Floor Broker chooses to utilize the Snapshot functionality, FBMS 3 will apply the market captured in the Snapshot when enforcing applicable priority and trade through rules.

In order to implement Snapshot as part of FBMS 3, the Exchange proposes to adopt new language in Rule 1063(e)(v) to provide that a Floor Broker may choose to use the Snapshot feature, which electronically records a snapshot of the current market for a particular options order (“Snapshot”). The Floor Broker may submit an options order for execution based on the Snapshot, provided the order is submitted within a certain number of seconds after the Snapshot is recorded. Such number of seconds, not to exceed 15 seconds (“Snapshot Timer”) shall be determined by the Exchange and announced by Options Trader Alert. If the Snapshot Timer expires, the Floor Broker must take a new Snapshot in order to utilize this feature.<sup>4</sup> If there are multiple Snapshots respecting the same order, the System uses the most recent Snapshot. The System uses the Snapshot to determine whether the price submitted by the Floor Broker is consistent with the Snapshot by checking the applicable priority and trade-through rules,<sup>5</sup> and, if so, executes the order. If it is not, the order is rejected back to the Floor Broker.

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<sup>4</sup> The Floor Broker can take a new Snapshot even if the prior Snapshot has not expired.

<sup>5</sup> These are the same checks that are provided by FBMS 2 today and are summarized below.

If the Floor Broker does not choose to submit an order utilizing Snapshot, the order will be handled as it is today (in FBMS 2) and FBMS 3 will enforce applicable priority and trade through rules based on the market at the time the System receives the order for execution. The System will execute the order and that will be the execution time; the execution time is not the time the Floor Broker verbally agrees to trade in the trading crowd.

Today, the Exchange's Floor Brokers can choose to either use FBMS 1 or FBMS 2. The Exchange believes that FBMS 2 offers many advantages and regulatory tools to help the Floor Brokers comply with applicable rules and to help the Exchange dispense with its obligations to enforce applicable priority and trade through rules. At the same time, the application of the market at the time of order submission to the System does not reflect the market at the time of actual representation and negotiation in the trading crowd, nor does it account for the speed at which the market can change. The Snapshot feature of FBMS 3 is intended to address this reality.

#### Background - Origin of FBMS 1

Historically, Floor Brokers were not connected to the order entry portals like order flow providers are, because their business was focused on receiving orders at the Floor Broker booths on the trading floor and executing such orders in person, manually. As options trading became more electronic, this has continued to change over time, such that the Exchange began to provide technology to Floor Brokers, as did other options exchanges.<sup>6</sup> The main driving force behind the creation of FBMS was the Consolidated

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<sup>6</sup> See e.g., Securities Exchange Act Release Nos. 41524 (June 14, 1999)( SR-Phlx-99-11); 50070 (July 23, 2004)(SR-Phlx-2004-46); 50996 (January 7, 2005)(SR-CBOE-2004-77); and 64057 (March 8, 2011)(SR-CBOE-2011-019) at note 4.

Options Audit Trail System (“COATS”), mandated in 2000.<sup>7</sup> The COATS requirements created the need for tools to assist Floor Brokers<sup>8</sup> in complying with the requirement to capture certain options order information, including the time of order receipt and execution, contemporaneously with receipt and execution.

FBMS 2 Same as FBMS 3

FBMS 2 introduced many enhancements over FBMS 1, as summarized below.<sup>9</sup> At this time, the Exchange proposes to introduce FBMS 3, while maintaining all of the features of FBMS 2. Specifically, the Exchange will continue to provide Floor Brokers with a feature called a complex calculator. Floor Brokers entering multi-leg option orders up to 15 legs on a net debit or net credit basis via FBMS would receive suggested prices for each component of the multi-leg order that would achieve the desired net debit or net credit price.<sup>10</sup>

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<sup>7</sup> See subparagraph IV.B.e(v) of the Order Instituting Public Administrative Proceedings Pursuant to Section 19(h)(1) of the Securities Exchange Act of 1934, Making Findings and Imposing Remedial Sanctions. See Securities Exchange Act Release No. 43268 (September 11, 2000) (Requiring options exchanges to design and implement COATS to "incorporate into the audit trail all non-electronic orders such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on such respondent exchange, beginning with the receipt of an order by such respondent exchange and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order..." ("Phase V")).

<sup>8</sup> COATS is not just applicable to Floor Brokers but was particularly challenging for them because of the number of orders they execute manually.

<sup>9</sup> Securities Exchange Act Release No. 69471 (April 29, 2013), 78 FR 26096 (May 3, 2013) (SR-Phlx-2013-09).

<sup>10</sup> The complex calculator functionality does not execute orders.

With FBMS 3, the Floor Broker will continue to enter the trading crowd (after entering all of the required electronic audit trail information onto the FBMS in accordance with Exchange rules<sup>11</sup>) and request a market.

Floor Brokers will continue to submit orders represented in the trading crowd for execution by FBMS 3; the order will be executed based on existing markets and Exchange rules (unless a Snapshot is taken). If the order cannot be executed due to, for example, a change in the market, the System will attempt to execute the order a number of times for a period of no more than one second, after which it will be returned to the Floor Broker on the FBMS. The Floor Broker may resubmit the order for execution, as long as the quotes/orders that comprise the order have not been withdrawn.<sup>12</sup>

FBMS 3, like FBMS 2, will assist Floor Brokers with “clearing the book.” For example, if a Floor Broker enters a two-sided order through the new FBMS and there is an order on the book at a price that prevents the Floor Broker’s order from executing, FBMS 3 will indicate to the Floor Broker how many contracts need to be satisfied before the Floor Broker’s order can execute at the agreed-upon price. If the Floor Broker agrees to satisfy that order, consistent with the order placed in his care, he can cause FBMS to send a portion of one of his orders to the System to trade against the order on the book, thereby clearing it and permitting the remainder of the Floor Broker’s order to trade.<sup>13</sup>

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<sup>11</sup> See Rules 1063(e) and (f).

<sup>12</sup> See Rule 1000(g).

<sup>13</sup> When clearing the book, the Floor Broker cannot use the Snapshot feature, because FBMS will be relying on the actual orders on the book and current market conditions to do so.



This functionality is optional in the sense that the Floor Broker can decide not to trade against the book, consistent with order instructions he has been given,<sup>14</sup> and therefore not execute his two-sided order at that particular price.<sup>15</sup>

In FBMS 3, most orders handled by Floor Brokers (limited exceptions apply) will continue to be executed by the Exchange's System and not verbally by Floor Brokers in the trading crowd. Trades not involving a Floor Broker will still be executable verbally in the trading crowd.<sup>16</sup> For example, a specialist trading with a Registered Options Trader ("ROT") will continue to be able to do so; specialists and ROTs do not have FBMS, because it is a tool for Floor Brokers. Trades executed electronically through FBMS are automatically trade reported.

#### Implementation

Respecting FBMS 2, the Exchange has acknowledged that it has experienced latencies and disruptions that interfered with the Floor Broker's ability to execute orders on the Exchange.<sup>17</sup> FBMS 3 will consist of a technology architecture intended to

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<sup>14</sup> For example, the Floor Broker may have been instructed to trade a certain minimum amount.

<sup>15</sup> Of course, the Floor Broker must exercise due diligence in the execution of the order pursuant to Rules 155 and 1065. Presumably, Floor Brokers' clients send them orders (rather than entering them electronically into Phlx XL), because they desire the order handling that a Floor Broker provides; if the client wanted a portion of their order to trade against the book, they could submit their order to do so. Nothing requires the book to be cleared if the client or Floor Broker determines not to pursue the execution of their order at that time.

<sup>16</sup> The restriction from manual trading in Rule 1000(f) is limited to trades involving at least one Floor Broker. See Rule 1000(f)(ii).

<sup>17</sup> The Exchange delayed the full implementation of FBMS 2 several times and has operated FBMS 1 and FBMS 2 concurrently since March 2014. Securities Exchange Act Release Nos. 69811 (June 20, 2013), 78 FR 38422 (June 26, 2013) (SR-Phlx-2013-67); 70141 (August 8, 2013), 78 FR 49565 (August 14,

eliminate the latencies suffered by the users of FBMS 2. The Exchange believes that the particular architecture underlying FBMS 3 should not result in those same issues. Those issues, have, nevertheless, resulted in the Exchange continuing to offer FBMS 1 alongside FBMS 2 to permit its Floor Brokers to succeed in executing orders, consistent with their due diligence obligations.<sup>18</sup>

The Exchange proposes to implement FBMS 3 with a trial period of three to six months, to be determined by the Exchange and announced by Options Trader Alert, during which FBMS 3 and these proposed rules will operate along with the existing FBMS 1. The Exchange seeks to begin implementation in April 2016. Thus, Floor Brokers and their personnel will be able to get accustomed to FBMS 3 over a period of time, before FBMS 1 is no longer available. The Exchange believes that this trial period is reasonable and should assist Floor Brokers and their staff in learning about FBMS 3. At the same time, the Exchange does not believe that this will be a difficult transition, as FBMS 3 is designed to function the same as FBMS 2, except the Snapshot feature, which is optional. Based on experience during the trial period, the Exchange may determine to operate both FBMS 1 and 3 concurrently while ending FBMS 2; the Exchange will provide advanced notice to Floor Brokers of such timing. The Exchange may also determine to revert to FBMS 2 in the event that any issues arise respecting FBMS 3.

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2013)(SR-Phlx-2013-83); 70629 (October 8, 2013), 78 FR 62852 (October 22, 2013) (SR-Phlx-2013-100); 71212 (December 31, 2013), 79 FR 888 (January 7, 2014)(SR-Phlx-2013-129); 72135 (May 9, 2014), 79 FR 27966 (May 15, 2014)(SR-Phlx-2014-33); and 73246 (September 29, 2014), 79 FR 59874 (October 3, 2014) (SR-Phlx-2014-59).

<sup>18</sup> See supra note 14.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>19</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>20</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest. Specifically, all of the features of FBMS 2 that will be offered in FBMS 3, together, should increase the speed with which Floor Brokers handle such orders, thereby making the Exchange's markets more efficient, to the benefit of the investing public and consistent with promoting just and equitable principles of trade. Accordingly, the Exchange believes that FBMS 3 is consistent with the Act for the same reasons that FBMS 2 was approved as consistent with the Act.<sup>21</sup>

The Exchange also believes that the proposed Snapshot feature should promote just and equitable principles of trade by enhancing the efficiency of Exchange floor executions, resulting in increased order interaction and better execution fill rates. Specifically, the Exchange believes that the Snapshot feature should help Floor Brokers actually get orders executed. The Exchange also believes that the resulting improved certainty of execution protects investors and the public interest by eliminating the possibility that an order can be returned to a Floor Broker due to changed market conditions.

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<sup>19</sup> 15 U.S.C. 78f(b).

<sup>20</sup> 15 U.S.C. 78f(b)(5).

<sup>21</sup> See supra note 9.

As explained above, the Snapshot feature is consistent with options trade through and priority rules, and based on the Snapshot market, helps ensure that an execution cannot occur in violation of those rules. Specifically, potential trades are evaluated by the System based on market conditions that were in place at the time, and this occurs electronically. The System will apply the concepts in Rules 1014, 1033 and 1084 to checking potential trades. Accordingly, the Snapshot feature is intended to preserve those principles. The Snapshot feature promotes just and equitable principles of trade by applying the correct timing of market conditions.

4. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that FBMS 3 should result in the Exchange's trading floor operating in a more efficient way, which should help it compete with other floor-based exchanges and help the Exchange's Floor Brokers compete with floor brokers on other options exchanges. The proposal does not impose a burden on intra-market competition not necessary or appropriate in furtherance of the purposes of the Act, because it modernizes floor trading without undue impact on any particular segment of the membership, as explained above. Overall, the proposal is pro-competitive for several reasons; in addition, to helping Phlx Floor Brokers compete for executions against floor brokers at other exchanges, it also helps them be more efficient and compete more effectively against fully electronic executions. This, in turn, helps the Exchange compete against other exchanges in a deeply competitive landscape. In addition, the proposal helps the Exchange compete by ensuring the robustness of its regulatory program, Floor Brokers' compliance with applicable rules, and enhancing customer protection through

further utilization of electronic tools by members, which can be a differentiator in attracting participants and order flow and which should benefit customers in the long term. The Exchange also believes that the Snapshot feature should foster the Exchange's competitive position by helping Floor Brokers get their orders executed, as compared to the operation of FBMS 3 without the Snapshot feature.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

The Exchange does not consent to an extension of the time period for Commission action.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Although the Exchange is not aware of an exact feature like Snapshot in place on another options exchange, the Exchange believes that other exchanges that operate a trading floor utilize various methods and processes to address market changes that can occur while a floor broker is in the process of executing an order. For example, the Exchange understands that CBOE uses a PAR Official to check whether an order was executable when the floor broker executed such order in the trading crowd and then permits that order to be submitted to the exchange for post-trade handling (noting that the execution occurs in the trading crowd).<sup>22</sup> Although this is not the same as the Snapshot

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<sup>22</sup> See e.g., CBOE Rules 6.12A and 7.12.

feature, the Exchange believes it is similar in terms of its purpose. In fact, the Exchange believes that its Snapshot feature is superior to manual processes involving a person, because it is done automatically and is not prone to potential error or mishandling.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

1. Exhibit 1, Notice of proposed rule for publication in the Federal Register.
2. Exhibit 5, Proposed rule text.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-Phlx-2015-100)

December \_\_, 2015

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing of Proposed Rule Change to introduce a new Options Floor Broker Management System feature

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on December 4, 2015, NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to introduce a new Options Floor Broker Management System (“FBMS”) feature, as described in detail below.

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaqomxphlx.cchwallstreet.com/>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Currently, the Exchange offers two versions of FBMS - FBMS 1 and FBMS 2.<sup>3</sup> The proposed new FBMS (hereinafter FBMS 3) will replace both the old FBMS (“FBMS 1”) and new FBMS (“FBMS 2”) versions in operation today, as described further below.

FBMS 3 will offer all of the same functionality as FBMS 2 as well as one additional feature, as described below. Accordingly, FBMS 2 and 3 functionality is being summarized herein merely as background.

New Feature - Snapshot

FBMS 3 will offer a new feature, called Snapshot, to improve upon the highly automated aspects of FBMS 2 in capturing a fulsome audit trail for options orders entered by Floor Brokers. Specifically, the Snapshot feature, which is voluntary, will take an electronic snapshot of the market for a particular option series reflecting the market

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<sup>3</sup> The Exchange filed to continue the concurrent operation of FBMS 1 and FBMS 2 until November 3, 2015. See Securities Exchange Act Release No. 73586 (November 13, 2015), 79 FR 68931 (November 19, 2014) (SR-Phlx-2014-71).



conditions for such option series at the time the order is being verbally represented in the trading crowd on the Exchange's trading floor.

Today, FBMS 2 enforces applicable priority and trade through rules, as described below, based on the market at the time the System receives the order for execution. Specifically, FBMS 2 validates whether an execution is appropriate using the market when the order is received by the System, and the fact that the market for that option series (a potentially fast moving market) may have changed during the brief period before the order is processed for execution can, today, prevent the Floor Broker from receiving an execution by the System because FBMS 2 looks at the market when the option order is submitted for execution rather than the actual market that the Floor Broker, contra-parties and the trading crowd as a whole experienced when the trade was represented.

In contrast, when a Floor Broker chooses to utilize the Snapshot functionality, FBMS 3 will apply the market captured in the Snapshot when enforcing applicable priority and trade through rules.

In order to implement Snapshot as part of FBMS 3, the Exchange proposes to adopt new language in Rule 1063(e)(v) to provide that a Floor Broker may choose to use the Snapshot feature, which electronically records a snapshot of the current market for a particular options order ("Snapshot"). The Floor Broker may submit an options order for execution based on the Snapshot, provided the order is submitted within a certain number of seconds after the Snapshot is recorded. Such number of seconds, not to exceed 15 seconds ("Snapshot Timer") shall be determined by the Exchange and announced by Options Trader Alert. If the Snapshot Timer expires, the Floor Broker must take a new

Snapshot in order to utilize this feature.<sup>4</sup> If there are multiple Snapshots respecting the same order, the System uses the most recent Snapshot. The System uses the Snapshot to determine whether the price submitted by the Floor Broker is consistent with the Snapshot by checking the applicable priority and trade-through rules,<sup>5</sup> and, if so, executes the order. If it is not, the order is rejected back to the Floor Broker.

If the Floor Broker does not choose to submit an order utilizing Snapshot, the order will be handled as it is today (in FBMS 2) and FBMS 3 will enforce applicable priority and trade through rules based on the market at the time the System receives the order for execution. The System will execute the order and that will be the execution time; the execution time is not the time the Floor Broker verbally agrees to trade in the trading crowd.

Today, the Exchange's Floor Brokers can choose to either use FBMS 1 or FBMS 2. The Exchange believes that FBMS 2 offers many advantages and regulatory tools to help the Floor Brokers comply with applicable rules and to help the Exchange dispense with its obligations to enforce applicable priority and trade through rules. At the same time, the application of the market at the time of order submission to the System does not reflect the market at the time of actual representation and negotiation in the trading crowd, nor does it account for the speed at which the market can change. The Snapshot feature of FBMS 3 is intended to address this reality.

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<sup>4</sup> The Floor Broker can take a new Snapshot even if the prior Snapshot has not expired.

<sup>5</sup> These are the same checks that are provided by FBMS 2 today and are summarized below.

### Background - Origin of FBMS 1

Historically, Floor Brokers were not connected to the order entry portals like order flow providers are, because their business was focused on receiving orders at the Floor Broker booths on the trading floor and executing such orders in person, manually. As options trading became more electronic, this has continued to change over time, such that the Exchange began to provide technology to Floor Brokers, as did other options exchanges.<sup>6</sup> The main driving force behind the creation of FBMS was the Consolidated Options Audit Trail System (“COATS”), mandated in 2000.<sup>7</sup> The COATS requirements created the need for tools to assist Floor Brokers<sup>8</sup> in complying with the requirement to capture certain options order information, including the time of order receipt and execution, contemporaneously with receipt and execution.

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<sup>6</sup> See e.g., Securities Exchange Act Release Nos. 41524 (June 14, 1999)( SR-Phlx-99-11); 50070 (July 23, 2004)(SR-Phlx-2004-46); 50996 (January 7, 2005)(SR-CBOE-2004-77); and 64057 (March 8, 2011)(SR-CBOE-2011-019) at note 4.

<sup>7</sup> See subparagraph IV.B.e(v) of the Order Instituting Public Administrative Proceedings Pursuant to Section 19(h)(1) of the Securities Exchange Act of 1934, Making Findings and Imposing Remedial Sanctions. See Securities Exchange Act [Release No. 43268](#) (September 11, 2000) (Requiring options exchanges to design and implement COATS to "incorporate into the audit trail all non-electronic orders such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on such respondent exchange, beginning with the receipt of an order by such respondent exchange and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order..." ("Phase V")).

<sup>8</sup> COATS is not just applicable to Floor Brokers but was particularly challenging for them because of the number of orders they execute manually.

FBMS 2 Same as FBMS 3

FBMS 2 introduced many enhancements over FBMS 1, as summarized below.<sup>9</sup> At this time, the Exchange proposes to introduce FBMS 3, while maintaining all of the features of FBMS 2. Specifically, the Exchange will continue to provide Floor Brokers with a feature called a complex calculator. Floor Brokers entering multi-leg option orders up to 15 legs on a net debit or net credit basis via FBMS would receive suggested prices for each component of the multi-leg order that would achieve the desired net debit or net credit price.<sup>10</sup>

With FBMS 3, the Floor Broker will continue to enter the trading crowd (after entering all of the required electronic audit trail information onto the FBMS in accordance with Exchange rules<sup>11</sup>) and request a market.

Floor Brokers will continue to submit orders represented in the trading crowd for execution by FBMS 3; the order will be executed based on existing markets and Exchange rules (unless a Snapshot is taken). If the order cannot be executed due to, for example, a change in the market, the System will attempt to execute the order a number of times for a period of no more than one second, after which it will be returned to the Floor Broker on the FBMS. The Floor Broker may resubmit the order for execution, as long as the quotes/orders that comprise the order have not been withdrawn.<sup>12</sup>

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<sup>9</sup> Securities Exchange Act Release No. 69471 (April 29, 2013), 78 FR 26096 (May 3, 2013) (SR-Phlx-2013-09).

<sup>10</sup> The complex calculator functionality does not execute orders.

<sup>11</sup> See Rules 1063(e) and (f).

<sup>12</sup> See Rule 1000(g).

FBMS 3, like FBMS 2, will assist Floor Brokers with “clearing the book.” For example, if a Floor Broker enters a two-sided order through the new FBMS and there is an order on the book at a price that prevents the Floor Broker’s order from executing, FBMS 3 will indicate to the Floor Broker how many contracts need to be satisfied before the Floor Broker’s order can execute at the agreed-upon price. If the Floor Broker agrees to satisfy that order, consistent with the order placed in his care, he can cause FBMS to send a portion of one of his orders to the System to trade against the order on the book, thereby clearing it and permitting the remainder of the Floor Broker’s order to trade.<sup>13</sup> This functionality is optional in the sense that the Floor Broker can decide not to trade against the book, consistent with order instructions he has been given,<sup>14</sup> and therefore not execute his two-sided order at that particular price.<sup>15</sup>

In FBMS 3, most orders handled by Floor Brokers (limited exceptions apply) will continue to be executed by the Exchange’s System and not verbally by Floor Brokers in the trading crowd. Trades not involving a Floor Broker will still be executable verbally

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<sup>13</sup> When clearing the book, the Floor Broker cannot use the Snapshot feature, because FBMS will be relying on the actual orders on the book and current market conditions to do so.

<sup>14</sup> For example, the Floor Broker may have been instructed to trade a certain minimum amount.

<sup>15</sup> Of course, the Floor Broker must exercise due diligence in the execution of the order pursuant to Rules 155 and 1065. Presumably, Floor Brokers’ clients send them orders (rather than entering them electronically into Phlx XL), because they desire the order handling that a Floor Broker provides; if the client wanted a portion of their order to trade against the book, they could submit their order to do so. Nothing requires the book to be cleared if the client or Floor Broker determines not to pursue the execution of their order at that time.

in the trading crowd.<sup>16</sup> For example, a specialist trading with a Registered Options Trader (“ROT”) will continue to be able to do so; specialists and ROTs do not have FBMS, because it is a tool for Floor Brokers. Trades executed electronically through FBMS are automatically trade reported.

### Implementation

Respecting FBMS 2, the Exchange has acknowledged that it has experienced latencies and disruptions that interfered with the Floor Broker’s ability to execute orders on the Exchange.<sup>17</sup> FBMS 3 will consist of a technology architecture intended to eliminate the latencies suffered by the users of FBMS 2. The Exchange believes that the particular architecture underlying FBMS 3 should not result in those same issues. Those issues, have, nevertheless, resulted in the Exchange continuing to offer FBMS 1 alongside FBMS 2 to permit its Floor Brokers to succeed in executing orders, consistent with their due diligence obligations.<sup>18</sup>

The Exchange proposes to implement FBMS 3 with a trial period of three to six months, to be determined by the Exchange and announced by Options Trader Alert, during which FBMS 3 and these proposed rules will operate along with the existing

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<sup>16</sup> The restriction from manual trading in Rule 1000(f) is limited to trades involving at least one Floor Broker. See Rule 1000(f)(ii).

<sup>17</sup> The Exchange delayed the full implementation of FBMS 2 several times and has operated FBMS 1 and FBMS 2 concurrently since March 2014. Securities Exchange Act Release Nos. 69811 (June 20, 2013), 78 FR 38422 (June 26, 2013) (SR-Phlx-2013-67); 70141 (August 8, 2013), 78 FR 49565 (August 14, 2013)(SR-Phlx-2013-83); 70629 (October 8, 2013), 78 FR 62852 (October 22, 2013) (SR-Phlx-2013-100); 71212 (December 31, 2013), 79 FR 888 (January 7, 2014)(SR-Phlx-2013-129); 72135 (May 9, 2014), 79 FR 27966 (May 15, 2014)(SR-Phlx-2014-33); and 73246 (September 29, 2014), 79 FR 59874 (October 3, 2014) (SR-Phlx-2014-59).

<sup>18</sup> See supra note 14.

FBMS 1. The Exchange seeks to begin implementation in April 2016. Thus, Floor Brokers and their personnel will be able to get accustomed to FBMS 3 over a period of time, before FBMS 1 is no longer available. The Exchange believes that this trial period is reasonable and should assist Floor Brokers and their staff in learning about FBMS 3. At the same time, the Exchange does not believe that this will be a difficult transition, as FBMS 3 is designed to function the same as FBMS 2, except the Snapshot feature, which is optional. Based on experience during the trial period, the Exchange may determine to operate both FBMS 1 and 3 concurrently while ending FBMS 2; the Exchange will provide advanced notice to Floor Brokers of such timing. The Exchange may also determine to revert to FBMS 2 in the event that any issues arise respecting FBMS 3.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>19</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>20</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and to protect investors and the public interest. Specifically, all of the features of FBMS 2 that will be offered in FBMS 3, together, should increase the speed with which Floor Brokers handle such orders, thereby making the Exchange's markets more efficient, to the benefit of the investing public and consistent with promoting just and equitable principles of trade. Accordingly, the Exchange believes that FBMS 3 is

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<sup>19</sup> 15 U.S.C. 78f(b).

<sup>20</sup> 15 U.S.C. 78f(b)(5).

consistent with the Act for the same reasons that FBMS 2 was approved as consistent with the Act.<sup>21</sup>

The Exchange also believes that the proposed Snapshot feature should promote just and equitable principles of trade by enhancing the efficiency of Exchange floor executions, resulting in increased order interaction and better execution fill rates. Specifically, the Exchange believes that the Snapshot feature should help Floor Brokers actually get orders executed. The Exchange also believes that the resulting improved certainty of execution protects investors and the public interest by eliminating the possibility that an order can be returned to a Floor Broker due to changed market conditions.

As explained above, the Snapshot feature is consistent with options trade through and priority rules, and based on the Snapshot market, helps ensure that an execution cannot occur in violation of those rules. Specifically, potential trades are evaluated by the System based on market conditions that were in place at the time, and this occurs electronically. The System will apply the concepts in Rules 1014, 1033 and 1084 to checking potential trades. Accordingly, the Snapshot feature is intended to preserve those principles. The Snapshot feature promotes just and equitable principles of trade by applying the correct timing of market conditions.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that FBMS 3 should result in the Exchange's trading floor

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<sup>21</sup> See supra note 9.



operating in a more efficient way, which should help it compete with other floor-based exchanges and help the Exchange's Floor Brokers compete with floor brokers on other options exchanges. The proposal does not impose a burden on intra-market competition not necessary or appropriate in furtherance of the purposes of the Act, because it modernizes floor trading without undue impact on any particular segment of the membership, as explained above. Overall, the proposal is pro-competitive for several reasons; in addition, to helping Phlx Floor Brokers compete for executions against floor brokers at other exchanges, it also helps them be more efficient and compete more effectively against fully electronic executions. This, in turn, helps the Exchange compete against other exchanges in a deeply competitive landscape. In addition, the proposal helps the Exchange compete by ensuring the robustness of its regulatory program, Floor Brokers' compliance with applicable rules, and enhancing customer protection through further utilization of electronic tools by members, which can be a differentiator in attracting participants and order flow and which should benefit customers in the long term. The Exchange also believes that the Snapshot feature should foster the Exchange's competitive position by helping Floor Brokers get their orders executed, as compared to the operation of FBMS 3 without the Snapshot feature.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date

if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2015-100 on the subject line.

##### Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2015-100. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site

(<http://www.sec.gov/rules/sro.shtml>).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any

person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-Phlx-2015-100 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>22</sup>

Robert W. Errett  
Deputy Secretary

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<sup>22</sup> 17 CFR 200.30-3(a)(12).