

*Required fields are shown with yellow backgrounds and asterisks.*

Filing by NASDAQ PHLX LLC  
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

<b>Initial *</b>	<b>Amendment *</b>	<b>Withdrawal</b>	<b>Section 19(b)(2) *</b>	<b>Section 19(b)(3)(A) *</b>	<b>Section 19(b)(3)(B) *</b>
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
			Rule		
<b>Pilot</b>	<b>Extension of Time Period for Commission Action *</b>	<b>Date Expires *</b>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="text"/>	<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)	

<b>Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010</b>	<b>Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934</b>
<b>Section 806(e)(1) *</b>	<b>Section 806(e)(2) *</b>
<input type="checkbox"/>	<input type="checkbox"/>
	<b>Section 3C(b)(2) *</b>
	<input type="checkbox"/>

<b>Exhibit 2 Sent As Paper Document</b>	<b>Exhibit 3 Sent As Paper Document</b>
<input type="checkbox"/>	<input type="checkbox"/>

**Description**

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

A proposal to amend Rules 1024, Conduct of Accounts for Options Trading, and 1025, Supervision of Accounts, to conform them more closely to comparable rules of the Chicago Board Options Exchange.

**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 \*  Last Name \*   
 Title \*   
 E-mail \*   
 Telephone \*  Fax

**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    
 By

(Name \*)

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**

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**

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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 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 (“SEC” or “Commission”) a proposal to amend Rules 1024, Conduct of Accounts for Options Trading, and 1025, Supervision of Accounts, to conform them more closely to comparable rules of the Chicago Board Options Exchange (“CBOE”) and to make minor clarifications and corrections to the text.

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

(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 (the “Board”) on July 25, 2016. No other action is necessary for the filing of the rule change.

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

Carla Behnfeldt  
Associate General Counsel  
Nasdaq, Inc.  
(215) 496-5208

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

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

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

a. Purpose

Rules 1024 and 1025 contain a range of regulatory requirements generally applicable to Phlx members and member organizations that conduct a public customer options business. The Exchange is proposing a number of changes to clarify the language of those rules and correct inaccuracies. The Exchange also proposes to change certain rule language to conform the rules more closely to CBOE rules dealing with the same subject matter, in order to more easily facilitate compliance by dual members and to prevent inadvertent misunderstandings of the rule's requirements that can arise from slight wording differences. These rule changes are generally intended to promote more effective regulatory compliance by Exchange members and member organizations. The proposed changes are detailed below.

*Rule 1024(a)(i)*

Rule 1024(a)(i) governs registration of Options Principals. The rule currently provides that no member or member organization or individual associated with a member organization shall be approved to transact options business with the public until such persons, who are designated as Options Principals, have been approved by and registered with the Exchange. Additionally, it provides that persons engaged in the supervision of options sales practice or a person to whom the designated general partner or executive officer (pursuant to Rule 1025) or another Registered Options Principal delegates the authority to supervise options sales practices shall be designated as Options Principals. Finally, the rule states that all members and member organizations must use Web CRD to submit Form U4, Uniform Application for Securities Industry Registration or Transfer

filings on behalf of their Options Principals. Members and member organizations are required under the rule to amend Form U4 filings not later than thirty (30) days after the filer knew or should have known of the facts which gave rise to the amendment.

The Exchange is amending Rule 1024(a)(i) by adopting language requiring Options Principals to electronically file a Uniform Application for Securities Industry Registration or Transfer (Form U-4) with Web CRD, to successfully complete an examination prescribed by the Exchange for the purpose of demonstrating an adequate knowledge of the options business and of the Rules of the Exchange, and to further agree in the U-4 filing to abide by the Bylaws and Rules of the Exchange and the Rules of The Options Clearing Corporation. Any person required to complete Form U-4 would also be required to promptly electronically file any required amendments to Form U-4 with Web CRD. The new language would require termination of employment or affiliation of any Registered Options Principal in such capacity to be promptly electronically reported to Web CRD together with a brief statement of the reason for such termination on Form U-5. The amendment would conform Rule 1024(a) more closely to CBOE Rule 9.2. The proposal would also correct a reference in the second sentence to “options sale practice,” substituting for that term “options sales practices”.

*Rule 1024(b)(ii)*

Rule 1024(b)(ii) generally provides that, in approving a customer's account for options transactions, a member or member organization shall exercise due diligence to learn the essential facts as to the customer and his investment objectives and financial situation, and shall make a record of such information. It also provides for approval and

for confirmation of approval of the customer's account by a Registered Options Principal qualified individual.

For purposes of clarity, the Exchange proposes to eliminate references in Rule 1024(ii) to a "specific" or "specified" Registered Options Principal. It also proposes to delete the words "qualified individual" as they appear following references to Registered Options Principals to eliminate any ambiguity, as it is not clear what a Registered Options Principal qualified individual means if not a Registered Options Principal. Finally, the Exchange is relocating the phrase "within a reasonable period of time" simply to conform the rule in this respect to CBOE Rule 9.7.

*Rule 1024(c)(5)*

Rule 1024(c)(5) is proposed to be amended by changing an inaccurate internal cross reference, from Rule 1029(c) to Rule 1029(b).

*Rule 1024 Commentary .01 Section 8*

The Exchange is proposing to correct the placement of a closing parenthesis, moving it from after the word "transactions" to after the word "other".

*Rule 1024 Commentary .03*

The Exchange is proposing to add the inadvertently omitted word "an" before the word "opportunity".

*Rule 1024 Commentary .06*

The Exchange is proposing to delete the word "Qualification" from references to the Registered Options Principal Qualification Examination (Series 4) and the Sales Supervision Qualification Examination (Series 9/10), to conform the rule to CBOE Rule 9.2, Interpretations and Policies .01.

*Rule 1024 Commentary .08*

The Exchange proposes to add the inadvertently dropped word “reviewing” to a sentence that requires individuals who are delegated responsibility for reviewing, among other things, the acceptance of discretionary accounts, to be designated as Options Principals and pass the Series 4 examination.

*Rule 1025(a)(iii)(A)*

The Exchange proposes to substitute the word “responsibility” for the word “responsibilities” simply to conform the rule to CBOE Rule 9.8(a)(3)(i).

*Rule 1025(b)(i)*

The Exchange proposes to make minor, nonsubstantive wording changes to conform the rule language more closely to that of CBOE Rule 9.8(b)(1).

*Rule 1025(b)(iii)*

The Exchange proposes to capitalize the word “Rule” in a reference to SEC rule 17a-4, to conform the language to CBOE Rule 9.8(b)(3).

*Rule 1025(b) concluding sentence*

The word “person” is proposed to be pluralized to conform with the final sentence of CBOE Rule 9.8(b)(3), and an inaccurate reference to “this paragraph (b)(3)” is proposed to be corrected to read “this paragraph (b)(iii)”.

*Rule 1025(d)*

An extraneous word “the” is proposed to be deleted before the word “proximity” to conform to CBOE Rule 9.8(d)(1)(i), and an inaccurate reference to Rule 1025(c) is proposed to be corrected to read Rule 1025(e).

*Rule 1025(e)*

The Exchange proposes to remove an extraneous comma to conform the rule to CBOE Rule 9.8(e)(1) and to change an incorrect internal cross reference from paragraph (e)(1) to paragraph (e)(i).

*Rule 1025(g)*

Currently, Rule 1025(g) requires each member organization that conducts a non-member customer business to submit each year to the Exchange a written report on the member organization's supervision and compliance effort during the preceding year. The Exchange proposes to expand the requirement to conform to CBOE Rule 9.8(g), by specifying that the report must also detail the adequacy of the member organization's ongoing compliance processes and procedures. The proposed amendments to Rule 1025(g) would also require the Chief Executive Officer (or equivalent) to certify that the member organization has in place processes to test the effectiveness of policies and procedures on periodic, rather than on a regular, basis. This change would conform the Exchange's requirement to the comparable CBOE Rule 9.8(G)(V)(a)(3) requirement. The proposal would also correct inaccurate internal cross references in Rules 1025(g)(v)(C) and (D), as well as correct the placement of a closing parenthesis in Rule 1025(g)(v)(C).

*Rule 1025(h)*

Rule 1025(h) provides that each member organization shall submit the report required by Rule 1025(g) to its one or more control persons or, if the member organization has no control person, to the audit committee of its board of directors or its equivalent committee or group. The Exchange proposes to add language to the end of the rule to establish the meaning of "control person," proposed to be defined as a person who



controls the member organization. The new language would define the term “control” as meaning the power to exercise a controlling influence over the management or policies of the member organization, unless such power is solely the result of an official position with the member organization. Finally, the new language would state that any person who owns beneficially, directly or indirectly, more than 20% of the voting power in the election of directors of the member organization, or more than 25% of the voting power in the election of directors of any other corporation which directly or through one or more affiliates owns beneficially more than 25% of the voting power in the election of directors of the member organization, shall be presumed to control the member organization. The proposed new language is based on CBOE Rules 9.8(h) and 1.1(k), which is incorporated by reference into CBOE Rule 9.8(h).

*Rule 1025 Commentary .02 and .03*

Rule 1025 Commentary .02 is proposed to be amended by deleting the introductory phrase “In meeting their supervisory responsibilities” in order to conform the language to CBOE Rule 9.8, Interpretations and Policies .01. The rule currently requires member organizations conducting a non-member customer business to enforce written procedures governing the conduct of options accounts. As revised, the written procedures would be required to detail the specific methods used to supervise all non-member customer accounts. This amendment would also provide greater clarity regarding the required content of the procedures and also conforms the rule to CBOE Rule 9.8 Interpretations and Policies .01. Finally, the Exchange proposes to amend Rule 1025 Commentary .03 by adding the word “shall” to the first sentence, to conform the language to CBOE Rule 9.8, Interpretations and Policies .02.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>3</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>4</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. The amendments should remove impediments to and perfect the mechanism of a free and open market and a national market system, by creating greater regulatory parity among two options exchanges, CBOE and Phlx, regarding members' obligations in the areas of conduct of accounts for options trading and supervision of accounts. The proposed amendments should create more efficient regulatory compliance by members of both exchanges due to elimination of differences in wording and consequent potential for inadvertent regulatory noncompliance. The Exchange believes it is in the public interest for a consistent and consistently worded, regulatory policy and standard regarding conduct of accounts for options trading and supervision of accounts to be in effect across options exchanges, for the benefit of customers. The harmonized rules should lead to harmonized examinations and enforcement of similar rules, thus reducing duplicative regulatory efforts, thus lowering regulatory cost passed on to member organizations and the general public. The minor corrections and clarifications described above will improve the accuracy of the rules and should also improve the readability of the rules, making them more understandable and thereby facilitating easier compliance.

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<sup>3</sup> 15 U.S.C. 78f(b).

<sup>4</sup> 15 U.S.C. 78f(b)(5).

3. 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. As stated above the proposal is designed to conform Rules 1024 and 1025 more closely to comparable rules of CBOE and to make minor clarifications and corrections to the rule text.

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)

Not applicable.

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

The proposed rule change is based in part on the CBOE rules cited above.

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 Change for publication in the Federal Register.
5. Text of the proposed rule change.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-Phlx-2017-55)

July \_\_, 2017

Self-Regulatory Organizations; NASDAQ PHLX LLC; Notice of Filing of Proposed Rule Change to amend Rules 1024, Conduct of Accounts for Options Trading, and 1025, Supervision of Accounts, to conform them more closely to comparable rules of the Chicago Board Options Exchange (“CBOE”) and to make minor clarifications and corrections to the text.

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 July 13, 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 Rules 1024, Conduct of Accounts for Options Trading, and 1025, Supervision of Accounts, to conform them more closely to comparable rules of the Chicago Board Options Exchange (“CBOE”) and to make minor clarifications and corrections to the text.

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

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

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

(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 (the “Board”) on July 25, 2016. No other action is necessary for the filing of the rule change.

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

Rules 1024 and 1025 contain a range of regulatory requirements generally applicable to Phlx members and member organizations that conduct a public customer options business. The Exchange is proposing a number of changes to clarify the language of those rules and correct inaccuracies. The Exchange also proposes to change certain rule language to conform the rules more closely to CBOE rules dealing with the same subject matter, in order to more easily facilitate compliance by dual members and to prevent inadvertent misunderstandings of the rule’s requirements that can arise from

slight wording differences. These rule changes are generally intended to promote more effective regulatory compliance by Exchange members and member organizations. The proposed changes are detailed below.

*Rule 1024(a)(i)*

Rule 1024(a)(i) governs registration of Options Principals. The rule currently provides that no member or member organization or individual associated with a member organization shall be approved to transact options business with the public until such persons, who are designated as Options Principals, have been approved by and registered with the Exchange. Additionally, it provides that persons engaged in the supervision of options sales practice or a person to whom the designated general partner or executive officer (pursuant to Rule 1025) or another Registered Options Principal delegates the authority to supervise options sales practices shall be designated as Options Principals. Finally, the rule states that all members and member organizations must use Web CRD to submit Form U4, Uniform Application for Securities Industry Registration or Transfer filings on behalf of their Options Principals. Members and member organizations are required under the rule to amend Form U4 filings not later than thirty (30) days after the filer knew or should have known of the facts which gave rise to the amendment.

The Exchange is amending Rule 1024(a)(i) by adopting language requiring Options Principals to electronically file a Uniform Application for Securities Industry Registration or Transfer (Form U-4) with Web CRD, to successfully complete an examination prescribed by the Exchange for the purpose of demonstrating an adequate knowledge of the options business and of the Rules of the Exchange, and to further agree in the U-4 filing to abide by the Bylaws and Rules of the Exchange and the Rules of the

Options Clearing Corporation. Any person required to complete Form U-4 would also be required to promptly electronically file any required amendments to Form U-4 with Web CRD. The new language would require termination of employment or affiliation of any Registered Options Principal in such capacity to be promptly electronically reported to Web CRD together with a brief statement of the reason for such termination on Form U-5. The amendment would conform Rule 1024(a) more closely to CBOE Rule 9.2. The proposal would also correct a reference in the second sentence to “options sale practice,” substituting for that term “options sales practices”.

*Rule 1024(b)(ii)*

Rule 1024(b)(ii) generally provides that, in approving a customer's account for options transactions, a member or member organization shall exercise due diligence to learn the essential facts as to the customer and his investment objectives and financial situation, and shall make a record of such information. It also provides for approval and for confirmation of approval of the customer's account by a Registered Options Principal qualified individual.

For purposes of clarity, the Exchange proposes to eliminate references in Rule 1024(ii) to a “specific” or “specified” Registered Options Principal. It also proposes to delete the words “qualified individual” as they appear following references to Registered Options Principals to eliminate any ambiguity, as it is not clear what a Registered Options Principal qualified individual means if not a Registered Options Principal. Finally, the Exchange is relocating the phrase “within a reasonable period of time” simply to conform the rule in this respect to CBOE Rule 9.7.

*Rule 1024(c)(5)*

Rule 1024(c)(5) is proposed to be amended by changing an inaccurate internal cross reference, from Rule 1029(c) to Rule 1029(b).

*Rule 1024 Commentary .01 Section 8*

The Exchange is proposing to correct the placement of a closing parenthesis, moving it from after the word “transactions” to after the word “other”.

*Rule 1024 Commentary .03*

The Exchange is proposing to add the inadvertently omitted word “an” before the word “opportunity”.

*Rule 1024 Commentary .06*

The Exchange is proposing to delete the word “Qualification” from references to the Registered Options Principal Qualification Examination (Series 4) and the Sales Supervision Qualification Examination (Series 9/10), to conform the rule to CBOE Rule 9.2, Interpretations and Policies .01.

*Rule 1024 Commentary .08*

The Exchange proposes to add the inadvertently dropped word “reviewing” to a sentence that requires individuals who are delegated responsibility for reviewing, among other things, the acceptance of discretionary accounts, to be designated as Options Principals and pass the Series 4 examination.

*Rule 1025(a)(iii)(A)*

The Exchange proposes to substitute the word “responsibility” for the word “responsibilities” simply to conform the rule to CBOE Rule 9.8(a)(3)(i).

*Rule 1025(b)(i)*



The Exchange proposes to make minor, nonsubstantive wording changes to conform the rule language more closely to that of CBOE Rule 9.8(b)(1).

*Rule 1025(b)(iii)*

The Exchange proposes to capitalize the word “Rule” in a reference to SEC rule 17a-4, to conform the language to CBOE Rule 9.8(b)(3).

*Rule 1025(b) concluding sentence*

The word “person” is proposed to be pluralized to conform with the final sentence of CBOE Rule 9.8(b)(3), and an inaccurate reference to “this paragraph (b)(3)” is proposed to be corrected to read “this paragraph (b)(iii)”.

*Rule 1025(d)*

An extraneous word “the” is proposed to be deleted before the word “proximity” to conform to CBOE Rule 9.8(d)(1)(i), and an inaccurate reference to Rule 1025(c) is proposed to be corrected to read Rule 1025(e).

*Rule 1025(e)*

The Exchange proposes to remove an extraneous comma to conform the rule to CBOE Rule 9.8(e)(1) and to change an incorrect internal cross reference from paragraph (e)(1) to paragraph (e)(i).

*Rule 1025(g)*

Currently, Rule 1025(g) requires each member organization that conducts a non-member customer business to submit each year to the Exchange a written report on the member organization's supervision and compliance effort during the preceding year. The Exchange proposes to expand the requirement to conform to CBOE Rule 9.8(g), by specifying that the report must also detail the adequacy of the member organization's

ongoing compliance processes and procedures. The proposed amendments to Rule 1025(g) would also require the Chief Executive Officer (or equivalent) to certify that the member organization has in place processes to test the effectiveness of policies and procedures on periodic, rather than on a regular, basis. This change would conform the Exchange's requirement to the comparable CBOE Rule 9.8(G)(V)(a)(3) requirement. The proposal would also correct inaccurate internal cross references in Rules 1025(g)(v)(C) and (D), as well as correct the placement of a closing parenthesis in Rule 1025(g)(v)(C).

*Rule 1025(h)*

Rule 1025(h) provides that each member organization shall submit the report required by Rule 1025(g) to its one or more control persons or, if the member organization has no control person, to the audit committee of its board of directors or its equivalent committee or group. The Exchange proposes to add language to the end of the rule to establish the meaning of "control person," proposed to be defined as a person who controls the member organization. The new language would define the term "control" as meaning the power to exercise a controlling influence over the management or policies of the member organization, unless such power is solely the result of an official position with the member organization. Finally, the new language would state that any person who owns beneficially, directly or indirectly, more than 20% of the voting power in the election of directors of the member organization, or more than 25% of the voting power in the election of directors of any other corporation which directly or through one or more affiliates owns beneficially more than 25% of the voting power in the election of directors of the member organization, shall be presumed to control the member

organization. The proposed new language is based on CBOE Rules 9.8(h) and 1.1(k), which is incorporated by reference into CBOE Rule 9.8(h).

*Rule 1025 Commentary .02 and .03*

Rule 1025 Commentary .02 is proposed to be amended by deleting the introductory phrase “In meeting their supervisory responsibilities” in order to conform the language to CBOE Rule 9.8, Interpretations and Policies .01. The rule currently requires member organizations conducting a non-member customer business to enforce written procedures governing the conduct of options accounts. As revised, the written procedures would be required to detail the specific methods used to supervise all non-member customer accounts. This amendment would also provide greater clarity regarding the required content of the procedures and also conforms the rule to CBOE Rule 9.8 Interpretations and Policies .01. Finally, the Exchange proposes to amend Rule 1025 Commentary .03 by adding the word “shall” to the first sentence, to conform the language to CBOE Rule 9.8, Interpretations and Policies .02.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>3</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>4</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. The amendments should remove impediments to and perfect the mechanism of a free and

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<sup>3</sup> 15 U.S.C. 78f(b).

<sup>4</sup> 15 U.S.C. 78f(b)(5).

open market and a national market system, by creating greater regulatory parity among two options exchanges, CBOE and Phlx, regarding members' obligations in the areas of conduct of accounts for options trading and supervision of accounts. The proposed amendments should create more efficient regulatory compliance by members of both exchanges due to elimination of differences in wording and consequent potential for inadvertent regulatory noncompliance. The Exchange believes it is in the public interest for a consistent and consistently worded, regulatory policy and standard regarding conduct of accounts for options trading and supervision of accounts to be in effect across options exchanges, for the benefit of customers. The harmonized rules should lead to harmonized examinations and enforcement of similar rules, thus reducing duplicative regulatory efforts, thus lowering regulatory cost passed on to member organizations and the general public. The minor corrections and clarifications described above will improve the accuracy of the rules and should also improve the readability of the rules, making them more understandable and thereby facilitating easier compliance.

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. As stated above the proposal is designed to conform Rules 1024 and 1025 more closely to comparable rules of CBOE and to make minor clarifications and corrections to the rule text.

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

No written comments were either solicited or received.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2017-55 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-2017-55. 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-2017-55 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>5</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>5</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

*New text is underlined; deleted text is in brackets.*

**NASDAQ PHLX Rules****Options Rules**

\* \* \* \* \*

**Rule 1024. Conduct of Accounts for Options Trading****(a) *Registration of Options Principals.***

(i) No member or member organization or individual associated with a member organization shall be approved to transact options business with the public until such persons, who are designated as Options Principals, have been approved by and registered with the Exchange. Persons engaged in the supervision of options sales practices or a person to whom the designated general partner or executive officer (pursuant to Rule 1025) or another Registered Options Principal delegates the authority to supervise options sales practices shall be designated as Options Principals. All members, and member organizations must use Web CRD to submit Form U4, Uniform Application for Securities Industry Registration or Transfer filings on behalf of their Options Principals. Members, and member organizations shall amend Form U4 filings not later than thirty (30) days after the filer knew or should have known of the facts which gave rise to the amendment. In connection with their registration, Options Principals shall electronically file a Uniform Application for Securities Industry Registration or Transfer (Form U-4) with Web CRD, shall successfully complete an examination prescribed by the Exchange for the purpose of demonstrating an adequate knowledge of the options business and of the Rules of the Exchange, and shall further agree in the U-4 filing to abide by the Bylaws and Rules of the Exchange and the Rules of the Options Clearing Corporation. Any person required to complete Form U-4 shall promptly electronically file any required amendments to Form U-4 with Web CRD. Termination of employment or affiliation of any Registered Options Principal in such capacity shall be promptly electronically reported to Web CRD together with a brief statement of the reason for such termination on Form U-5.

(ii) No change.

**(b) *Opening of Accounts***

(i) No change.

(ii) *Diligence in Opening Accounts*—In approving a customer's account for options transactions, a member or member organization shall exercise due diligence to learn the essential facts as to the customer and his investment objectives and financial situation, and shall make a record of such information which shall be retained in accordance with Rules 760 and 1025. Based upon such information, the branch office manager or other [specific] Registered Options Principal [qualified individual(s)] shall approve, in writing, the customer's account for options

transactions; provided, that if the branch office manager is not a[ specified] Registered Options Principal[ qualified individual(s)], his approval shall within a reasonable time be confirmed [within a reasonable time ]by a [specified ]Registered Options Principal[ qualified individual(s)].

(iii) – (v) No change.

(c) Every member organization transacting business with the public in uncovered option contracts shall develop, implement and maintain specific written procedures governing the conduct of such business which shall include, at least, the following:

(i) – (iv) No change.

(v) Requirements that customers approved for writing uncovered short options transactions be provided with a special written description of the risks inherent in writing uncovered short option transactions, at or prior to the initial uncovered short option transaction. See Rule 1029[(c)]b.

••• *Commentary* -----

**.01** In fulfilling its obligations pursuant to paragraph (b)(ii) of this Rule with respect to options customers that are natural persons, a member organization shall seek to obtain the following information at a minimum (information shall be obtained for all participants in a joint account):

1. – 7. No change.

8. Investment experience and knowledge (e.g., number of years, size, frequency and types of transactions[]) for options, stocks and bonds, commodities, other)

In addition, the customer's account records shall contain the following information, if applicable:

a. – g. No change.

**.02** No change.

**.03** The requirement of paragraph (b)(iii) of this Rule for the initial and subsequent verification of customer background and financial information is to be satisfied by sending to the customer the information required in Items 1 through 6 of Commentary .01 above as contained in the member's records and providing the customer with an opportunity to correct or complete the information. In all cases, absent advice from the customer to the contrary, the information will be deemed to be verified.

**.04** No change.

**.05** - No change.



**.06** Individuals engaged in the supervision of options sales practices and designated as Options Principals are required to qualify as an Options Principal by passing the Registered Options Principal[ Qualification] Examination (Series 4) or the Sales Supervision[ Qualification] Examination (Series 9/10).

**.07** Individuals who are delegated responsibility pursuant to Rule 1025 for reviewing the acceptance of discretionary accounts, for approving exceptions to a member organization's criteria or standards for uncovered options accounts, and for approval of communications, shall be designated as Options Principals and are required to qualify as an Options Principal by passing the Registered Options Principal Qualification Examination (Series 4).

**.08 - .09** No change.

#### **Rule 1025. Supervision of Accounts**

(a) *Duty to Supervise*; —The general partners or directors of each member organization that conducts a non-member customer business shall provide for appropriate supervisory control and shall designate a general partner or executive officer, who shall be identified to the Exchange, to assume overall authority and responsibility for internal supervision and control of the organization and compliance with securities laws and regulations. This person, who may be the same individual designated pursuant to substantially similar New York Stock Exchange or FINRA rules shall:

(i) – (ii) No change.

(iii) Develop and implement written policies and procedures reasonably designed to independently supervise the activities of accounts serviced by branch office managers, sales managers, regional/district sales managers or any person performing a similar supervisory function. Such supervisory reviews must be performed by a qualified Registered Options Principal who:

A. Is either senior to, or otherwise independent of, the producing manager under review. For purposes of this Rule, an "otherwise independent" person: may not report either directly or indirectly to the producing manager under review; must be situated in an office other than the office of the producing manager; must not otherwise have supervisory responsibility[ies]y over the activity being reviewed; and must alternate such review responsibility with another qualified person every two years or less. Further, if a person designated to review a producing manager receives an override or other income derived from that producing manager's customer activity that represents more than 10% of the designated person's gross income derived from the member organization over the course of a rolling twelve-month period, the member organization must establish alternative senior or otherwise independent supervision of

that producing manager to be conducted by a qualified Registered Options Principal other than the designated person receiving the income.

B. – D. No change.

(b) Maintenance of Customer Records—

(i) Background[s] and financial information of customers who have been approved for options transactions shall be maintained at both the branch office servicing the customer's account and the principal supervisory office having jurisdiction over that branch office. Copies of account statements of options customers shall be maintained at both the branch office supervising the accounts and the principal supervisory office having jurisdiction over that branch for the most recent six-month period. With respect to the [above-noted] record retention responsibility of [requirements applicable to] principal supervisory offices, [however, ]the customer information and account statements may be maintained at a location [other than the principal supervisory office if such documents and information]off premises so long as the records are readily accessible and promptly retrievable. Other records necessary to the proper supervision of accounts shall be maintained at a place easily accessible both to the branch office servicing the customer's account and to the principal supervisory office having jurisdiction over that branch office.

(ii) No change.

(iii) Before any customer order is executed, there must be placed upon the memorandum for each transaction, the name or designation of the account (or accounts) for which such order is to be executed. No change in such account name(s) (including related accounts) or designation(s) (including error accounts) shall be made unless the change has been authorized by a member or a person(s) designated by the designated general partner or executive officer (pursuant to Rule 1025). Such person must, prior to giving his or her approval of the account designation change, be personally informed of the essential facts relative thereto and indicate his or her approval of such change in writing on the order or other similar record of the member. The essential facts relied upon by the person approving the change must be documented in writing and preserved for a period of not less than three years, the first two years in an easily accessible place, as the term "easily accessible place" is used in SEC [r]Rule 17a-4.

For purposes of this paragraph (b)[(3)](iii), a person(s) designated by the designated general partner or executive officer (pursuant to Rule 1025) must be a Registered Options Principal.

(c) No change.

(d) *Annual Branch Office Inspections.*

(i) Each branch office that supervises one or more non-branch locations must be inspected no less often than once each calendar year unless:

A. it has been demonstrated to the satisfaction of the Exchange that because of [the] proximity, special reporting or supervisory practice, other arrangements may satisfy this Rule's requirements for a particular branch office; or

B. based upon the written policies and procedures of such member organization providing for a systematic risk-based surveillance system, the member organization submits a proposal to the Exchange and receives, in writing, an exemption from this requirement pursuant to paragraph [(c)](e) of this Rule.

(ii) – (iii) No change.

(e) *Risk -Based Surveillance and Branch Office Identification.*

(i) Any member organization seeking an exemption, pursuant to Rule 1025(d)(ii), from the annual branch office inspection requirement must submit to the Exchange written policies and procedures for systematic risk-based surveillance of its branch offices. Such policies and procedures should reflect, among other factors, the member organization's business model[,] and product mix. Such policies and procedures must also, at a minimum, provide for:

A. – C. No change.

(ii) For purposes of paragraph (e)[(1)](i) of this Rule, the risk-based factors to be considered should include, but not necessarily be limited to, the following:

A. – O. No change.

(iii) No change.

(f) No change.

(g) *Written Report.* By April 1 of each year, each member organization that conducts a non-member customer business shall submit to the Exchange a written report on the member organization's supervision and compliance effort during the preceding year and on the adequacy of the member organization's ongoing compliance processes and procedures. Each member organization that conducts a public customer options business shall also specifically include its options compliance program in the report. The report shall include, but not be limited to, the following:

(i) – (iv) No change.

(v) A certification signed by the member organization's Chief Executive Officer (or equivalent), that:

A. The member organization has in place processes to:

(1) – (2) No change.

(3) test the effectiveness of such policies and procedures on a [regular] periodic basis, the timing and extent of which is reasonably designed to ensure continuing compliance with Exchange Rules and federal securities laws and regulations.

B. No change.

C. In member organizations, the processes described in paragraph [(g)(5)(i)] (g)(v)(A)(i) of this Rule, are evidenced in a report reviewed by the Chief Executive Officer ( or equivalent officer), Chief Compliance Officer and such other officers as the organization may deem necessary to make this certification, and submitted to the organization's board of directors and audit committee (if such committee exists) on or before April 1 of each year[)].

D. In member organizations, the Chief Executive Officer (or equivalent officer) has consulted with the Chief Compliance Officer and other officers referenced in paragraph [(g)(5)(iii)] (g)(5)(C) of this Rule and such other employees, outside consultants, lawyers and accountants, to the extent they deem appropriate, in order to attest to the statements made in this certification.

A member organization that specifically includes its options compliance program in a report that complies with substantially similar requirements of the New York Stock Exchange or FINRA will be deemed to have met this requirements of this Rule 1025 (g) and (h).

(h) Reports to Control Persons—By April 1 of each year, each member organization shall submit a copy of the report that Rule 1024(g) requires the member organization to prepare to its one or more control persons or, if the member organization has no control person, to the audit committee of its board of directors or its equivalent committee or group. In the case of a control person that is an organization (a "controlling organization"), the member organization shall submit the report to the general counsel of the controlling organization and to the audit committee of the controlling organization's board of directors or its equivalent committee or group. For the purpose of this paragraph, "control person" means a person who controls the member organization, and the term "control" means the power to exercise a controlling influence over the management or policies of the member organization, unless such power is solely the result of an official position with the member organization. Any person who owns beneficially, directly or indirectly, more than 20% of the voting power in the election of directors of the member organization, or more than 25% of the voting power in the election of directors of any other corporation which directly or through one or more affiliates owns beneficially more than 25% of the voting power in the election of directors of the member organization, shall be presumed to control the member organization.

(i) – (j) No change.

••• *Commentary* -----

**.01** No change.

**.02** [In meeting their supervisory responsibilities, e]Each member organization that conducts a non-member customer business shall establish, maintain, and enforce written procedures [governing the conduct of options accounts]which detail the specific methods used to supervise all non-member customer accounts. Such written procedures shall specifically identify the titles and positions of individuals who have been delegated authority and responsibility for an identified segment of the member organization's business, including option compliance functions. The procedures shall also include the registration status and location of all such supervisory and compliance personnel. Each member organization shall also develop and implement specific written procedures concerning the manner of supervision of customer accounts maintaining short uncovered option positions, and specifically providing for frequent supervisory review of such accounts.

**.03** Each member organization shall maintain, at the principal supervisory office having jurisdiction over the office servicing the customer's account, or shall have readily accessible and promptly retrievable, information to permit review of each customer's options account, on a timely basis to determine (i) the compatibility of options transactions with investment objectives and with the types of transactions for which the account was approved; (ii) the size and frequency of option transactions; (iii) commission activity in the account; (iv) profit or loss in the account; (v) undue concentration in any options class or classes; and (vi) compliance with the provisions of Regulation T of the Federal Reserve Board.

**.04 - .05** No change.

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