

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

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

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) *	Section 806(e)(2) *
<input type="checkbox"/>	<input type="checkbox"/>
	Section 3C(b)(2) *
	<input type="checkbox"/>

Exhibit 2 Sent As Paper Document	Exhibit 3 Sent As Paper Document
<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 the Exchange rules to make permanent a program that allows transactions to take place in open outcry trading.

**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 * Carla	Last Name * Behnfeldt
Title * Associate General Counsel	
E-mail * carla.behnfeldt@nasdaq.com	
Telephone * (215) 496-5208	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 11/21/2017	Executive Vice President and General Counsel
By Edward S. Knight	<div style="border: 1px solid black; width: 100%; height: 20px;"></div>
(Name *)	

edward.knight@nasdaq.com

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

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

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

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

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

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

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

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Exhibit Sent As Paper Document

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

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

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Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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

**Partial Amendment**

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

1. Text of the Proposed Rule Change

(a) NASDAQ 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 the Exchange’s rules to make permanent a program that allows transactions to take place in open outcry trading at prices of at least \$0 but less than \$1 per option contract (“sub-dollar cabinet trades”).

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 on October 5, 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:

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

The Exchange proposes to amend Rule 1059 to make permanent a program that allows transactions to take place at a price that is below \$1 per option contract.<sup>3</sup> The program is currently subject to a pilot that is scheduled to expire on January 5, 2018.<sup>4</sup>

An “accommodation” or “cabinet” trade refers to trades in listed options on the Exchange that are worthless or not actively traded. Trading is generally conducted in accordance with Exchange Rules, except as provided in Exchange Rule 1059, Accommodation Transactions (Cabinet Trades), which sets forth specific procedures for engaging in cabinet trades.

Rule 1059 provides that a “cabinet order” is a closing limit order at a price of \$1 per option contract for the account of a customer, firm, specialist or ROT. An opening order is not a “cabinet order” but may in certain cases be matched with a cabinet order. Prior to the pilot program, only closing limit orders at a price of \$1 per option contract for the accounts of customer, firm, specialists and Registered Options Traders (“ROT”) could be placed in the cabinet.

Rule 1059 currently provides that cabinet transactions at a price of \$1 per option contract may occur via open outcry in any options series open for trading on the Exchange. However, the \$1 Cabinet Trading procedures are not available in Penny Pilot

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<sup>3</sup> See Commentary .02, Limit Orders Priced Below \$1, to Exchange Rule 1059, Accommodation Transactions.

<sup>4</sup> See Securities Exchange Act Release No. 79782 (January 12, 2017), 82 FR 6667 (January 19, 2017) (SR-Phlx-2017-01). The Exchange initially adopted the program in 2010. See Securities Exchange Act Release No. 63626 (December 30, 2010), 76 FR 812 (January 6, 2011) (SR-Phlx-2010-185).

Program classes because in those classes an option series can trade in a standard increment as low as \$ 0.01 per share (or \$1.00 per option contract with a 100 share multiplier).

The Exchange amended the Cabinet Trading procedures to allow transactions to take place in open outcry at a price of at least \$0 but less than \$1 per option contract. This amendment expires on January 5, 2018. These lower-priced transactions are permitted to be traded pursuant to the same procedures applicable to \$1 Cabinet Trades, except that (i) bids and offers for opening transactions are only permitted to accommodate closing transactions, and (ii) transactions in option classes participating in the Penny Pilot Program are permitted. The Exchange believes that allowing a price of at least \$0 but less than \$1 better accommodates the closing of options positions in series that are worthless or not actively traded, particularly when there has been a significant move in the price of the underlying security, resulting in a large number of series being out-of-the-money. For example, a market participant might have a long position in a put series with a strike price of \$30 and the underlying stock might be trading at \$100. In such an instance, there is likely no market to close-out the position, even at the \$1 cabinet price.

As with other accommodation liquidations under Rule 1059, transactions at prices less than \$1 are not disseminated to the public on the consolidated tape. In addition, as with other accommodation liquidations under Rule 1059, the transactions are exempt from the Consolidated Options Audit Trail (“COATS”) requirements of Exchange Rule 1063(e)(i). However, Rule 1059 requires all transactions, including transaction for less than \$1, to be reported to the Exchange following the close of each business day.

The Exchange notes that while the level of liquidation trades is not meaningful, such trades serve an essential purpose in that they allow market participants to close out options positions that are worthless or not actively trading. To illustrate, in 2016, there were a total of 442 Cabinet Trades comprising 244,734 contracts. Each contract was executed at a trade price of \$ 0.01. The Exchange believes this level of trading demonstrates the benefit of the current program to market participants.

In support of making the program permanent, the Exchange represents that there are no operational issues in processing and clearing Cabinet Trades in penny and sub-penny increments. Each Cabinet Trade is input manually into the clearing system, and is then submitted for settlement at The Options Clearing Corporation. Additionally, members have not raised any concerns with the processing of Cabinet Trades.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>5</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>6</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 Exchange believes that liquidation trades promote competition and afford market participants the opportunity to close out their options positions. The Exchange believes that permanently approving the rules that allow for liquidations at a price less than \$1 per option contract would better facilitate the closing of options positions that are worthless or not actively

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

<sup>6</sup> 15 U.S.C. 78f(b)(5).

trading, especially in Penny Pilot issues where Cabinet Trades are not otherwise permitted. The Exchange believes that approving the program on a permanent basis is also consistent with the Act. With respect to the level of liquidation trades transacted on the Exchange, the Exchange believes that the data gathered provides meaningful support to make the program permanent.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that approving the program on a permanent basis will not impact competition, as it will continue to facilitate members' ability to close positions in worthless or not actively traded series.

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

Not applicable.

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

Not applicable.

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-2017-98)

November \_\_, 2017

Self-Regulatory Organizations; NASDAQ PHLX LLC; Notice of Filing of Proposed Rule Change to Make Permanent a Program that Allows Transactions to Take Place in Open Outcry Trading

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 November 21, 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 the Exchange’s rules to make permanent a program that allows transactions to take place in open outcry trading at prices of at least \$0 but less than \$1 per option contract (“sub-dollar cabinet trades”).

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.

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

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

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

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

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

1. Purpose

The Exchange proposes to amend Rule 1059 to make permanent a program that allows transactions to take place at a price that is below \$1 per option contract.<sup>3</sup> The program is currently subject to a pilot that is scheduled to expire on January 5, 2018.<sup>4</sup>

An “accommodation” or “cabinet” trade refers to trades in listed options on the Exchange that are worthless or not actively traded. Trading is generally conducted in accordance with Exchange Rules, except as provided in Exchange Rule 1059, Accommodation Transactions (Cabinet Trades), which sets forth specific procedures for engaging in cabinet trades.

Rule 1059 provides that a “cabinet order” is a closing limit order at a price of \$1 per option contract for the account of a customer, firm, specialist or ROT. An opening

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<sup>3</sup> See Commentary .02, Limit Orders Priced Below \$1, to Exchange Rule 1059, Accommodation Transactions.

<sup>4</sup> See Securities Exchange Act Release No. 79782 (January 12, 2017), 82 FR 6667 (January 19, 2017) (SR-Phlx-2017-01). The Exchange initially adopted the program in 2010. See Securities Exchange Act Release No. 63626 (December 30, 2010), 76 FR 812 (January 6, 2011) (SR-Phlx-2010-185).

order is not a “cabinet order” but may in certain cases be matched with a cabinet order. Prior to the pilot program, only closing limit orders at a price of \$1 per option contract for the accounts of customer, firm, specialists and Registered Options Traders (“ROT’s”) could be placed in the cabinet.

Rule 1059 currently provides that cabinet transactions at a price of \$1 per option contract may occur via open outcry in any options series open for trading on the Exchange. However, the \$1 Cabinet Trading procedures are not available in Penny Pilot Program classes because in those classes an option series can trade in a standard increment as low as \$ 0.01 per share (or \$1.00 per option contract with a 100 share multiplier).

The Exchange amended the Cabinet Trading procedures to allow transactions to take place in open outcry at a price of at least \$0 but less than \$1 per option contract. This amendment expires on January 5, 2018. These lower-priced transactions are permitted to be traded pursuant to the same procedures applicable to \$1 Cabinet Trades, except that (i) bids and offers for opening transactions are only permitted to accommodate closing transactions, and (ii) transactions in option classes participating in the Penny Pilot Program are permitted. The Exchange believes that allowing a price of at least \$0 but less than \$1 better accommodates the closing of options positions in series that are worthless or not actively traded, particularly when there has been a significant move in the price of the underlying security, resulting in a large number of series being out-of-the-money. For example, a market participant might have a long position in a put series with a strike price of \$30 and the underlying stock might be trading at \$100. In

such an instance, there is likely no market to close-out the position, even at the \$1 cabinet price.

As with other accommodation liquidations under Rule 1059, transactions at prices less than \$1 are not disseminated to the public on the consolidated tape. In addition, as with other accommodation liquidations under Rule 1059, the transactions are exempt from the Consolidated Options Audit Trail (“COATS”) requirements of Exchange Rule 1063(e)(i). However, Rule 1059 requires all transactions, including transaction for less than \$1, to be reported to the Exchange following the close of each business day.

The Exchange notes that while the level of liquidation trades is not meaningful, such trades serve an essential purpose in that they allow market participants to close out options positions that are worthless or not actively trading. To illustrate, in 2016, there were a total of 442 Cabinet Trades comprising 244,734 contracts. Each contract was executed at a trade price of \$ 0.01. The Exchange believes this level of trading demonstrates the benefit of the current program to market participants.

In support of making the program permanent, the Exchange represents that there are no operational issues in processing and clearing Cabinet Trades in penny and sub-penny increments. Each Cabinet Trade is input manually into the clearing system, and is then submitted for settlement at The Options Clearing Corporation. Additionally, members have not raised any concerns with the processing of Cabinet Trades.

## 2. Statutory Basis

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

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

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 Exchange believes that liquidation trades promote competition and afford market participants the opportunity to close out their options positions. The Exchange believes that permanently approving the rules that allow for liquidations at a price less than \$1 per option contract would better facilitate the closing of options positions that are worthless or not actively trading, especially in Penny Pilot issues where Cabinet Trades are not otherwise permitted. The Exchange believes that approving the program on a permanent basis is also consistent with the Act. With respect to the level of liquidation trades transacted on the Exchange, the Exchange believes that the data gathered provides meaningful support to make the program permanent.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that approving the program on a permanent basis will not impact competition, as it will continue to facilitate members' ability to close positions in worthless or not actively traded series.

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.

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<sup>6</sup> 15 U.S.C. 78f(b)(5).

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-2017-98 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-2017-98. 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-2017-98 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>7</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>7</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

Deleted text is [bracketed].

**NASDAQ PHLX Rules**

\* \* \* \* \*

**Rule 1059. Accommodation Transactions**

(a) – (b) No change.

••• Commentary : -----

**.01** No change.

**.02 Limit Orders Priced Below \$1:** Limit orders with a price of at least \$0 but less than \$1 per option contract may trade under the terms and conditions in Rule 1059 above in each series of option contracts open for trading on the Exchange, except that:

(a) – (c) No change.

[(d) Unless otherwise extended, the effectiveness of the Commentary .02 terminates January 5, 2018, or, upon permanent approval of these procedures by the Securities and Exchange Commission, whichever occurs first.]

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