

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 24	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2017 - * 46	Amendment No. (req. for Amendments *)
Filing by NASDAQ 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"/>			
Description				
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).				
<input type="text" value="Proposal to amend Commentary .01 of Rule 1014, Obligations and Restrictions Applicable to Specialists and Registered Options Traders, to change quarterly trading requirements applicable to Registered Options Traders."/>				
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 *	<input type="text" value="Angela"/>	Last Name *	<input type="text" value="Dunn"/>	
Title *	<input type="text" value="Principal Associate General Counsel"/>			
E-mail *	<input type="text" value="Angela.Dunn@nasdaq.com"/>			
Telephone *	<input type="text" value="(215) 496-5692"/>	Fax	<input type="text"/>	
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 *)				
Date	<input type="text" value="06/08/2017"/>	<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

Add Remove View

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

Add Remove View

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 PHLX LLC (“Phlx” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to amend Commentary .01 of Rule 1014, Obligations and Restrictions Applicable to Specialists and Registered Options Traders, to change quarterly trading requirements applicable to Registered Options Traders (“ROTs”), as described below.³

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1. The text of the proposed rule change is set forth below.

Proposed new language is underlined; deletions are bracketed.

* * * * *

Rule 1014 Obligations and Restrictions Applicable to Specialists and Registered Options Traders

(a) – (g) No change.

Commentary

.01 An ROT electing to engage in Exchange options transactions is designated as a specialist on the Exchange for all purposes under the Securities Exchange Act of 1934 and the rules and regulations thereunder with respect to options transactions initiated and effected by him on the floor in his capacity as an ROT. For purposes of this commentary, the term “transactions initiated and effected on the floor” shall not include transactions initiated by an ROT off the floor, but which are considered “on-floor” pursuant to Commentaries .07 and .08 of Rule 1014. Similarly, an RSQT electing to engage in Exchange options transactions is designated as a specialist on the Exchange for all

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ A Registered Options Trader or ROT is a regular member or a foreign currency options participant of the Exchange located on the trading floor who has received permission from the Exchange to trade in options for his own account. See Exchange Rule 1014(b)(i).

purposes under the Securities Exchange Act of 1934 and the rules and regulations thereunder with respect to options transactions initiated and effected by him in his capacity as an ROT.

An ROT (other than an RSQT or a Remote Specialist) is required to trade either (a) 1,000 contracts and 300 transactions, or (b) 10,000 contracts and 100 transactions, on the Exchange each quarter. Transactions executed in the trading crowd where the contra-side is an ROT are not included.

In addition, in order for an ROT (other than an RSQT or a Remote Specialist) to receive specialist margin treatment for off-floor orders in any calendar quarter, the ROT must execute the greater of 1,000 contracts or 80% of his total contracts that quarter in person (not through the use of orders, except that non-streaming ROTs can use orders entered in person) and 75% of his total contracts that quarter in assigned options. Transactions executed in the trading crowd where the contra-side is an ROT are not included.

The off-floor orders for which an ROT receives specialist margin treatment shall be subject to the obligations of Rule 1014(a) and, in general, be effected for the purpose of hedging, reducing risk of, or rebalancing positions of the ROT. An ROT is responsible for evidencing compliance with these provisions. The Exchange may exempt one or more classes of options from this calculation.

.02 - .19 No change.

* * * * *

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Directors of the Exchange on June 1, 2017. No other action is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to:

Angela Saccomandi Dunn
Principal Associate General Counsel
Nasdaq, Inc.
215-496-5692

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 add flexibility to one of the Exchange's quarterly trading requirements to encourage liquidity-providing activity by market makers on the Exchange. The general term "market makers" on the Exchange includes specialists⁴ and ROTs. ROTs can be either Streaming Quote Traders⁵ ("SQTs"), Remote SQTs⁶ ("RSQTs") or non-SQT ROTs.⁷ Quarterly trading requirements apply to two types of ROTs: SQTs and non-SQT ROTs. Specialists and RSQTs are subject to different requirements. By definition, non-SQT ROTs do not "stream" quotes, meaning send quotes electronically to the Exchange; instead, pursuant to Commentary .18 of Rule 1014, they submit limit orders electronically and respond to Floor Brokers verbally.

⁴ A specialist is an Exchange member who is registered as an options specialist pursuant to Rule 501(a). An options specialist includes a Remote Specialist which is defined as an options specialist in one or more classes that does not have a physical presence on an Exchange floor and is approved by the Exchange pursuant to Rule 501.

⁵ An SQT is an ROT who has received permission from the Exchange to generate and submit option quotations electronically in options to which such SQT is assigned. An SQT may only submit such quotations while such SQT is physically present on the floor of the Exchange. An SQT may only trade in a market making capacity in classes of options in which the SQT is assigned. See Rule 1014(b)(ii)(A).

⁶ An RSQT is an ROT that is a member affiliated with and RSQTO with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically in options to which such RSQT has been assigned. A qualified RSQT may function as a Remote Specialist upon Exchange approval. See Rule 1014(b)(ii)(B).

⁷ A non-SQT ROT is an ROT who is neither an SQT nor an RSQT. See Rule 1014(b)(ii)(C).

Currently, Rule 1014 contains a number of trading requirements. The Exchange is proposing to amend a quarterly trading requirement set forth in Commentary .01.⁸

Commentary .01 currently requires an ROT (other than an RSQT or Remote Specialist) to trade 1,000 contracts and 300 transactions on the Exchange each quarter (excluding transactions executed in the trading crowd where the contra-side is an ROT).

The Exchange now proposes to amend this quarterly requirement of Commentary .01 by adding a new test as an alternative. As amended, Commentary .01 would require an ROT (other than an RSQT or a Remote Specialist) to trade either (a) 1,000 contracts and 300 transactions (the “1000/300 Alternative,” which is the current requirement) or (b) 10,000 contracts and 100 transactions (the “New Alternative”), on the Exchange each quarter. In either case transactions executed in the trading crowd where the contra-side is

⁸ In addition to the trading requirement being amended herein, the “in assigned” quarterly trading requirement in Commentary .03 requires that, except for unusual circumstances, at least 50% of the trading activity in any quarter (measured in terms of contract volume) of an ROT (other than an RSQT) shall ordinarily be in classes of options to which he is assigned. Temporarily undertaking the obligations of paragraph (c) at the request of a member of the Exchange in non-assigned classes of options is not deemed trading in non-assigned option contracts. Furthermore, Commentary .13 further provides that, within each quarter, an ROT must execute in person, and not through the use of orders, a specified number of contracts, such number to be determined from time to time by the Exchange. Options Floor Procedure Advice (“Advice”) B-3, Trading Requirements, establishes a quarterly requirement to trade the greater of 1,000 contracts or 50% of contract volume in person; pursuant to the Exchange’s minor rule violation and enforcement plan, it establishes a fine schedule for violations thereof, as well as for violations of the quarterly trading requirement in assigned options contained in Commentary .03. Commentary .01 also requires that in order for an ROT (other than an RSQT or a Remote Specialist) to receive specialist margin treatment for off-floor orders in any calendar quarter, the ROT must execute the greater of 1,000 contracts or 80% of his total contracts that quarter in person (not through the use of orders, except that non-streaming ROTs can use orders entered in person) and 75% of his total contracts that quarter in assigned options (excluding transactions executed in the trading crowd where the contra-side is an ROT). None of these trading requirements are changing.

an ROT would not be included.⁹ Like the current 1000/300 Alternative, the New Alternative is a pure trading requirement, not limited, like the other trading requirements, to assigned options¹⁰ and in person trading.¹¹ Accordingly, the New Alternative requirement can be fulfilled with trades and contracts that are not in assigned options and not executed in person, although, of course, the existing trading requirements respecting “in assigned” options and “in person” trading must still be met.

The Exchange adopted the 1000/300 Alternative, the existing requirement, in 2011.¹² At that time the Exchange believed this quarterly requirement would be a reasonable and fair measure to ensure ROTs were actively providing liquidity. Since that time the Exchange has observed that larger order sizes continue to seek liquidity on the trading floor, drawing regular responses from ROTs whose business is centered around

⁹ The Exchange already excludes from the contracts and transactions required by the current 1000/300 Alternative, in each quarter, any transactions executed in the trading crowd where the contra-side is an ROT in order to focus market making efforts on providing the sort of liquidity that will attract customers (including broker-dealers and professionals) to the Exchange, and is extending this exclusion to the New Alternative for the same reason. As with the 1000/300 Alternative currently in effect, ROTs will continue to be able to participate in crowd trades, and those crowd trades will count towards the new trading requirement, unless the contra-side is another ROT. ROT-to-ROT trades in the crowd are certainly permissible on the Exchange, but the Exchange seeks to better target liquidity and attract order flow by designing the trading requirement to exclude them. As with the 1000/300 Alternative, the New Alternative would include electronic transactions where the contra-side is another ROT, because ROTs cannot predict whether their electronic orders will trade against other ROTs, such that they would be unable to determine in advance whether the quarterly requirement would be met.

¹⁰ See Rule 1014.03.

¹¹ See Rule 1014.01.

¹² See Securities Exchange Act Release No. 65644 (October 27, 2011), 76 FR 67786 (November 2, 2011) (SR-Phlx-2011-123).

larger sized transactions, but not always resulting in transactions for these larger ROT firms providing liquidity.

The Exchange has observed that certain ROTs, who trade larger sized orders and who only trade a handful of underlying stocks are making markets on a daily basis but are having less opportunity because larger orders are often placed into the Qualified Contingent Cross (QCC) mechanism.¹³ Consequently there are fewer opportunities for some ROTs to make trades. The Exchange notes that ROTs may not enter responses to QCC Orders which are paired orders entered into the QCC Mechanism and are not exposed.

The Exchange is now proposing to address this issue by modifying the 1000/300 Alternative trading requirement to include the New Alternative as an additional metric, one that could be satisfied by fewer transactions but more traded contracts, such that the overall trading requirement originally contemplated by the 1000/300 Alternative is not diluted. After discussing this issue with the larger ROTs who are very active on a daily basis, the Exchange determined that 100 transactions per quarter was a reasonable number to measure whether an ROT is providing liquidity to the market. The Exchange concluded that a reduced number of 100 transactions per quarter would permit ROTs to make their trading decisions without undue influence of quoting obligations alone, and instead choose whether to participate in trades based on factors independent of the actual quoting obligation. The Exchange believes that the value of an ROT is not limited to

¹³ See Securities Exchange Act Release No. 64249 (April 7, 2011), 76 FR 20773 (April 13, 2011) (SR-Phlx-2011-47) (a rule change to establish a QCC Order to facilitate the execution of stock/option Qualified Contingent Trades (“QCTs”) that satisfy the requirements of the trade through exemption in connection with Rule 611(d) of the Regulation NMS).

only whether they actually execute transactions, but as important is that they are actively quoting markets and providing pricing information. Since 100 transactions is only 33% of the current requirement, the Exchange determined to increase the total executed contracts number by 900 percent to 10,000 contracts, to ensure that the Exchange did not diminish the trading requirement when viewed from an overall perspective. The Exchange believes this alternative requirement is a good measure that improves the analysis of whether the larger ROT's are participating in an expected manner, and providing liquidity to the market.

The Exchange notes that in order to meet the floor quoting requirements a ROT may either continue to comply with the current requirement or may voluntarily comply with the New Alternative. The existing requirement is based on the ability to trade 1,000 contracts and 300 transactions on the Exchange each quarter, more contracts but of a smaller size. The New Alternative permits compliance with the quoting rules by transacting fewer transactions (100 transactions) but larger sized volume (10,000 contracts). The two options to comply with the floor quoting rule do not vary in terms of benefits or obligations.

The Exchange believes the combined test of "10,000 contracts" and "100 transactions" would be a fair measure of liquidity as an alternative to complement the current requirement, and is a fair and balanced way to measure whether a ROT is providing liquidity to the marketplace. This proposed new measure will be a fairer measure for certain market makers in that it considers another perspective of liquidity - specifically, the offering of deep liquid markets which result in fewer executions, but of greater size.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹⁴ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁵ 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, in general to protect investors and the public interest, by adopting a new alternative trading requirement which will provide flexibility in the manner in which ROTs may meet a quarterly trading requirement, thereby encouraging market making which should enhance liquidity on the Exchange. It would be unjust and inequitable to continue to impose the 1000/300 Alternative trading requirement without also offering ROTs this New Alternative given the recent availability of QCC to handle large orders that previously may have been executed by certain ROTs in satisfaction of the 1000/300 Alternative test.

Making the change proposed herein will remove impediments to and perfect the mechanism of a free and open market and a national market system by providing a new alternative to an existing requirement that ROTs have difficulty meeting given the current trading environment, thus enabling them to continue making markets to the benefit of investors by requiring ample liquidity. Investors and the public interest are protected by the proposal in that it should help preserve the number of ROTs making markets and providing liquidity to the benefit of users of the Exchange's market.

¹⁴ 15 U.S.C. 78f(b).

¹⁵ 15 U.S.C. 78f(b)(5).

It is important to note that a non-SQT ROT cannot control the size and frequency of crowd trades, even less so crowd trades where the contra-side is not an ROT. The Exchange represents that the only other way to participate in trades other than through the use of orders is by quoting; while SQTs quote electronically by “streaming” quotations into the Exchange, non-SQT ROTs may only quote verbally in response to floor brokers representing orders in the trading crowd. The Exchange believes that it has become difficult for such ROTs to comply with the trading requirements. The Exchange believes that this new trading requirement should increase the likelihood that an ROT is actively providing liquidity on Phlx. The Exchange believes that the proposed new trading requirement should enhance the market making functions for ROTs and serve to maintain a fair and orderly market thereby promoting the protection of investors and the public interest.

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 New Alternative trading requirement would be available to all ROTs without distinction, as an alternative to the existing 1000/300 Alternative trading requirement.

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

The proposed rule change is not based on the rules of another self-regulatory organization or of the Commission.

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.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. _____ ; File No. SR-Phlx-2017-46)

June __, 2017

Self-Regulatory Organizations; NASDAQ PHLX LLC; Notice of Filing of Proposed Rule Change Relating to Quarterly Trading Requirements

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹, and Rule 19b-4 thereunder,² notice is hereby given that on June 8, 2017, NASDAQ 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 amend Commentary .01 of Rule 1014, Obligations and Restrictions Applicable to Specialists and Registered Options Traders, to change quarterly trading requirements applicable to Registered Options Traders (“ROTs”), as described below.³

The text of the proposed rule change is set forth below. Proposed new language is underlined; deletions are bracketed.

* * * * *

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ A Registered Options Trader or ROT is a regular member or a foreign currency options participant of the Exchange located on the trading floor who has received permission from the Exchange to trade in options for his own account. See Exchange Rule 1014(b)(i).

Rule 1014 Obligations and Restrictions Applicable to Specialists and Registered Options Traders

(a) – (g) No change.

Commentary

.01 An ROT electing to engage in Exchange options transactions is designated as a specialist on the Exchange for all purposes under the Securities Exchange Act of 1934 and the rules and regulations thereunder with respect to options transactions initiated and effected by him on the floor in his capacity as an ROT. For purposes of this commentary, the term “transactions initiated and effected on the floor” shall not include transactions initiated by an ROT off the floor, but which are considered “on-floor” pursuant to Commentaries .07 and .08 of Rule 1014. Similarly, an RSQT electing to engage in Exchange options transactions is designated as a specialist on the Exchange for all purposes under the Securities Exchange Act of 1934 and the rules and regulations thereunder with respect to options transactions initiated and effected by him in his capacity as an ROT.

An ROT (other than an RSQT or a Remote Specialist) is required to trade either (a) 1,000 contracts and 300 transactions, or (b) 10,000 contracts and 100 transactions, on the Exchange each quarter. Transactions executed in the trading crowd where the contra-side is an ROT are not included.

In addition, in order for an ROT (other than an RSQT or a Remote Specialist) to receive specialist margin treatment for off-floor orders in any calendar quarter, the ROT must execute the greater of 1,000 contracts or 80% of his total contracts that quarter in person (not through the use of orders, except that non-streaming ROTs can use orders entered in

person) and 75% of his total contracts that quarter in assigned options. Transactions executed in the trading crowd where the contra-side is an ROT are not included.

The off-floor orders for which an ROT receives specialist margin treatment shall be subject to the obligations of Rule 1014(a) and, in general, be effected for the purpose of hedging, reducing risk of, or rebalancing positions of the ROT. An ROT is responsible for evidencing compliance with these provisions. The Exchange may exempt one or more classes of options from this calculation.

.02 - .19 No change.

* * * * *

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

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 add flexibility to one of the Exchange's quarterly trading requirements to encourage liquidity-providing activity by

market makers on the Exchange. The general term “market makers” on the Exchange includes specialists⁴ and ROTs. ROTs can be either Streaming Quote Traders⁵ (“SQTs”), Remote SQTs⁶ (“RSQTs”) or non-SQT ROTs.⁷ Quarterly trading requirements apply to two types of ROTs: SQTs and non-SQT ROTs. Specialists and RSQTs are subject to different requirements. By definition, non-SQT ROTs do not “stream” quotes, meaning send quotes electronically to the Exchange; instead, pursuant to Commentary .18 of Rule 1014, they submit limit orders electronically and respond to Floor Brokers verbally.

Currently, Rule 1014 contains a number of trading requirements. The Exchange is proposing to amend a quarterly trading requirement set forth in Commentary .01.⁸

⁴ A specialist is an Exchange member who is registered as an options specialist pursuant to Rule 501(a). An options specialist includes a Remote Specialist which is defined as an options specialist in one or more classes that does not have a physical presence on an Exchange floor and is approved by the Exchange pursuant to Rule 501.

⁵ An SQT is an ROT who has received permission from the Exchange to generate and submit option quotations electronically in options to which such SQT is assigned. An SQT may only submit such quotations while such SQT is physically present on the floor of the Exchange. An SQT may only trade in a market making capacity in classes of options in which the SQT is assigned. See Rule 1014(b)(ii)(A).

⁶ An RSQT is an ROT that is a member affiliated with and RSQTO with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically in options to which such RSQT has been assigned. A qualified RSQT may function as a Remote Specialist upon Exchange approval. See Rule 1014(b)(ii)(B).

⁷ A non-SQT ROT is an ROT who is neither an SQT nor an RSQT. See Rule 1014(b)(ii)(C).

⁸ In addition to the trading requirement being amended herein, the “in assigned” quarterly trading requirement in Commentary .03 requires that, except for unusual circumstances, at least 50% of the trading activity in any quarter (measured in terms of contract volume) of an ROT (other than an RSQT) shall ordinarily be in classes of options to which he is assigned. Temporarily undertaking the obligations of paragraph (c) at the request of a member of the Exchange in non-

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The Exchange now proposes to amend this quarterly requirement of Commentary .01 by adding a new test as an alternative. As amended, Commentary .01 would require an ROT (other than an RSQT or a Remote Specialist) to trade either (a) 1,000 contracts and 300 transactions (the “1000/300 Alternative,” which is the current requirement) or (b) 10,000 contracts and 100 transactions (the “New Alternative”), on the Exchange each quarter. In either case transactions executed in the trading crowd where the contra-side is an ROT would not be included.⁹ Like the current 1000/300 Alternative, the New

assigned classes of options is not deemed trading in non-assigned option contracts. Furthermore, Commentary .13 further provides that, within each quarter, an ROT must execute in person, and not through the use of orders, a specified number of contracts, such number to be determined from time to time by the Exchange. Options Floor Procedure Advice (“Advice”) B-3, Trading Requirements, establishes a quarterly requirement to trade the greater of 1,000 contracts or 50% of contract volume in person; pursuant to the Exchange’s minor rule violation and enforcement plan, it establishes a fine schedule for violations thereof, as well as for violations of the quarterly trading requirement in assigned options contained in Commentary .03. Commentary .01 also requires that in order for an ROT (other than an RSQT or a Remote Specialist) to receive specialist margin treatment for off-floor orders in any calendar quarter, the ROT must execute the greater of 1,000 contracts or 80% of his total contracts that quarter in person (not through the use of orders, except that non-streaming ROTs can use orders entered in person) and 75% of his total contracts that quarter in assigned options (excluding transactions executed in the trading crowd where the contra-side is an ROT). None of these trading requirements are changing.

⁹ The Exchange already excludes from the contracts and transactions required by the current 1000/300 Alternative, in each quarter, any transactions executed in the trading crowd where the contra-side is an ROT in order to focus market making efforts on providing the sort of liquidity that will attract customers (including broker-dealers and professionals) to the Exchange, and is extending this exclusion to the New Alternative for the same reason. As with the 1000/300 Alternative currently in effect, ROTs will continue to be able to participate in crowd trades, and those crowd trades will count towards the new trading requirement, unless the

Alternative is a pure trading requirement, not limited, like the other trading requirements, to assigned options¹⁰ and in person trading.¹¹ Accordingly, the New Alternative requirement can be fulfilled with trades and contracts that are not in assigned options and not executed in person, although, of course, the existing trading requirements respecting “in assigned” options and “in person” trading must still be met.

The Exchange adopted the 1000/300 Alternative, the existing requirement, in 2011.¹² At that time the Exchange believed this quarterly requirement would be a reasonable and fair measure to ensure ROTs were actively providing liquidity. Since that time the Exchange has observed that larger order sizes continue to seek liquidity on the trading floor, drawing regular responses from ROTs whose business is centered around larger sized transactions, but not always resulting in transactions for these larger ROT firms providing liquidity.

The Exchange has observed that certain ROTs, who trade larger sized orders and who only trade a handful of underlying stocks are making markets on a daily basis but are having less opportunity because larger orders are often placed into the Qualified

contra-side is another ROT. ROT-to-ROT trades in the crowd are certainly permissible on the Exchange, but the Exchange seeks to better target liquidity and attract order flow by designing the trading requirement to exclude them. As with the 1000/300 Alternative, the New Alternative would include electronic transactions where the contra-side is another ROT, because ROTs cannot predict whether their electronic orders will trade against other ROTs, such that they would be unable to determine in advance whether the quarterly requirement would be met.

¹⁰ See Rule 1014.03.

¹¹ See Rule 1014.01.

¹² See Securities Exchange Act Release No. 65644 (October 27, 2011), 76 FR 67786 (November 2, 2011) (SR-Phlx-2011-123).

Contingent Cross (QCC) mechanism.¹³ Consequently there are fewer opportunities for some ROTs to make trades. The Exchange notes that ROTs may not enter responses to QCC Orders which are paired orders entered into the QCC Mechanism and are not exposed.

The Exchange is now proposing to address this issue by modifying the 1000/300 Alternative trading requirement to include the New Alternative as an additional metric, one that could be satisfied by fewer transactions but more traded contracts, such that the overall trading requirement originally contemplated by the 1000/300 Alternative is not diluted. After discussing this issue with the larger ROTs who are very active on a daily basis, the Exchange determined that 100 transactions per quarter was a reasonable number to measure whether an ROT is providing liquidity to the market. The Exchange concluded that a reduced number of 100 transactions per quarter would permit ROTs to make their trading decisions without undue influence of quoting obligations alone, and instead choose whether to participate in trades based on factors independent of the actual quoting obligation. The Exchange believes that the value of an ROT is not limited to only whether they actually execute transactions, but as important is that they are actively quoting markets and providing pricing information. Since 100 transactions is only 33% of the current requirement, the Exchange determined to increase the total executed contracts number by 900 percent to 10,000 contracts, to ensure that the Exchange did not diminish the trading requirement when viewed from an overall perspective. The

¹³ See Securities Exchange Act Release No. 64249 (April 7, 2011), 76 FR 20773 (April 13, 2011) (SR-Phlx-2011-47) (a rule change to establish a QCC Order to facilitate the execution of stock/option Qualified Contingent Trades (“QCTs”) that satisfy the requirements of the trade through exemption in connection with Rule 611(d) of the Regulation NMS).

Exchange believes this alternative requirement is a good measure that improves the analysis of whether the larger ROT's are participating in an expected manner, and providing liquidity to the market.

The Exchange notes that in order to meet the floor quoting requirements a ROT may either continue to comply with the current requirement or may voluntarily comply with the New Alternative. The existing requirement is based on the ability to trade 1,000 contracts and 300 transactions on the Exchange each quarter, more contracts but of a smaller size. The New Alternative permits compliance with the quoting rules by transacting fewer transactions (100 transactions) but larger sized volume (10,000 contracts). The two options to comply with the floor quoting rule do not vary in terms of benefits or obligations.

The Exchange believes the combined test of "10,000 contracts" and "100 transactions" would be a fair measure of liquidity as an alternative to complement the current requirement, and is a fair and balanced way to measure whether a ROT is providing liquidity to the marketplace. This proposed new measure will be a fairer measure for certain market makers in that it considers another perspective of liquidity - specifically, the offering of deep liquid markets which result in fewer executions, but of greater size.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹⁴ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁵ in particular,

¹⁴ 15 U.S.C. 78f(b).

¹⁵ 15 U.S.C. 78f(b)(5).

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, in general to protect investors and the public interest, by adopting a new alternative trading requirement which will provide flexibility in the manner in which ROTs may meet a quarterly trading requirement, thereby encouraging market making which should enhance liquidity on the Exchange. It would be unjust and inequitable to continue to impose the 1000/300 Alternative trading requirement without also offering ROTs this New Alternative given the recent availability of QCC to handle large orders that previously may have been executed by certain ROTs in satisfaction of the 1000/300 Alternative test.

Making the change proposed herein will remove impediments to and perfect the mechanism of a free and open market and a national market system by providing a new alternative to an existing requirement that ROTs have difficulty meeting given the current trading environment, thus enabling them to continue making markets to the benefit of investors by requiring ample liquidity. Investors and the public interest are protected by the proposal in that it should help preserve the number of ROTs making markets and providing liquidity to the benefit of users of the Exchange's market.

It is important to note that a non-SQT ROT cannot control the size and frequency of crowd trades, even less so crowd trades where the contra-side is not an ROT. The Exchange represents that the only other way to participate in trades other than through the use of orders is by quoting; while SQTs quote electronically by "streaming" quotations into the Exchange, non-SQT ROTs may only quote verbally in response to floor brokers representing orders in the trading crowd. The Exchange believes that it has become

difficult for such ROTs to comply with the trading requirements. The Exchange believes that this new trading requirement should increase the likelihood that an ROT is actively providing liquidity on Phlx. The Exchange believes that the proposed new trading requirement should enhance the market making functions for ROTs and serve to maintain a fair and orderly market thereby promoting the protection of investors and the public interest.

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 New Alternative trading requirement would be available to all ROTs without distinction, as an alternative to the existing 1000/300 Alternative trading requirement.

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. Please include File Number SR-Phlx-2017-46 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-Phlx-2017-46. 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-2017-46 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.¹⁶

Eduardo A. Aleman
Assistant Secretary

¹⁶ 17 CFR 200.30-3(a)(12).