

Required fields are shown with yellow backgrounds and asterisks.

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 type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action * <input type="checkbox"/>		Date Expires * <input type="text"/>	<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 checked="" 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"/>
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**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

A proposal to delete obsolete rule language and amend outdated references relating to Exchange Rule 1047, Trading Rotations, Halts and Suspensions.

**Contact Information**

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 \* Edith      Last Name \* Hallahan  
 Title \* Principal Associate General Counsel  
 E-mail \* edith.hallahan@nasdaq.com  
 Telephone \* (215) 496-5179      Fax (215) 496-6729

**Signature**

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 \*)  
 Executive Vice President and General Counsel

Date 12/09/2015  
 By Edward S. Knight  
 (Name \*)

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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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, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**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) NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”), 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> is filing with the Securities and Exchange Commission (“Commission”) a proposal to delete obsolete rule language and amend outdated references relating to Exchange Rule 1047, Trading Rotations, Halts and Suspensions.<sup>3</sup>

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and a copy of the applicable portion of the Exchange’s Rules is attached hereto as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange (the “Board”) on July 1, 2015. Exchange staff will advise the Board of any action taken pursuant to delegated authority. 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, The NASDAQ OMX Group, 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.

<sup>3</sup> The Exchange proposes to re-title the rule “Trading Halts.”

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

a. Purpose

The purpose of the proposed rule change is to update the Exchange's rules by ensuring the rules accurately reflect how trading halts occur on the Exchange's fully electronic trading system, the Phlx XL II system ("System").<sup>4</sup> Rule 1047 is now outdated in certain ways and lacks specificity in certain ways. Primarily, as explained below, the rule does not accurately reflect under what circumstances the halt will automatically be imposed by the System versus manually declared by an official. The Exchange proposes to delete obsolete rule language and amend outdated references in order to remove confusion that may result from having outdated rules in the Exchange's rulebook and ensure that the rulebook accurately reflects member obligations. Furthermore, the Exchange is reorganizing the rule to flow in a more logical fashion. In addition, the Exchange proposes to harmonize certain language in Rule 1047 with comparable rules of its affiliates, as described in further detail below.<sup>5</sup>

First, the Exchange proposes to delete the existing text of paragraph (a) under Rule 1047 which governs opening and closing trading rotations. Paragraph (a) is obsolete because the Exchange no longer relies on manual trading rotations to open and

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<sup>4</sup> In May 2009, the Exchange enhanced the system and adopted corresponding rules referring to the system as "Phlx XL II." See Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32). The Exchange is proposing to define the term "System" in proposed subparagraph (b)(iii); previously, only the term "Trading System" was used and defined in current subparagraph (a)(iv).

<sup>5</sup> See Nasdaq Options Market ("NOM") Chapter V, Section 3 and BX Options Chapter V, Section 3.

close trading on the Exchange.<sup>6</sup> A trading rotation, as described in current Rule 1047.01, is a series of very brief time periods during each of which bids, offers and transactions in only a single, specified option contract can be made.<sup>7</sup> The Exchange's opening process that replaced trading rotations is set forth in Rule 1017.<sup>8</sup> Thus far, the Exchange maintained references to rotations for two reasons. The Phlx XL II System was phased-in over a period of time such that the Exchange's rules needed to reflect both the existing manual processes as well as the "new" systems;<sup>9</sup> the rules no longer need to do so. Secondly, the term "trading rotation" is still sometimes used to cover automated openings, including on other options exchanges; nevertheless, the Exchange believes it is clearer, at this time, not to use that term. In any event, option series on the Exchange open in an automated fashion pursuant to Rule 1017. In addition, the Exchange now

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<sup>6</sup> The exception is in the event an automated opening cannot occur or a closing rotation is deemed necessary, in which case the procedures in the Commentaries to Rule 1047 would be employed pursuant to the authority in current Rule 1047(c), which is proposed to become Rule 1047(b), Manual Rotations.

<sup>7</sup> Specialists used to always conduct manual trading rotations pursuant to the following existing language: Taking each option in which he is assigned in turn, the specialist should first open the one or more series of such options having the nearest expiration, then proceed to a series of options having the next most distant expiration, and so forth, until all series have been opened. The specialist shall determine which type of option should open first (i.e., put or call options), and may alternate the opening of put series and call series or may open all series of one type before opening any series of the other type, depending on current market conditions. Reverse and modified rotations could all be conducted. See current Rule 1017.01(a) and (b). All rotations have been replaced with an automated opening process. See supra note 4. A manual rotation may occur but is unlikely. See supra note 6.

<sup>8</sup> See supra note 4.

<sup>9</sup> This is why the Exchange added to Rule 1047 the language that an automated opening conducted pursuant to Rule 1017 is considered a "trading rotation."

simply stops trading in an option rather than relying on a closing rotation,<sup>10</sup> as currently provided for in paragraph (a), which is a manual process conducted by the specialist.<sup>11</sup> Accordingly, current paragraph (a) is being updated. The Exchange believes that it is clearer to eliminate the reference to rotations from paragraph (a).

Additionally, the Exchange proposes to adopt as new paragraph (a) a provision to reflect the fact that the System automatically halts trading in an option on the Exchange in certain situations. Specifically, an automated halt occurs following a halt or suspension of trading of the underlying security<sup>12</sup> in the primary market,<sup>13</sup> a regulatory halt on the primary market,<sup>14</sup> a delayed opening of the underlying security because of unusual circumstances,<sup>15</sup> or a trading pause on the primary market.<sup>16</sup> With respect to a

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<sup>10</sup> In deleting existing paragraph (a), a reference to trading rotations “at the close of trading on the last trading day with respect to expiring equity option contracts” is also being deleted. Any such rotation would be manual pursuant to existing Rule 1047.01(c). The Exchange also proposes to add introductory language to the Commentaries to make it clearer that such Commentaries cover manual rotations by specifically stating that in the event the System is not available, a manual trading rotation may be held on the opening and close of trading.

<sup>11</sup> The System automatically turns off trading at the close, rather than relying on a manual process.

<sup>12</sup> This rule currently uses both the terms “underlying security” and “underlying stock or Exchange-Traded Fund Share.” Separately, the Exchange intends to harmonize that throughout its rules. For purposes of this filing, the terms are interchangeable.

<sup>13</sup> This is currently in paragraph (b)(i).

<sup>14</sup> This provision is currently in Commentary .01(e) and expressly references an automated trading halt. It is being deleted from the commentary.

<sup>15</sup> This is currently in paragraph (b)(ii).

<sup>16</sup> This provision is not new; it is currently in paragraph (e) and is being relocated to new paragraph (a).

halt on the primary market and delayed openings, Rule 1047(b)(i) and (ii) currently permit a halt, but because the Exchange currently halts automatically, the Exchange is now updating its rule to reflect such automatic halt.<sup>17</sup> None of these reasons for a halt are new.

Existing Rule 1047(e) refers to the “primary listing market,” which is not defined in Exchange rules, while the rest of Rule 1047 uses the term “primary market.” Rule 1000(b)(31) currently provides that the term “primary market” in respect of an underlying stock or Exchange-Traded Fund Share means the principal market in which the underlying stock or Exchange-Traded Fund Share is traded. The Exchange believes that this is not clear and proposes to change this definition such that the term “primary market” means, in the case of securities listed on The Nasdaq Stock Market, the market that is identified as the listing market pursuant to Section X(d) of the approved national market system plan governing the trading of Nasdaq-listed securities, and, in the case of securities listed on another national securities exchange, the market that is identified as the listing market pursuant to Section XI of the Consolidated Tape Association Plan. This is the same definition that is used in NOM and BX rules.<sup>18</sup>

New paragraph (b) will address manual halts by Options Exchange Officials (rather than automatic halts by the System).<sup>19</sup> Specifically, trading on the Exchange in any

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<sup>17</sup> The similar provisions on NOM and BX will be updated to reflect the difference between automated and manual halts.

<sup>18</sup> See NOM Chapter I, Section 1(a)(47) and BX Options Chapter I, Section 1(a)(48).

<sup>19</sup> The comparable NOM and BX rules reference regulatory personnel more generally as “Regulation” while the Phlx rule is more specific by referring to “Options Exchange Officials.” See e.g., NOM Chapter V, Section 3(a). See also Phlx Rule 1(w).

options shall be halted<sup>20</sup> whenever an Options Exchange Official deems such action appropriate in the interests of a fair and orderly market and to protect investors. Among the factors that may be considered are that: an occurrence of an act of God or other event outside the Exchange's control;<sup>21</sup> technical failure or failures of the Exchange's current automated trading system or any other Exchange quotation, transaction reporting, execution, order routing or other systems for trading options, including, but not limited to, the failure of or a part of the central processing system, a number of member or member organization trading applications, or the electrical power supply to the system itself or any related system;<sup>22</sup> or other unusual conditions or circumstances are present.<sup>23</sup> The Exchange is proposing to delete the language in existing Rule 1047(a)(iii) regarding issuer announcements, because the Exchange believes that issuer announcements are handled by the listing exchange for the underlying security, not the options market. If the listing market were to halt an underlying security, the options market would halt based on proposed Rule 1047(a).

Paragraph (b) will also reflect the fact that an Options Exchange Official retains the authority to delay the opening, halt and reopen after a halt to open where the underlying

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<sup>20</sup> The Exchange is deleting the words "or suspended" because that term does not normally apply to options trading but rather to trading in the underlying security. See e.g., current Rule 1047(a)(i), which provides that trading in the underlying stock or Exchange-Traded Fund Share has been halted *or suspended* in the primary market. See also NOM Chapter V, Section 3(a)(i).

<sup>21</sup> This is the only new provision, and it is based on NOM Chapter V, Section 3(a)(iii).

<sup>22</sup> This is in existing Rule 1047(a)(iv). The Exchange is proposing to define the term "System" here, which is the same as Trading System, for use throughout the Rule.

<sup>23</sup> This is in existing Rule 1047(a)(v).

security has not opened or current quotations are unavailable for any foreign currency, and to conduct a closing rotation on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the trading day prior to expiration where the underlying security did not open or was halted, whenever such action is deemed necessary in the interests of maintaining a fair and orderly market in such class or series of options and to protect investors. This is currently in Rule 1047(c). The Exchange is labelling this paragraph with the title “Manual Authority” to retain the ability of Options Exchange Officials to perform these duties in the unlikely event that it becomes necessary.

The Exchange proposes to adopt new paragraph (c) to reflect more specifically what happens when an option is halted. It will provide that in the event the Exchange halts trading pursuant to paragraphs (a) or (b), all trading in the affected option shall be halted. The Exchange shall disseminate through its trading facilities and over OPRA a symbol with respect to such option indicating that trading has been halted, and a record of the time and duration of the halt shall be made available to vendors.<sup>24</sup> Furthermore, no member or member organization or person associated with a member or member organization shall effect a trade on the Exchange in any option in which trading has been halted under the provisions of this Rule during the time in which the halt remains in effect. This is also based on the provisions of NOM and BX.<sup>25</sup> The Exchange believes

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<sup>24</sup> This is new language that is the same as NOM and BX rules, except it reflects the new automated halt process and thus is not tied to Exchange staff halting an option. See NOM Chapter V, Section 3(b), and BX Options Chapter V, Section 3(b).

<sup>25</sup> See NOM Chapter V, Section 3(c), and BX Options Chapter V, Section 3(c). Due to the differing terms that apply to membership and participation on each

that the new language proposed in Rule 1047(c) is helpful and explanatory for participants.

The Exchange proposes to delete existing Rule 1047(d), which provides that in the event that trading is halted in the underlying security on the primary market for such security, the specialist may halt trading in the option overlying such security, subject to the approval of an Options Exchange Official within five minutes of the halt in trading in the option. Paragraph (d) is made redundant as a result of adopting paragraph (a) to address automated halts, and is obsolete because it refers to specialists. Specialists cannot halt an option. The type of control that specialists used to have over halts no longer exists; once the System became more automated,<sup>26</sup> there became no physical method for specialists to activate a halt.

The Exchange proposes to delete current paragraph (e) because the fact that trading in an option will be halted whenever trading in the underlying security has been paused is now covered by new paragraph (a)(i). In addition, the language in Rule 1047(e)(i) is now covered in new paragraph (g) in a more streamlined form. Rule 1047(e)(ii), which provides that the Exchange will maintain existing orders on the book, accept orders, and process cancels, is now in new paragraph (f), as explained further below.

The Exchange also proposes to renumber current paragraph (f) as paragraph (d) to improve the flow of the rule and align the paragraph numbers with those of NOM and BX.<sup>27</sup> The Exchange also proposes to amend subparagraph (f)(ii) in order to update an

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exchange, the NOM and BX Options rules refer to “Options Participants” while the Phlx rules refer to “members and member organizations.”

<sup>26</sup> See supra note 4.

<sup>27</sup> See NOM Chapter V, Section 3(d), and BX Options Chapter V, Section 3(d).

outdated reference to the Phlx XL system and use the general term “System” instead, as explained above.

The Exchange is proposing to renumber current paragraph (g) as new paragraph (e) without any substantive change to track the comparable provisions on NOM and BX.<sup>28</sup>

The Exchange proposes to adopt new paragraph (f) to provide that when a halt occurs, existing quotes will be cancelled; during a halt, the Exchange will maintain existing orders on the book (but not existing quotes), accept orders and quotes, and process cancels.<sup>29</sup> This provision is not new; it is currently in paragraph (e) and is being relocated to new paragraph (f), although it is also being modified to add reference to accepting new quotes (not just orders) for better clarity and understanding.

The Exchange proposes to adopt new paragraph (g) to govern the resumption of trading after a halt. Specifically, trading in an option that has been the subject of a halt shall be resumed: (A) in the case of a manual halt, upon the determination by an Options Exchange Official that the conditions which led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading; or (B) in the case of an automatic trading halt, the conditions which led to the halt are no longer present, and, in either case, in no circumstances will trading be resumed before the Exchange has received notification that the underlying stock or Exchange-Traded Fund Share has resumed trading on at least one exchange. If, however, trading has not been

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<sup>28</sup> See NOM Chapter V, Section 3(e), and BX Options Chapter V, Section 3(e).

<sup>29</sup> See also NOM Chapter V, Section 3(a)(vi)(B), which is located within the provision that governs halts due to a pause in the trading of the underlying security only; NOM and BX intend to correct it to make clear that it applies to all halts.

resumed on the primary market for the underlying security after ten minutes have passed since the underlying security was paused by the primary market, trading in such options contracts may be resumed by the Exchange if the underlying security has resumed trading on at least one exchange.<sup>30</sup> This provision is modelled on the rules of NOM and BX.<sup>31</sup> This provision also specifies that options trading resumes pursuant to Rule 1017, which outlines the automated opening process.<sup>32</sup>

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>33</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>34</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, 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, by deleting outdated or obsolete provisions and

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<sup>30</sup> Rule 1047(b)(iv) currently contains a similar provision, except that the current rule contains an “and” and thus requires both conditions to be met to resume trading, and there is no specific reference to the resumption of trading of the underlying on at least one exchange. Presumably, the resumption of trading in the underlying on one exchange is an example of a condition that led to the options halt no longer being present, but the proposed language is more specific and thus clearer. The resumption of trading after a trading pause is currently in Rule 1047(e)(i).

<sup>31</sup> See NOM Chapter V, Section 4, and BX Options Chapter V, Section 4. The Exchange believes that this provision containing an “or” is more appropriate because it is more flexible in terms of permitting a resumption of trading.

<sup>32</sup> This is based on NOM Chapter V, Section 5.

<sup>33</sup> 15 U.S.C. 78f(b).

<sup>34</sup> 15 U.S.C. 78f(b)(5).

generally providing clarity to the rules. The proposal should result in a more accurate and understandable rule book. The amendments should make clear that the Exchange now simply ceases trading in an option rather than relying on a closing rotation, meaning the option stops trading without a manual process.<sup>35</sup> The proposal also deletes the obligation of the specialist to halt trading, because specialists cannot halt trading. These changes should promote just and equitable principles of trade by updating the rule to delete outdated and potentially confusing terms.

Furthermore, the Exchange is amending the rule to reflect that certain halts occur automatically while others are determined by specified Exchange staff, Options Exchange Officials. The Exchange believes it is more accurate to reflect that sometimes Exchange staff employ discretion in determining whether to halt (new paragraph (b)) and sometimes the System automatically halts (new paragraph (a)), which should both promote just and equitable principles of trade by tailoring the halt processes for options to the particular situations triggering a halt, consistent with the maintenance of fair and orderly markets. This restructuring and resulting renumbering should make the rule clearer. The Exchange believes that the situations listed in new paragraph (a) appropriately result in an automatic halt rather than relying on an Options Exchange Official, because those situations are objective and do not require the discretion or expertise of an Options Exchange Official. Accordingly, the Exchange believes automatic halts are appropriate and consistent with the Act.

In addition, the Exchange believes that the proposal to amend the definition of primary market is consistent with promoting just and equitable principles of trade. It is

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<sup>35</sup> See supra note 11.

based on a more precise definition, tied to the market where the underlying security is listed, which is commonly understood to be the meaning of the term.

The Exchange believes that the proposed language regarding manual halts due to an occurrence of an act of God or other event outside the Exchange's control should promote just and equitable principles of trade by providing for a manual halt in serious, unanticipated circumstances. The Exchange also believes that the new language in paragraph (c) should promote just and equitable principles of trade by indicating when a halt has occurred and making clear that no trading is permitted during a halt.

Furthermore, the Exchange believes that the language in new paragraph (f) that the Exchange will maintain existing orders on the book (but not existing quotes), accept orders and quotes and process cancels should promote just and equitable principles of trade by making it clear to market participants what occurs during a halt. Similarly, the proposed language in new paragraph (g) regarding the resumption of trading after a halt should promote just and equitable principles of trade by stating with specificity the conditions under which trading resumes.

Overall, the proposal is intended to help members understand how trading halts operate, which should also promote just and equitable principles of trade, consistent with the Act.

#### 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 proposal raises neither intra-market nor inter-market competition issues because it merely deletes obsolete provisions and adds specificity.

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

Not applicable.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)<sup>36</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>37</sup> in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. The proposal does not significantly affect the protection of investors or the public interest because it merely updates the rules based on the rules of other exchanges, as explained and cited in detail above and by adding greater specificity to Exchange rules. Nor does it impose any significant burden on competition, as explained above.

The proposal to amend the definition of primary market is similarly not controversial and based on other exchanges' rules. The proposal to renumber certain provisions and reorganize the rule should not significantly affect the protection of investors or the public interest; rather, it should help investors better understand how trading halts operate on the Exchange. The proposal regarding an automated options trading halt in new paragraph (a) should not significantly affect the protection of

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<sup>36</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>37</sup> 17 CFR 240.19b-4(f)(6).

investors or the public interest, because these conditions resulted in a halt under the current rule as well. The proposed language in new paragraph (b) regarding manual halts due to an occurrence of an act of God or other event outside the Exchange's control should not significantly affect the protection of investors or the public interest, because investors are better protected by the Exchange being able to halt in such a situation. The proposed new language in paragraph (c) should not significantly affect the protection of investors or the public interest; rather, it is consistent with investor protection to both indicate when a halt has occurred and make clear that no trading is permitted.

Proposed paragraph (f) regarding the handling of interest during a halt is consistent with the protection of investors and the public interest because investors would expect that their interest would remain on the Exchange and that the Exchange would accept new interest; similarly, the market making participants would expect to have to reenter their quotes after a halt. Proposed paragraph (g) regarding the resumption of trading is consistent with the protection of investors and the public interest because, although it is based on the current language, it adds the requirements that trading resume in the underlying security on at least one exchange (or the primary market in the case of a pause), which is intended to protect options investors from chaotic trading.

Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the

Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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

The proposal is based on NOM and BX rules, as explained in detail above, including minor differences.

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. Notice of proposed rule for publication in the Federal Register.

5. Proposed Rule Text.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-Phlx-2015-106)

December \_\_, 2015

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Regarding Trading Halts

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 9, 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 delete obsolete rule language and amend outdated references relating to Exchange Rule 1047, Trading Rotations, Halts and Suspensions.<sup>3</sup>

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.

<sup>3</sup> The Exchange proposes to re-title the rule “Trading Halts.”

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

The purpose of the proposed rule change is to update the Exchange's rules by ensuring the rules accurately reflect how trading halts occur on the Exchange's fully electronic trading system, the Phlx XL II system ("System").<sup>4</sup> Rule 1047 is now outdated in certain ways and lacks specificity in certain ways. Primarily, as explained below, the rule does not accurately reflect under what circumstances the halt will automatically be imposed by the System versus manually declared by an official. The Exchange proposes to delete obsolete rule language and amend outdated references in order to remove confusion that may result from having outdated rules in the Exchange's rulebook and ensure that the rulebook accurately reflects member obligations.

Furthermore, the Exchange is reorganizing the rule to flow in a more logical fashion. In

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<sup>4</sup> In May 2009, the Exchange enhanced the system and adopted corresponding rules referring to the system as "Phlx XL II." See Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32). The Exchange is proposing to define the term "System" in proposed subparagraph (b)(iii); previously, only the term "Trading System" was used and defined in current subparagraph (a)(iv).

addition, the Exchange proposes to harmonize certain language in Rule 1047 with comparable rules of its affiliates, as described in further detail below.<sup>5</sup>

First, the Exchange proposes to delete the existing text of paragraph (a) under Rule 1047 which governs opening and closing trading rotations. Paragraph (a) is obsolete because the Exchange no longer relies on manual trading rotations to open and close trading on the Exchange.<sup>6</sup> A trading rotation, as described in current Rule 1047.01, is a series of very brief time periods during each of which bids, offers and transactions in only a single, specified option contract can be made.<sup>7</sup> The Exchange's opening process that replaced trading rotations is set forth in Rule 1017.<sup>8</sup> Thus far, the Exchange maintained references to rotations for two reasons. The Phlx XL II System was phased-in over a period of time such that the Exchange's rules needed to reflect both the existing

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<sup>5</sup> See Nasdaq Options Market ("NOM") Chapter V, Section 3 and BX Options Chapter V, Section 3.

<sup>6</sup> The exception is in the event an automated opening cannot occur or a closing rotation is deemed necessary, in which case the procedures in the Commentaries to Rule 1047 would be employed pursuant to the authority in current Rule 1047(c), which is proposed to become Rule 1047(b), Manual Rotations.

<sup>7</sup> Specialists used to always conduct manual trading rotations pursuant to the following existing language: Taking each option in which he is assigned in turn, the specialist should first open the one or more series of such options having the nearest expiration, then proceed to a series of options having the next most distant expiration, and so forth, until all series have been opened. The specialist shall determine which type of option should open first (i.e., put or call options), and may alternate the opening of put series and call series or may open all series of one type before opening any series of the other type, depending on current market conditions. Reverse and modified rotations could all be conducted. See current Rule 1017.01(a) and (b). All rotations have been replaced with an automated opening process. See supra note 4. A manual rotation may occur but is unlikely. See supra note 6.

<sup>8</sup> See supra note 4.

manual processes as well as the “new” systems;<sup>9</sup> the rules no longer need to do so. Secondly, the term “trading rotation” is still sometimes used to cover automated openings, including on other options exchanges; nevertheless, the Exchange believes it is clearer, at this time, not to use that term. In any event, option series on the Exchange open in an automated fashion pursuant to Rule 1017. In addition, the Exchange now simply stops trading in an option rather than relying on a closing rotation,<sup>10</sup> as currently provided for in paragraph (a), which is a manual process conducted by the specialist.<sup>11</sup> Accordingly, current paragraph (a) is being updated. The Exchange believes that it is clearer to eliminate the reference to rotations from paragraph (a).

Additionally, the Exchange proposes to adopt as new paragraph (a) a provision to reflect the fact that the System automatically halts trading in an option on the Exchange in certain situations. Specifically, an automated halt occurs following a halt or suspension of trading of the underlying security<sup>12</sup> in the primary market,<sup>13</sup> a regulatory

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<sup>9</sup> This is why the Exchange added to Rule 1047 the language that an automated opening conducted pursuant to Rule 1017 is considered a “trading rotation.”

<sup>10</sup> In deleting existing paragraph (a), a reference to trading rotations “at the close of trading on the last trading day with respect to expiring equity option contracts” is also being deleted. Any such rotation would be manual pursuant to existing Rule 1047.01(c). The Exchange also proposes to add introductory language to the Commentaries to make it clearer that such Commentaries cover manual rotations by specifically stating that in the event the System is not available, a manual trading rotation may be held on the opening and close of trading.

<sup>11</sup> The System automatically turns off trading at the close, rather than relying on a manual process.

<sup>12</sup> This rule currently uses both the terms “underlying security” and “underlying stock or Exchange-Traded Fund Share.” Separately, the Exchange intends to harmonize that throughout its rules. For purposes of this filing, the terms are interchangeable.

<sup>13</sup> This is currently in paragraph (b)(i).

halt on the primary market,<sup>14</sup> a delayed opening of the underlying security because of unusual circumstances,<sup>15</sup> or a trading pause on the primary market.<sup>16</sup> With respect to a halt on the primary market and delayed openings, Rule 1047(b)(i) and (ii) currently permit a halt, but because the Exchange currently halts automatically, the Exchange is now updating its rule to reflect such automatic halt.<sup>17</sup> None of these reasons for a halt are new.

Existing Rule 1047(e) refers to the “primary listing market,” which is not defined in Exchange rules, while the rest of Rule 1047 uses the term “primary market.” Rule 1000(b)(31) currently provides that the term “primary market” in respect of an underlying stock or Exchange-Traded Fund Share means the principal market in which the underlying stock or Exchange-Traded Fund Share is traded. The Exchange believes that this is not clear and proposes to change this definition such that the term “primary market” means, in the case of securities listed on The Nasdaq Stock Market, the market that is identified as the listing market pursuant to Section X(d) of the approved national market system plan governing the trading of Nasdaq-listed securities, and, in the case of securities listed on another national securities exchange, the market that is identified as

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<sup>14</sup> This provision is currently in Commentary .01(e) and expressly references an automated trading halt. It is being deleted from the commentary.

<sup>15</sup> This is currently in paragraph (b)(ii).

<sup>16</sup> This provision is not new; it is currently in paragraph (e) and is being relocated to new paragraph (a).

<sup>17</sup> The similar provisions on NOM and BX will be updated to reflect the difference between automated and manual halts.

the listing market pursuant to Section XI of the Consolidated Tape Association Plan.

This is the same definition that is used in NOM and BX rules.<sup>18</sup>

New paragraph (b) will address manual halts by Options Exchange Officials (rather than automatic halts by the System).<sup>19</sup> Specifically, trading on the Exchange in any options shall be halted<sup>20</sup> whenever an Options Exchange Official deems such action appropriate in the interests of a fair and orderly market and to protect investors. Among the factors that may be considered are that: an occurrence of an act of God or other event outside the Exchange's control;<sup>21</sup> technical failure or failures of the Exchange's current automated trading system or any other Exchange quotation, transaction reporting, execution, order routing or other systems for trading options, including, but not limited to, the failure of or a part of the central processing system, a number of member or member organization trading applications, or the electrical power supply to the system itself or any related system;<sup>22</sup> or other unusual conditions or circumstances are present.<sup>23</sup>

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<sup>18</sup> See NOM Chapter I, Section 1(a)(47) and BX Options Chapter I, Section 1(a)(48).

<sup>19</sup> The comparable NOM and BX rules reference regulatory personnel more generally as "Regulation" while the Phlx rule is more specific by referring to "Options Exchange Officials." See e.g., NOM Chapter V, Section 3(a). See also Phlx Rule 1(w).

<sup>20</sup> The Exchange is deleting the words "or suspended" because that term does not normally apply to options trading but rather to trading in the underlying security. See e.g., current Rule 1047(a)(i), which provides that trading in the underlying stock or Exchange-Traded Fund Share has been halted *or suspended* in the primary market. See also NOM Chapter V, Section 3(a)(i).

<sup>21</sup> This is the only new provision, and it is based on NOM Chapter V, Section 3(a)(iii).

<sup>22</sup> This is in existing Rule 1047(a)(iv). The Exchange is proposing to define the term "System" here, which is the same as Trading System, for use throughout the Rule.

The Exchange is proposing to delete the language in existing Rule 1047(a)(iii) regarding issuer announcements, because the Exchange believes that issuer announcements are handled by the listing exchange for the underlying security, not the options market. If the listing market were to halt an underlying security, the options market would halt based on proposed Rule 1047(a).

Paragraph (b) will also reflect the fact that an Options Exchange Official retains the authority to delay the opening, halt and reopen after a halt to open where the underlying security has not opened or current quotations are unavailable for any foreign currency, and to conduct a closing rotation on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the trading day prior to expiration where the underlying security did not open or was halted, whenever such action is deemed necessary in the interests of maintaining a fair and orderly market in such class or series of options and to protect investors. This is currently in Rule 1047(c). The Exchange is labelling this paragraph with the title “Manual Authority” to retain the ability of Options Exchange Officials to perform these duties in the unlikely event that it becomes necessary.

The Exchange proposes to adopt new paragraph (c) to reflect more specifically what happens when an option is halted. It will provide that in the event the Exchange halts trading pursuant to paragraphs (a) or (b), all trading in the affected option shall be halted. The Exchange shall disseminate through its trading facilities and over OPRA a symbol with respect to such option indicating that trading has been halted, and a record of

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<sup>23</sup> This is in existing Rule 1047(a)(v).

the time and duration of the halt shall be made available to vendors.<sup>24</sup> Furthermore, no member or member organization or person associated with a member or member organization shall effect a trade on the Exchange in any option in which trading has been halted under the provisions of this Rule during the time in which the halt remains in effect. This is also based on the provisions of NOM and BX.<sup>25</sup> The Exchange believes that the new language proposed in Rule 1047(c) is helpful and explanatory for participants.

The Exchange proposes to delete existing Rule 1047(d), which provides that in the event that trading is halted in the underlying security on the primary market for such security, the specialist may halt trading in the option overlying such security, subject to the approval of an Options Exchange Official within five minutes of the halt in trading in the option. Paragraph (d) is made redundant as a result of adopting paragraph (a) to address automated halts, and is obsolete because it refers to specialists. Specialists cannot halt an option. The type of control that specialists used to have over halts no longer exists; once the System became more automated,<sup>26</sup> there became no physical method for specialists to activate a halt.

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<sup>24</sup> This is new language that is the same as NOM and BX rules, except it reflects the new automated halt process and thus is not tied to Exchange staff halting an option. See NOM Chapter V, Section 3(b), and BX Options Chapter V, Section 3(b).

<sup>25</sup> See NOM Chapter V, Section 3(c), and BX Options Chapter V, Section 3(c). Due to the differing terms that apply to membership and participation on each exchange, the NOM and BX Options rules refer to “Options Participants” while the Phlx rules refer to “members and member organizations.”

<sup>26</sup> See supra note 4.

The Exchange proposes to delete current paragraph (e) because the fact that trading in an option will be halted whenever trading in the underlying security has been paused is now covered by new paragraph (a)(i). In addition, the language in Rule 1047(e)(i) is now covered in new paragraph (g) in a more streamlined form. Rule 1047(e)(ii), which provides that the Exchange will maintain existing orders on the book, accept orders, and process cancels, is now in new paragraph (f), as explained further below.

The Exchange also proposes to renumber current paragraph (f) as paragraph (d) to improve the flow of the rule and align the paragraph numbers with those of NOM and BX.<sup>27</sup> The Exchange also proposes to amend subparagraph (f)(ii) in order to update an outdated reference to the Phlx XL system and use the general term “System” instead, as explained above.

The Exchange is proposing to renumber current paragraph (g) as new paragraph (e) without any substantive change to track the comparable provisions on NOM and BX.<sup>28</sup>

The Exchange proposes to adopt new paragraph (f) to provide that when a halt occurs, existing quotes will be cancelled; during a halt, the Exchange will maintain existing orders on the book (but not existing quotes), accept orders and quotes, and process cancels.<sup>29</sup> This provision is not new; it is currently in paragraph (e) and is being

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<sup>27</sup> See NOM Chapter V, Section 3(d), and BX Options Chapter V, Section 3(d).

<sup>28</sup> See NOM Chapter V, Section 3(e), and BX Options Chapter V, Section 3(e).

<sup>29</sup> See also NOM Chapter V, Section 3(a)(vi)(B), which is located within the provision that governs halts due to a pause in the trading of the underlying security only; NOM and BX intend to correct it to make clear that it applies to all halts.

relocated to new paragraph (f), although it is also being modified to add reference to accepting new quotes (not just orders) for better clarity and understanding.

The Exchange proposes to adopt new paragraph (g) to govern the resumption of trading after a halt. Specifically, trading in an option that has been the subject of a halt shall be resumed: (A) in the case of a manual halt, upon the determination by an Options Exchange Official that the conditions which led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading; or (B) in the case of an automatic trading halt, the conditions which led to the halt are no longer present, and, in either case, in no circumstances will trading be resumed before the Exchange has received notification that the underlying stock or Exchange-Traded Fund Share has resumed trading on at least one exchange. If, however, trading has not been resumed on the primary market for the underlying security after ten minutes have passed since the underlying security was paused by the primary market, trading in such options contracts may be resumed by the Exchange if the underlying security has resumed trading on at least one exchange.<sup>30</sup> This provision is modelled on the rules of NOM and BX.<sup>31</sup>

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<sup>30</sup> Rule 1047(b)(iv) currently contains a similar provision, except that the current rule contains an “and” and thus requires both conditions to be met to resume trading, and there is no specific reference to the resumption of trading of the underlying on at least one exchange. Presumably, the resumption of trading in the underlying on one exchange is an example of a condition that led to the options halt no longer being present, but the proposed language is more specific and thus clearer. The resumption of trading after a trading pause is currently in Rule 1047(e)(i).

<sup>31</sup> See NOM Chapter V, Section 4, and BX Options Chapter V, Section 4. The Exchange believes that this provision containing an “or” is more appropriate because it is more flexible in terms of permitting a resumption of trading.

This provision also specifies that options trading resumes pursuant to Rule 1017, which outlines the automated opening process.<sup>32</sup>

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>33</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>34</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, 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, by deleting outdated or obsolete provisions and generally providing clarity to the rules. The proposal should result in a more accurate and understandable rule book. The amendments should make clear that the Exchange now simply ceases trading in an option rather than relying on a closing rotation, meaning the option stops trading without a manual process.<sup>35</sup> The proposal also deletes the obligation of the specialist to halt trading, because specialists cannot halt trading. These changes should promote just and equitable principles of trade by updating the rule to delete outdated and potentially confusing terms.

Furthermore, the Exchange is amending the rule to reflect that certain halts occur automatically while others are determined by specified Exchange staff, Options

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<sup>32</sup> This is based on NOM Chapter V, Section 5.

<sup>33</sup> 15 U.S.C. 78f(b).

<sup>34</sup> 15 U.S.C. 78f(b)(5).

<sup>35</sup> See supra note 11.

Exchange Officials. The Exchange believes it is more accurate to reflect that sometimes Exchange staff employ discretion in determining whether to halt (new paragraph (b)) and sometimes the System automatically halts (new paragraph (a)), which should both promote just and equitable principles of trade by tailoring the halt processes for options to the particular situations triggering a halt, consistent with the maintenance of fair and orderly markets. This restructuring and resulting renumbering should make the rule clearer. The Exchange believes that the situations listed in new paragraph (a) appropriately result in an automatic halt rather than relying on an Options Exchange Official, because those situations are objective and do not require the discretion or expertise of an Options Exchange Official. Accordingly, the Exchange believes automatic halts are appropriate and consistent with the Act.

In addition, the Exchange believes that the proposal to amend the definition of primary market is consistent with promoting just and equitable principles of trade. It is based on a more precise definition, tied to the market where the underlying security is listed, which is commonly understood to be the meaning of the term.

The Exchange believes that the proposed language regarding manual halts due to an occurrence of an act of God or other event outside the Exchange's control should promote just and equitable principles of trade by providing for a manual halt in serious, unanticipated circumstances. The Exchange also believes that the new language in paragraph (c) should promote just and equitable principles of trade by indicating when a halt has occurred and making clear that no trading is permitted during a halt.

Furthermore, the Exchange believes that the language in new paragraph (f) that the Exchange will maintain existing orders on the book (but not existing quotes), accept

orders and quotes and process cancels should promote just and equitable principles of trade by making it clear to market participants what occurs during a halt. Similarly, the proposed language in new paragraph (g) regarding the resumption of trading after a halt should promote just and equitable principles of trade by stating with specificity the conditions under which trading resumes.

Overall, the proposal is intended to help members understand how trading halts operate, which should also promote just and equitable principles of trade, consistent with the Act.

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 proposal raises neither intra-market nor inter-market competition issues because it merely deletes obsolete provisions and adds specificity.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant

to Section 19(b)(3)(A)(iii) of the Act<sup>36</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>37</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or 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-2015-106 on the subject line.

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<sup>36</sup> 15 U.S.C. 78s(b)(3)(a)(iii).

<sup>37</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

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-2015-106. 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-2015-106 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>38</sup>

Robert W. Errett  
Deputy Secretary

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<sup>38</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

Proposed new text is underlined. Proposed deletions are enclosed in brackets.

**Rules of the Exchange**

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**Options Rules**

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**Rule 1000. Applicability, Definitions and References**

(a) No change.

(b) **Definitions.** The following terms as used in the Rules shall, unless the context otherwise indicates, have the meanings herein specified:

1. - .30 No change.

31. *Primary Market*—The term "primary market" [in respect of an underlying stock or Exchange-Traded Fund Share means the principal market in which the underlying stock or Exchange-Traded Fund Share is traded] means, in the case of securities listed on The Nasdaq Stock Market, the market that is identified as the listing market pursuant to Section X(d) of the approved national market system plan governing the trading of Nasdaq-listed securities, and, in the case of securities listed on another national securities exchange, the market that is identified as the listing market pursuant to Section XI of the Consolidated Tape Association Plan.

.32 - .44 No change.

(c) - (g) No change.

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**Rule 1047. Trading [Rotations,] Halts [and Suspensions]**

(a) [Trading rotations for each class of option contracts that has been approved for trading on the Exchange shall be employed at the opening pursuant to Rule 1017 daily, and at the close of trading on the last trading day with respect to expiring equity option contracts. An automated opening conducted pursuant to Rule 1017 shall be considered a "trading rotation" for purposes of these Rules.] Automated Trading Halts. Trading will automatically be halted by the System in an option when:

i. trading in the underlying stock or Exchange-Traded Fund Share has been halted or suspended in the primary market or is subject to a regulatory halt on the primary market;

ii. the opening of such underlying stock or Exchange-Traded Fund Share has been delayed because of unusual circumstances; or

iii. trading in the underlying stock or Exchange-Traded Fund Share has been paused by the primary market.

(b) Manual Trading Halt. Trading on the Exchange in any class of option contracts shall be halted [or suspended] whenever an Options Exchange Official deems such action appropriate in the interests of a fair and orderly market and to protect investors. Among the factors that may be considered are that:

[i] trading in the underlying stock or Exchange-Traded Fund Share has been halted or suspended in the primary market;

[ii] the opening of such underlying stock or Exchange-Traded Fund Share in the primary market has been delayed because of unusual circumstances;

[iii] the Exchange has been advised that the issuer of the underlying stock or Exchange-Traded Fund Share is about to make an important announcement affecting such issuer;]

[i] occurrence of an act of God or other event outside the Exchange's control;

[i][v] a Trading System (for purposes of this Rule, "Trading System" or "System" is defined as [Phlx XL II,] the Exchange's current automated trading system or any other Exchange quotation, transaction reporting, execution, order routing or other systems for trading options) technical failure or failures including, but not limited to, the failure of a part of the central processing system, a number of member or member organization trading applications, or the electrical power supply to the system itself or any related system; or[;]

[iii][v] other unusual conditions or circumstances are present. [Trading in a class of options that has been the subject of a halt or suspension may be resumed upon a determination by an Options Exchange Official that the conditions that led to the halt or suspension are no longer present and that the interest of a fair and orderly market are best served by a resumption of trading.]

[(c)] Manual Authority. An Options Exchange Official shall have the authority, respecting a particular class or series of options, to delay the opening, to halt and reopen after a halt, to open where the underlying stock or Exchange-Traded Fund Share has not opened or current quotations are unavailable for any foreign currency, and to conduct a closing rotation on the business day of expiration, or, in the case of an option contract

expiring on a day that is not a business day, on the trading day prior to expiration where the underlying stock or Exchange-Traded Fund Share did not open or was halted, whenever such action is deemed necessary in the interests of maintaining a fair and orderly market in such class or series of options and to protect investors.

[(d) In the event that trading is halted in the underlying security on the primary market for such security, the specialist may halt trading in the option overlying such security, subject to the approval of an Options Exchange Official within five minutes of the halt in trading in the option.

(e) Trading Pauses. Trading on the Exchange in any option contract shall be halted whenever trading in the underlying security has been paused by the primary listing market.

(i) Trading in such options contracts may be resumed upon a determination by the Exchange that the conditions that led to the pause are no longer present and that the interests of a fair and orderly market are best served by a resumption of trading, which in no circumstances will be before the Exchange has received notification that the underlying security has resumed trading on at least one exchange. If, however, trading has not been resumed on the primary listing market for the underlying security after ten minutes have passed since the underlying security was paused by the primary listing market, trading in such options contracts may be resumed by the Exchange if the underlying security has resumed trading on at least one exchange.

(ii) During the halt, the Exchange will maintain existing orders on the book, accept orders, and process cancels.]

(c) In the event the Exchange halts trading pursuant to paragraphs (a) or (b) above, all trading in the affected option shall be halted. The Exchange shall disseminate through its trading facilities and over OPRA a symbol with respect to such option indicating that trading has been halted, and a record of the time and duration of the halt shall be made available to vendors.

No member or member organization or person associated with a member or member organization shall effect a trade on the Exchange in any option in which trading has been halted under the provisions of this Rule during the time in which the halt remains in effect.

(d[f]) This paragraph shall be in effect during a pilot period to coincide with the pilot period for the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it may be amended from time to time ("LULD Plan"), except as specified in subparagraph (v) below. Capitalized terms used in this paragraph shall have the same meaning as provided for in the LULD Plan. During a Limit State and Straddle State in the Underlying NMS stock:

- (i) No change.
- (ii) After the opening, the Exchange shall reject Market Orders, as defined in Rule 1066(a) (including Complex Orders, as defined in Rule 1080.08), and shall notify Participants of the reason for such rejection. The Exchange shall cancel Complex Orders that are Market Orders residing in the [Phlx XL] System if they are about to be executed by the [Phlx XL] System.
- (iii) - (v) No change.

(e[g]) The Exchange shall halt trading in all options whenever the equities markets initiate a market-wide trading halt commonly known as a circuit breaker in response to extraordinary market conditions.

(f) During a halt, the Exchange will maintain existing orders on the book (but not existing quotes), accept orders and quotes, and process cancels, except existing quotes are cancelled.

(g) Resumption of Trading After a Halt. Trading in an option that has been the subject of a halt under this rule shall be resumed: (A) in the case of a manual halt, upon the determination by an Options Exchange Official that the conditions which led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading; or (B) in the case of an automatic trading halt, the conditions which led to the halt are no longer present, and, in either case, in no circumstances will trading be resumed before the Exchange has received notification that the underlying stock or Exchange-Traded Fund Share has resumed trading on at least one exchange. If, however, trading has not been resumed on the primary market for the underlying stock or Exchange-Traded Fund Share after ten minutes have passed since the underlying stock or Exchange-Traded Fund Share was paused by the primary market, trading in such options contracts may be resumed by the Exchange if the underlying stock or Exchange-Traded Fund Share has resumed trading on at least one exchange. Trading shall resume according to the process set forth in Rule 1017.

••• *Commentary* :------

Manual Rotations. Pursuant to the authority in paragraph (b) above and in accordance with the procedures enumerated in these commentaries, a manual trading rotation may be held on the opening in the event that the Exchange's System is not available, and a closing rotation may be held on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the trading day prior to expiration where the underlying stock or Exchange-Traded Fund Share did not open or was halted, whenever such action is deemed necessary in the interests of maintaining a fair and orderly market in such class or series of options and to protect investors.

**.01** For purposes of this Rule, a trading rotation is a series of very brief time periods during each of which bids, offers and transactions in only a single,

specified option contract can be made. An Options Exchange Official may direct that one or more trading rotations be employed on any business day to aid in producing a fair and orderly market and shall specify, for each rotation so employed, the particular option contracts to be included and the sequence of such option contracts in the rotation. Trading rotations, which shall be conducted by the specialist, shall be conducted in the following manner:

(a) **Opening Rotations.** In the case of options on stocks or Exchange-Traded Fund Shares, the opening rotation in each class of options shall be held promptly following the opening of the underlying security on the primary market where it is traded. An underlying security shall be deemed to have opened on the primary market where it is traded if such market has (i) reported a transaction in the underlying security or (ii) disseminated opening quotations for the underlying security and not given an indication of a delayed opening. In the case of options on foreign currencies, the opening rotation in each option shall be held promptly following the opening of trading. In either case, respecting openings conducted manually, the specialist should proceed in the following manner: Taking each option in which he is assigned in turn, the specialist should first open the one or more series of such options having the nearest expiration, then proceed to a series of options having the next most distant expiration, and so forth, until all series have been opened. The specialist shall determine which type of option should open first (i.e., put or call options), and may alternate the opening of put series and call series or may open all series of one type before opening any series of the other type, depending on current market conditions, except as provided below.

(b) **Modified Rotations**—(i) Modified rotations include reverse and shotgun rotations. A reverse rotation is an opening rotation where the Specialist should first open the one or more series of options of a given class having the most distant expiration, then proceed to the next nearest expiration, and so forth, ending with the nearest expiration, until all series have been opened. A shotgun rotation is an opening rotation in which each option series opens in the same manner and sequence as during a regular trading rotation stated above in paragraph (a), but is permitted to freely trade once all option series with the same expiration month have been opened.

(ii) A reverse trading rotation must be employed in connection with openings and reopenings involving a heavy influx of orders, unless exempted by an Options Exchange Official.

A second rotation requires the approval of an Options Exchange Official. In addition, a modified rotation may be employed in connection with delayed openings, halts or suspensions of options trading or other unusual market conditions, but in a different manner and sequence of trading than described above provided an Options Exchange Official determines that such procedure should be implemented.

(iii) This Commentary .01(b) shall apply only to manual openings conducted in accordance with the Commentary to Rule 1017.

(c) **Closing Rotations at Expiration**—On the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the last trading day prior to expiration with respect to expiring stock option contracts a closing rotation in each series of expiring options shall be commenced at 4:00 p.m., or 4:15 p.m. for options on Exchange-Traded Fund Shares where the underlying Fund Shares themselves cease trading at 4:15 p.m., or after a closing price of the stock or Exchange-Traded Fund Share in its primary market is established, whichever is later. Except as otherwise provided by an Options Exchange Official, the specialist may determine which type of expiring options series should close first, and may alternate the close of put series and call series or may close all series of one type before closing any series of the other type, depending on current market conditions. In any instance where an Options Exchange Official, determines to conduct a closing rotation on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the trading day prior to expiration in any equity option for which the underlying did not trade, or for which trading was halted as of the normal close of trading in its primary market on that day, the rotation shall commence as immediately as practicable following the time at which the option normally ceases free trading, or at any earlier time.

(d) **Quarterly Rotations**—On the last day of each calendar quarter, a closing rotation for some equity option series may be commenced at 4:00 p.m. or after the closing price of the stock in its primary market is established, whichever is later. Orders will not be accepted at or after 4:00 p.m. Prior notice will be provided to the trading floor regarding which options series will be subject to a closing rotation.

[(e) **Automated Trading Halts.** The Phlx XL II system will automatically halt trading in an equity option when the underlying security is subject to a regulatory halt on the primary market for such underlying security.]

**.02** In the event that trading in an underlying stock or Exchange-Traded Fund Share has not opened in the primary market for such stock or Exchange-Traded Fund Share within a reasonable time after the opening of business, or, in the event that current quotations for any underlying foreign currency are for any reason unavailable, the specialist shall report such delay or unavailability to the Regulatory staff and the appropriate steps will be taken to determine the cause for such delay or unavailability. The opening of trading in such option shall be delayed until the underlying stock has opened or until current quotations for the underlying foreign currency become available, as the case may be, unless an Options Exchange Official, determines that the interests of a fair and orderly market are best served by opening trading in such options.

**.03** Stock or Exchange-Traded Fund Share Options Trading after 4:00 p.m. With the prior approval of an Options Exchange Official a trading rotation in any class of stock option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:00 p.m.,

or 4:15 p.m. for options on Exchange-Traded Fund Shares where the underlying Fund Shares themselves cease trading at 4:15 p.m., provided:

- (a) Promptly after trading in the underlying security opens or re-opens, an opening or re-opening rotation in the corresponding options class is commenced; or
- (b) Such rotation was initiated due to unusual market conditions pursuant to this Rule, notice of such rotation is disseminated to the trading floor and the rotation does not commence until five minutes after the notice is disseminated.
- (c) If prior to 4:00 p.m. a trading rotation is in progress and an Options Exchange Official determines that a final trading rotation is needed to assure a fair and orderly market, the rotation in progress shall be halted and such final rotation begun as promptly as possible after 4:00 p.m.