

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 57	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2018 - * 22	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="A new Rule 1081, entitled Electronic Market Maker Obligations and Quoting"/>				
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="03/07/2018"/>	<input type="text" value="Executive Vice President and General Counsel"/>		
By	<input type="text" value="Edward S. Knight"/>	<input type="text"/>		
(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.				
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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 the “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 new Rule 1081, entitled “Electronic Market Maker Obligations and Quoting” to amend electronic quoting for electronic ROTs, which will be defined to include SQTs, RSQTs, Directed SQTs, Directed RSQTs, Specialists and Remote Specialists.³

A notice of the proposed rule change for publication in the Federal Register is at Exhibit 1 and the text of the amended Exchange Rule is at Exhibit 5.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ On Phlx a market maker includes Specialists and Registered Options Traders (“ROTs”) (which includes Streaming Quote Traders (“SQTs”) and Remote Streaming Quote Traders (“RSQTs”). A Specialist is an Exchange member who is registered as an options Specialist. See Phlx Rule 1020(a). Specifically, a Remote Specialist 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. See Phlx Rule 1020(a)(ii). A ROT is a regular member or a foreign currency options participant of the Exchange who has received permission from the Exchange to trade in options for his own account. See Rule 1014(b)(i). The Exchange notes that while Rule 1014(b)(i) indicates that a ROT must be located on the trading floor, the Exchange notes that RSQTs can be remote. This rule change is intended to impact ROTs engaged in an electronic trading business. 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). An RSQT is an ROT that is a member affiliated with a Remote Streaming Quote Trader Organization, as described in Rule 507(a), 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).

- (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 21, 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 this rule change is to reserve the current quoting obligations in Phlx Rule 1014(b)(ii)(D) and adopt new Phlx Rule 1081, which is currently reserved, to amend the current obligations of electronic ROTs on Phlx. The Exchange proposes to entitle Phlx Rule 1081, "Electronic Market Maker Obligations and Quoting" and adopt certain rule text similar to NASDAQ BX, Inc. ("BX") Rules at Chapter VII, Section 5 and quoting obligations similar to BX Rules at Chapter VII, Section 6 which describes the obligations of market makers. The Exchange notes that these obligations apply to quotations by of SQTs, RSQTs, Directed SQTs, Directed RSQTs, Specialists (hereinafter, "electronic ROTs") electronically through the Exchange's System.⁴ The Exchange notes that quotes submitted electronically by a Specialist, while on the trading

⁴ System is defined at Phlx Rule 1000(b)(45).

floor, into the Exchange's System, would qualify toward the Specialist requirement. All Specialists are subject to the requirements of Phlx Rule 1081. Similarly all RSQTs are subject to the requirements of Phlx Rule 1081 as RSQTs by definition have no physical trading floor presence. SQTs by definition may generate and submit option quotations electronically in options to which such SQT is assigned while such SQT is physically present on the floor of the Exchange. The SQTs quotations are subject to the obligations contained in Rule 1081. Non-SQT ROTs⁵ are not subject to the quoting requirements in proposed Rule 1081, rather they are subject to quarterly trading requirements which are specified in Commentary .01 to Phlx Rule 1014.

The Exchange proposes to adopt new sections (a) and (b) of Phlx Rule 1081 to specify the various obligations of electronic ROTs on Phlx. In registering as an electronic ROT, member organization commits to various obligations. Generally, the Exchange proposes to indicate that an electronic ROT's transactions, in its market making capacity,⁶ must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and those member organizations should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. The Exchange also proposes to note, similar to BX Rules at Chapter VII, Section 5(b) that electronic ROTs should not effect purchases or sales except in a

⁵ A non-SQT ROT is an ROT who is neither an SQT nor an RSQT. See Rule 1014(b)(ii)(C). 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.

⁶ Electronic ROTs are permitted to enter orders on Phlx as permitted in Rule 1080(b)(i)(B). Orders are not considered market making activity for purposes of fulfilling quoting or the other obligations of an electronic ROT which are proposed herein.

reasonable and orderly manner. While this rule text is not explicitly noted in Phlx Rule 1014, the rule does today note at Phlx Rule 1014(a) that transactions of a Specialist and a ROT should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and those members should not enter into transactions or make bids or offers that are inconsistent with such a course of dealings.

Proposed Phlx Rule 1081(a) provides, ordinarily during trading hours,⁷ an electronic ROT must: (i) maintain a two-sided market in those options in which the electronic ROT is registered to trade, in a manner that enhances the depth, liquidity and competitiveness of the market; (ii) engage, to a reasonable degree under the existing circumstances, in dealings for its own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of (or demand for) a particular option contract, or a temporary distortion of price relationships between option contracts of the same class; (iii) compete with other electronic ROTs in all options in all capacities⁸ in which the electronic ROT is registered to trade; (iv) make markets that will be honored for the number of contracts entered into Phlx's System in all options in which the electronic ROT is registered to trade; (v) update quotations in response to changed market conditions in all options in which the electronic ROT is registered to trade; (v) maintain active markets in all options in which the

⁷ The Exchange notes that a trading halt may cause the obligations of electronic ROTs to be suspended because the market is not open for trading. The Exchange intends that the obligations of an electronic ROT will be in effect when the Exchange is open for trading as specified in the Exchange's Rules.

⁸ For example, competing as a Specialist and as an SQT, depending on the various capacities of market marking in which the electronic ROT is engaged.

electronic ROT is registered; and (vi) honor all orders attributed to the electronic ROT that the System routes to away markets pursuant to Rule 1080(m).⁹

Similar to BX Rules at Chapter VII, Section 5(c), Phlx proposes in Phlx Rule 1081(b) to provide, “If Phlx Regulation finds any substantial or continued failure to engage in a course of dealings as specified in paragraph (a) of this section, the electronic ROT will be subject to disciplinary action or suspension or revocation of registration in one or more of the securities in which the electronic ROT is registered. Nothing in this rule will limit any other power of the Board under these Rules, or procedures of Phlx with respect to the registration of an ROT or in respect of any violation by an ROT pursuant to this rule.”¹⁰ The Exchange believes that the addition of these obligations will provide additional context as to the obligations of electronic ROTs on Phlx.

Current Quoting Requirements

The Exchange proposes to amend the current market making quoting obligations at Phlx Rule 1014(b)(ii)(D)(1). Currently, Phlx requires that in addition to the other requirements for ROTs set forth in Rule 1014, with some exceptions (e.g., when an RSQT functions as a Remote Specialist in particular options)¹¹ an SQT and an RSQT are

⁹ Proposed Phlx Rule 1081(a)(i) – (vii) are similar to BX Rules at Chapter VII, Section 5(a).

¹⁰ The Exchange notes that an electronic ROT may be found to have violated other by-laws and rules of the Exchange which are separate and apart from these obligations. The Exchange has added this rule text to make clear that the obligations noted within this rule are not an exclusive list.

¹¹ Electronic Specialists have different quoting obligations currently in Phlx’s rule which will be described in more detail in this proposal. Also, SQTs, DSQTs, RSQTs and DRSQTs are deemed not to be assigned in any Quarterly Option Series, any adjusted option series, and any option series until the time to expiration for such series is less than nine months.

responsible to quote two-sided markets in not less than 60% of the series in which such SQT or RSQT is assigned, provided that, on any given day, a Directed SQT (“DSQT”) or a Directed RSQT (“DRSQT”) are responsible to quote two-sided markets in the lesser of 99% of the series listed on the Exchange or 100% of the series listed on the Exchange minus one call-put pair,¹² in each case in at least 60% of the options in which such DSQT or DRSQT is assigned. Further, whenever a DSQT or DRSQT enters a quotation in an option in which such DSQT or DRSQT is assigned, such DSQT or DRSQT must maintain until the close of that trading day quotations for the lesser of 99% of the series of the option listed on the Exchange or 100% of the series of the option listed on the Exchange minus one call-put pair. The rule also states that to satisfy the applicable quoting requirements with respect to quoting a series, an SQT, RSQT, DSQT, or DRSQT must quote such series 90% of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as the Exchange may announce in advance.¹³ The rule notes that these obligations apply collectively to all appointed issues of an SQT, RSQT, DSQT, or DRSQT, rather than on an issue-by-issue basis. Compliance with this obligation is determined on a monthly basis. However, determining compliance with the continuous quoting requirement on a monthly basis does not relieve an SQT, RSQT, DSQT, or DRSQT of the obligation to provide continuous two-sided quotes on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against an SQT, RSQT, DSQT, or DRSQT for failing to meet

¹² A “call-put pair” refers to one call and one put that cover the same underlying instrument and have the same expiration date and exercise price. See Rule 1014(b)(ii)(D)(6).

¹³ See Phlx Rule 1014(b)(ii)(D)(1).

the continuous quoting obligation each trading day. Finally, the Exchange may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances.

Currently, with respect to a Specialist, Phlx Rule 1014(b)(ii)(D)(2) requires the Specialist (including the RSQT functioning as a Remote Specialist in particular options) quote two-sided markets in the lesser of 99% of the series or 100% of the series minus one call-put pair in each option in which such Specialist is assigned. To satisfy the requirement of this subparagraph (D)(2) with respect to quoting a series, the Specialist must quote such series 90% of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as the Exchange may announce in advance. These obligations apply collectively to all appointed issues of the Specialist, rather than on an issue-by-issue basis. Compliance with this obligation is determined on a monthly basis. However, determining compliance with the continuous quoting requirement on a monthly basis does not relieve the Specialist (including the RSQT functioning as a Remote Specialist in particular options) of the obligation to provide continuous two-sided quotes on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against the Specialist (including the RSQT functioning as a Remote Specialist in particular options) for failing to meet the continuous quoting obligation each trading day. Finally, the Exchange may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances.

Currently, Phlx Rule 1014(b)(ii)(D)(3) provides that SQTs, RSQTs and the Specialist assigned in an option shall submit electronic quotations with a size of not less

than the minimum number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one contract. Phlx Rule 1014(b)(ii)(D)(4) provides that notwithstanding the foregoing, SQTs, DSQTs, RSQTs¹⁴ and DRSQTs shall be deemed not to be assigned in any Quarterly Option Series, any adjusted option series,¹⁵ and any option series until the time to expiration for such series is less than nine months. Thus, the quoting obligations described above do not apply to SQTs, DSQTs, RSQTs and DRSQTs respecting Quarterly Option Series, Adjusted Option Series, and series with an expiration of nine months or greater. Phlx Rule 1014(b)(ii)(D)(5) provides that if a technical failure or limitation of a System of the Exchange prevents a participant from maintaining, or prevents a participant from communicating to the Exchange, timely and accurate quotes, the duration of such failure or limitation shall not be included in any of the calculations under Rule 1014(b)(ii)(D) with respect to the affected quotes.

Proposed Quoting Requirements

The Exchange proposes to amend its electronic quoting requirements at proposed Phlx Rule 1081(c). The Exchange notes that electronic ROTs must enter bids and offers for the options to which it is registered, except in an assigned options series listed intra-day on the Exchange. The Exchange notes that intra-day add of a series would be counted the following trading day (next business day after the intra-day add of a series

¹⁴ This provision does not apply to RSQTs when they are functioning as Remote Specialists in particular options.

¹⁵ Phlx defines an adjusted option series as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares (“Adjusted Options Series”).

was listed) when the option series would be available for a full trading day.¹⁶ Today, the electronic ROT is not held to quote an intra-day add of a series because the options series was not available for trading the entire day. The Exchange is adding this exception to the rule text to make clear that electronic ROTs would not be responsible for quoting an intra-day addition. The Exchange believes that not counting intra-day adds of a series that were not available for the entire day of trading is consistent with the Act because the electronic ROT would not have the opportunity to trade that particular options series for the entire trading day.

Further, the proposed rule text notes, as is the case today, on a daily basis an electronic ROT would be obligated to meet certain quoting requirements. An electronic ROT who is also the Specialist will be held to the Specialist obligations in options series in which the Specialist is assigned and will be held to electronic ROT obligations in all other options series where assigned. An electronic ROT who receives a Directed Order shall be held to the standard of a Directed SQT or Directed RSQT, as appropriate. This is the case today, although the current rule text does not state specifically that each obligation is separate. The Exchange's proposed rule text at Phlx Rule 1081(c) is not contained in the current rule, but is the current practice on Phlx. This additional detail is being added to the text of the proposed rule to further clarify the manner in which the quoting obligations are applied.

With respect to electronic ROTs, similar to the existing Phlx language at Phlx Rule 1014(b)(ii)(D)(3), the Exchange proposes to continue to require the best bid and best offer entered by an electronic ROT to have a size of not less than the minimum

¹⁶ An intra-day add of a series shall be defined, for purposes of this Rule 1081, as an option series that is added manually on the same day the series begins trading.

number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one (1) contract. Further, the rule text specifies at Phlx Rule 1081(c)(i) that an electronic ROT's bid and offer for a series of options contracts shall be accompanied by the number of contracts at that price the electronic ROT is willing to buy or sell.¹⁷ This language is similar to BX Rules at Chapter VII, Section 6(a). Today, Phlx Rule 1014(b)(ii)(D)(3) requires SQTs, RSQTs and the Specialist assigned in such option to submit electronic quotations with a size of not less than the minimum number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one contract. The Exchange is not introducing a new concept with this proposed language, rather the Exchange is retaining its current language regarding minimum size. The BX Rule differs from the Phlx Rule in this regard. BX's Rule Provides that a Participant "must have a size of at least one (1) contract" without reference to BX setting a minimum number. Phlx's Rule is generally similar to BX, except Phlx is retaining its rule text which permits the Exchange to determine the minimum number of contracts. The proposed rule text states, "The best bid and best offer submitted by an electronic ROT must have a size of not less than the minimum number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one (1) contract." Today, an electronic ROT's bid and offer for a series of options contracts is quoted at a price for the number of contracts the electronic ROT is willing to buy or sell.

The Exchange proposes language at Phlx Rule 1081(c)(ii) that requires an electronic ROT that enters a bid (offer) in a series of an option in which he is registered

¹⁷ See proposed Phlx Rule 1081(c)(i).

on Phlx to enter an offer (bid).¹⁸ This requirement to maintain a two-sided quote is similar to what is required today on Phlx.¹⁹ The Exchange does not propose to amend the manner in which this provision is currently applied to an electronic ROT.

Proposed Phlx Rule 1081(c)(ii)(A) provides that SQTs and RSQTs, associated with the same member organization, are collectively required to provide two-sided quotations in 60% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading. The Exchange includes proposed rule text at Phlx Rule 1081(c)(ii)(D), which provides that the obligation at Phlx Rule 1081(c)(ii)(A) would be calculated by (i) taking the total number of seconds the member organization disseminates quotes in each assigned options series, excluding Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater for SQTs, RSQTs, Directed SQTs and Directed RSQTs ; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. SQTs and RSQTs would not be required to quote Quarterly Option Series, any Adjusted Options Series, and any option series with an expiration of nine months or greater. Further, the rule text notes that quoting is not required in every assigned options series. Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the member organization.²⁰

Proposed Phlx Rule 1081(c)(ii)(A) also provides, similar to today, that notwithstanding

¹⁸ See proposed Phlx Rule 1081(c)(ii).

¹⁹ See Phlx Rule 1014(b)(ii)(D)(1). This requirement is also similar to BX Rules at Chapter VII, Section 6(b).

²⁰ See Phlx Rule 1081(c)(ii)(D).

the foregoing, a member organization shall not be required to make two-sided markets pursuant to 1081(c)(ii) in any Quarterly Option Series, any Adjusted Options Series, and any option series with an expiration of nine months or greater.²¹

The current Phlx rule requires electronic ROTs to quote 60% of the series 90% of the trading day.²² By comparison, the proposed rule change, which is similar to BX's Rule at Chapter VII, Section 6(d)(i)(1), reduces the quoting requirement for electronic ROTs by not requiring that an electronic ROT quote in every option series.²³ The ROT may quote any combination of series, and does not necessarily have to quote every assigned options series. Similar to today, these quotations must continue to meet the legal quote width requirements specified in Phlx Rule 1014(c)(i)(A)(1) and (2). The proposal better accommodates the occasional issues that may arise in a particular series, whether technical or manual. The existing requirement may at times discourage liquidity in particular options series because an electronic ROT is forced to focus on a momentary lapse, rather than using the appropriate resources to focus on the options series that need and consume additional liquidity.

The Exchange is defining an Adjusted Options Series as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares. This definition at Proposed Phlx

²¹ This is similar to Phlx Rule 1014(b)(ii)(D)(4). The Exchange is utilizing the phrase "series with an expiration of nine months or greater" in this version simply for clarity and to conform to the current BX language at BX Rules at Chapter VII at Section 6. Once the options series had less than nine months of expiration, the electronic ROT would be required to commence quoting the options series if appointed in that options series.

²² See Phlx Rule 1014(b)(ii)(D)(1).

²³ See proposed Phlx Rule 1081(c)(ii)(A) and (D).

Rule 1081(c)(ii)(A)(i) is the same definition that is currently in Phlx Rule 1014(b)(ii)(D)(4).

Proposed Phlx Rule 1081(c)(ii)(B) provides that Specialists (including Remote Specialists), associated with the same member organization, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading. The Exchange includes proposed rule text at Phlx Rule 1081(c)(ii)(D), which provides that the obligation at Phlx Rule 1081(c)(ii)(B) would be calculated by (i) taking the total number of seconds the member organization disseminates quotes in each assigned options series; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. Further, the rule text notes that quoting is not required in every assigned options series.²⁴ Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the member organization.²⁵ The proposal to quote in aggregate all of assigned series 90% of the trading day would align Phlx's Rule to that of BX.

This is an amendment from the current Phlx requirement which requires a Specialist to quote two-sided markets in the lesser of 99% of the series or 100% of the series minus one call-put pair in each option in which the Specialist is assigned. Today, the Specialist must quote such series 90% of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as the Exchange may

²⁴ See proposed Phlx Rule 1081(c)(ii)(B) and (D).

²⁵ See Phlx Rule 1081(c)(ii)(D).

announce in advance.²⁶ The Exchange desires to lower the requirement to conform to BX's requirement for Lead Market Makers, the equivalent of Phlx's Specialists, at BX Rules at Chapter VII, Section 14(f). As is the case today, these quotations must meet the legal quote width requirements specified in Phlx Rule 1014(c)(i)(A)(1) and (2). The Exchange notes that Specialists continue to have heightened quoting requirements as compared to electronic ROTs, which heightened obligations allow for the Specialist to receive certain participation rights.²⁷ The participation rights reward Specialists for making markets and providing other market participants an incentive to quote aggressively.

Today, Phlx Rule 1014(b)(ii)(D)(4) provides an exception from the quoting obligations in Quarterly Option Series, Adjusted Options Series, and any option series until the time for expiration for such series is less than nine months, for SQTs, DSQTs, RSQTs, and DRSQTs. This exception does not apply to Specialists or Remote Specialists because they are not listed as an excepted class. The Exchange's proposal continues to require Specialists and Remote Specialists to quote in Quarterly Option Series, Adjusted Options Series, and any option series until the time for expiration for such series is less than nine months where assigned.²⁸ This rule text does not conform to BX Rules at Chapter VII, Section 14. A BX Lead Market Maker is not required to quote Quarterly Options Series, Adjusted Options Series, or any series with a time to expiration of nine months or greater.

²⁶ See Phlx Rule 1014(b)(ii)(D)(2).

²⁷ See Phlx Rule 1014(g)(vii)(B)(1)(c).

²⁸ See Phlx Rule 1081(c)(ii)(B).

Proposed Phlx Rule 1081(c)(ii)(C) provides Directed SQTs and Directed RSQTs, associated with the same member organization, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading. The Exchange includes proposed rule text at Phlx Rule 1081(c)(ii)(D), which provides that the obligation at Phlx Rule 1081(c)(ii)(C) would be calculated by (i) taking the total number of seconds the member organization disseminates quotes in each assigned options series, excluding Quarterly Option Series, any Adjusted Options Series, and any option series with an expiration of nine months or greater for SQTs, RSQTs, Directed SQTs and Directed RSQTs ; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. Further, the rule text notes that quoting is not required in every assigned options series.²⁹ Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the member organization.³⁰ Notwithstanding the foregoing, a member organization shall not be required to make two-sided markets pursuant to 1081(c)(ii) in any Quarterly Option Series, any Adjusted Options Series, and any option series with an expiration of nine months or greater.³¹ This provision is not being amended and is similar to the current Phlx rule and BX Rules at

²⁹ See proposed Phlx Rule 1081(c)(ii)(C) and (D).

³⁰ See Phlx Rule 1081(c)(ii)(D).

³¹ As noted herein, for purposes of this Rule, an adjusted option series is defined as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares ("Adjusted Options Series"). Once the options series had less than nine months of expiration, the electronic ROT would be required to commence quoting the options series if appointed in that options series.

Chapter VII, Section 15(iv).³² These quotations must meet the legal quote width requirements specified in Phlx Rule 1014(c)(i)(A)(1) and (2).

The proposed provisions amend the current Phlx requirement which requires a Directed ROT to quote two-sided markets in the lesser of 99% of the series listed on the Exchange or 100% of the series listed on the Exchange minus one call-put pair, in each case in at least 60% of the options in which such DSQT or DRSQT is assigned. Whenever a DSQT or DRSQT enters a quotation in an option in which such DSQT or DRSQT is assigned, such DSQT or DRSQT must maintain until the close of that trading day quotations for the lesser of 99% of the series of the option listed on the Exchange or 100% of the series of the option listed on the Exchange minus one call-put pair. The Exchange desires to lower the requirement to conform to BX's requirement for Directed Market Makers in BX Rules at Chapter VII, Section 15(iii). The Exchange notes that Directed SQTs and Directed RSQTs continue to have heightened quoting requirements as compared to electronic ROTs, which heightened obligations allow for the Directed SQTs and Directed RSQTs to receive certain participation rights.³³ The enhanced participation rights reward Directed SQTs and Directed RSQTs for making markets and providing other market participants an incentive to quote aggressively.

A member organization shall be considered directed for purposes of the quoting obligations specified in proposed Rule 1081(c)(ii)(C) once the member organization

³² This is similar to Phlx Rule 1014(b)(ii)(D)(4). The Exchange is utilizing the phrase "series with an expiration of nine months or greater" in this version simply for clarity. This provision, which refers to any series with an expiration of nine months or greater, is the same measure utilized today on Phlx, however, it is phrased differently.

³³ See Phlx Rule 1014(g)(viii)(B)(1).

receives a Directed Order in any option in which they are assigned and shall be considered directed until such time as the member organization notifies the Exchange that they are no longer directed.

As is the case today, Phlx Regulation may consider exceptions to the above-referenced requirement to quote based on demonstrated legal or regulatory requirements or other mitigating circumstances. For purposes of the Exchange's surveillance of member organization compliance with this rule, the Exchange may determine compliance on a monthly basis. The Exchange's monthly compliance evaluation of the quoting requirement does not relieve a member organization of the obligation to provide two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a member organization for failing to meet the quoting obligation each trading day.³⁴ Further, as is the case today, if a technical failure or limitation of a System of Phlx prevents a member organization from maintaining, or prevents a member organization from communicating to Phlx timely and accurate quotes, the duration of such failure or limitation shall not be included in any of the calculations under subparagraph (c)(ii) of proposed Rule 1081 with respect to the affected quotes.³⁵

Example for calculating quoting for an electronic ROT:

Market Maker firm A ("MM A") has Badges 1, 2 and 3. MM A has permission to quote underlying U which has options U1, U2, U3, U4, and U5. MM A also has permission to quote underlyings V and W.

Option U1 opened at 09:30:30 and closed at 16:00:39
 Badge 1 quoted U1 at 09:35:30 @ 13.00(10) - 15.00(10)
 Badge 1 updated quote in U1 at 09:50:31 @ 10.00(10) - 15.00(20)
 Badge 1 purged quote at 15:55:40

³⁴ See Phlx Rule 1014(b)(ii)(D)(1) and (2).

³⁵ See Phlx Rule 1014(b)(ii)(D)(5).

Total quoted time for U1 is: 15:55:40-09:35:30 = $(15-9)*3600+(55-35)*60+(40-30)=22810$ (seconds)

Total available quote time for U1 is: 16:00:39-09:30:30 = $(15-9)*3600+(60-30)*60+(39-30)=23409$ (seconds)

Option U2 opened at 09:30:32 and closed at 16:00:29

Badge 2 quoted U2 at 10:05:30 @ 13.00(10) - 15.00(10)

Badge 2 updated quote in U2 at 11:00:01 @ 11.00(10) - 16.00(20)

Badge 2 purged quote at 15:05:40

Total quoted time for U2 is: 15:05:40-10:05:30 = $(14-9)*3600+(65-35)*60+(40-30)=19810$ (seconds)

Total available quote time for U2 is: 16:00:29-09:30:32 = $(15-9)*3600+(59-30)*60+(89-32)=23397$ (seconds)

Option U3 opened at 09:40:02 and closed at 16:01:20

Badge 3 quoted U3 at 11:10:21 @ 21.00(10) - 24.00(20)

Badge 3 purged quote at 15:00:05

Total quoted time for U3 is: 15:00:05-11:10:21 = $(14-11)*3600+(59-10)*60+(65-21)=13784$ (seconds)

Total available quote time for U3 is: 16:01:20-09:40:02 = $(15-9)*3600+(61-40)*60+(20-2)=22878$ (seconds)

Option U4 opened at 9:30:01 and closed at 16:00:20

Badge 1, 2 and 3 all quoted option U4:

Badge 1 quoted U4 at 09:38:59 @ 35.00(10) - 37.00(10)

Badge 1 updated quote in U4 at 10:30:21 @ 31.00(10) - 37.00(20)

Badge 1 purged quote in U4 at 15:45:00

Badge 2 quoted U4 at 09:34:29 @ 35.00(10) - 37.00(10)

Badge 2 purged quote at 15:35:55

Badge 3 quoted U4 at 10:33:21 @ 36.00(10) - 38.00(20)

Badge 3 purged quote at 15:59:34

Since Badge 2 began quoting U4 at the earliest time, this time is used for the total quote time determination. Similarly, MM A's Badge 3 was last to purge his quote in U4 so this purge time is used for the total quote time determination.

Total quoted time for U4 is: 15:59:34-09:34:29 = $(15-9)*3600+(59-34)*60+(34-29)=23105$ (seconds)

Total available quote time is: 16:00:20-09:30:01 = $(15-9)*3600+(60-30)*60+(20-1)=23419$ (seconds)

Option U5 opened at 9:30:11 and closed at 16:00:23

No MM A badges quoted U5 thus, the total quoted time for U5 will be: 0 (seconds)

Total available quote time is: 16:00:23-09:30:11 = $(15-9)*3600+(60-30)*60+(23-11)=23412$ (seconds)

The Total quote percentage for MM A is:

Total time for MM A quoted underlying U:
 $22810+19810+13784+23105+0=79509(\text{seconds})$
 Total eligible quoting time for MM A on underlying U:
 $23409+23397+22878+23419+23412=116515(\text{seconds})$

Similarly assume:

Total time for MM A quoted underlying V: 70983(seconds)
 Total eligible quoting time for MM A on underlying V: 86515(seconds)

Total time for MM A quoted underlying W: 0(seconds)
 Total eligible quoting time for MM A on underlying W: 46513(seconds)

Then the total quoting percentage for MM A is:
 $(79509+70983+0)/(116515+86515+46513)=150492/249563=60.31\%$

(b) Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,³⁶ in general, and furthers the objectives of Section 6(b)(5) of the Act,³⁷ 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 for the reasons stated below.

The Exchange believes that its proposed rule change provides further detail as to obligations of electronic ROTs on Phlx. The Exchange's proposed obligations, which are similar to BX Rules at Chapter VII, Section 5, delineate examples of the type of activity that constitutes a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market. This proposal is consistent with the Act because it removes impediments to and perfects the mechanism of a free and open market

³⁶ 15 U.S.C. 78f(b).

³⁷ 15 U.S.C. 78f(b)(5).

and a national market system by imposing obligations on market makers with respect to making markets on Phlx.

With respect to the quoting obligations, the Exchange's proposal seeks to conform the quoting obligations to that of BX's Rules.³⁸ The Exchange is amending the quoting obligations for electronic ROTs to lower the obligations. The Exchange's proposal that SQTs and RSQTs, associated with the same member organization, are collectively required to provide two-sided quotations in 60% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading seeks to promote just and equitable principles of trade, and to foster cooperation and coordination with persons engaged in facilitating transactions in securities by aligning Phlx's Rules with quoting obligations on BX. The Exchange notes that electronic ROTs are required to abide by the Exchange's obligations in order to contribute to the maintenance of a fair and orderly market.

The proposal supports the quality of the Exchange's market by helping to ensure that electronic ROTs will continue to be obligated to quote in a percentage of their assigned series. Ultimately, the benefit the proposed rule change confers upon electronic ROTs is offset by the continued responsibilities to provide significant liquidity to the market to the benefit of market participants. Despite the reduction, the Exchange believes that the proposed rule text is consistent with the Act because the quoting

³⁸ See BX Rules at Chapter VII at Sections 6, 14 and 15. The proposed rule text is different than the BX rule text with respect to quoting obligations, however the computation of the quoting obligations will be the same as BX's computations today.

obligations are similar to quoting obligations on BX today.³⁹ Determining compliance with the continuous quoting requirement on a monthly basis would not relieve an electronic ROT from the obligation to quote two-sided quotes for 60% of the cumulative number of seconds on a daily basis, nor would it prohibit the Exchange from taking disciplinary action against an electronic ROT for failing to meet the quoting obligation each trading day. For these reasons, the Exchange believes that the proposed changes to the quoting obligations are consistent with the Act. Further, the proposed changes to the quoting obligations for electronic ROTs are consistent with market maker obligations in place on BX as noted herein.⁴⁰

Further, the Exchange's proposal to amend the quoting obligations for Specialists and electronic Directed SQTs and Directed RSQTs is consistent with the Act because despite lowering the current obligations, the Exchange continues to impose higher quoting obligations on Specialists and electronic Directed SQTs and Directed RSQTs as compared to SQTs and RSQTs because they are entitled to certain allocation benefits that other ROTs are not entitled to today. Phlx Rule 1014(g)(vii) provides for the allocation method for electronic ROTs on Phlx after the Specialist Participation Entitlement has been applied and Phlx Rule 1014(g)(viii) provides for the allocation method in the case of directed orders to the electronic Directed SQT and Directed RSQT, and such allocation will depend on the number of electronic ROTs present. The Specialist receives an entitlement after all Customer orders have been fully executed provided the Specialist's bid/offer is at or improves on the Exchange's disseminated price and up to the Specialist's

³⁹ See BX Rules at Chapter VII at Sections 6, 14 and 15.

⁴⁰ Id.

displayed size.⁴¹ A DSQT or a DRSQT shall be allocated a participation entitlement as specified in Phlx Rule 1014(g)(viii)(B)(1) and (2). The Exchange notes that Specialists and Directed SQTs and Directed RSQTs continue to have heightened quoting requirements as compared to electronic ROTs, which heightened obligations allow for the Specialist, Directed SQTs and Directed RSQTs to receive certain enhanced participation rights.⁴² The enhanced participation rights reward Specialists, Directed SQTs and Directed RSQTs for making markets and providing other market participants an incentive to quote aggressively. While electronic ROTs will be subject to lower quoting requirements as compared to Specialists and electronic Directed SQTs and Directed RSQTs, they will also be entitled to lower allocations. The Exchange believes that the proposed rule text is consistent with the Act because the obligations are commensurate with the ability to achieve certain allocations. The Exchange believes that its proposal will continue to align SQTs and RSQTs, Specialists and electronic Directed SQTs and Directed RSQTs accordingly. Also, the proposal will align with quoting requirements on BX today.⁴³

Finally the proposed rule text serves to provide more specificity to members regarding the manner in which quoting obligations are calculated.

⁴¹ The Specialist Participation Entitlement shall be 60% of remaining interest if there is one other ROT at that price. The Specialist Participation Entitlement shall be 40% of remaining interest if there are two ROTs at that price. Finally, the Specialist Participation Entitlement 30% of remaining interest if there are more than two other ROTs at that price. See Phlx Rule 1014(g)(vii)(B)(1)(c) and 1014(g)(ii).

⁴² See Phlx Rule 1014(g)(vii)(B)(1)(c) and (g)(viii)(B)(1).

⁴³ See BX Rules at Chapter VII at Sections 6, 14 and 15.

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. Electronic ROTs will continue to be entitled to certain allocations, similar to today. Electronic ROTs, unlike other market participants, have obligations which the Exchange has memorialized within the proposed rule text. The Exchange believes that treating Electronic ROTs differently than other market participants does not impose an undue burden on competition because Electronic ROTs provide liquidity to the market which benefits market participants who interact with that liquidity. The Exchange requires Electronic ROTs today to maintain fair and orderly markets. The Exchange believes the allocation benefits are commensurate with the quoting obligations imposed on Electronic ROTs. Additionally, the Exchange believes that the varying quoting requirements as between electronic ROTs and Specialists and electronic Directed SQTs and Directed RSQTs does not impose an undue burden on competition because while electronic ROTs will be subject to lower quoting requirements as compared to Specialists and electronic Directed SQTs and Directed RSQTs, they will also be entitled to lower allocations.

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 rules are similar to BX Rules at Chapter VII, Sections 5, 6, 14 and 15.⁴⁴

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

Not applicable.

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

Not applicable.

11. Exhibits

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

⁴⁴ The Exchange's proposed rule is similar to BX. The Exchange's proposal seeks to utilize rule text that further clarifies the obligations that exist today on BX. See BX Rules at Chapter VII, Sections 5, 6, 14 and 15.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. _____ ; File No. SR-Phlx-2018-22)

March __, 2018

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing of Proposed Rule Change to Add New Rule 1081, Entitled “Electronic Market Maker Obligations and Quoting”

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 March 7, 2018, 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 add a new Rule 1081, entitled “Electronic Market Maker Obligations and Quoting” to amend electronic quoting for electronic ROTs, which will be defined to include SQTs, RSQTs, Directed SQTs, Directed RSQTs, Specialists and Remote Specialists.³

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ On Phlx a market maker includes Specialists and Registered Options Traders (“ROTs”) (which includes Streaming Quote Traders (“SQTs”) and Remote Streaming Quote Traders (“RSQTs”). A Specialist is an Exchange member who is registered as an options Specialist. See Phlx Rule 1020(a). Specifically, a Remote Specialist 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. See Phlx Rule 1020(a)(ii). A ROT is a regular member or a foreign currency options participant of the Exchange who has

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 this rule change is to reserve the current quoting obligations in Phlx Rule 1014(b)(ii)(D) and adopt new Phlx Rule 1081, which is currently reserved, to amend the current obligations of electronic ROTs on Phlx. The Exchange proposes to

received permission from the Exchange to trade in options for his own account. See Rule 1014(b)(i). The Exchange notes that while Rule 1014(b)(i) indicates that a ROT must be located on the trading floor, the Exchange notes that RSQTs can be remote. This rule change is intended to impact ROTs engaged in an electronic trading business. 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). An RSQT is an ROT that is a member affiliated with a Remote Streaming Quote Trader Organization, as described in Rule 507(a), 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).

entitle Phlx Rule 1081, “Electronic Market Maker Obligations and Quoting” and adopt certain rule text similar to NASDAQ BX, Inc. (“BX”) Rules at Chapter VII, Section 5 and quoting obligations similar to BX Rules at Chapter VII, Section 6 which describes the obligations of market makers. The Exchange notes that these obligations apply to quotations by of SQTs, RSQTs, Directed SQTs, Directed RSQTs, Specialists (hereinafter, “electronic ROTs”) electronically through the Exchange’s System.⁴ The Exchange notes that quotes submitted electronically by a Specialist, while on the trading floor, into the Exchange’s System, would qualify toward the Specialist requirement. All Specialists are subject to the requirements of Phlx Rule 1081. Similarly all RSQTs are subject to the requirements of Phlx Rule 1081 as RSQTs by definition have no physical trading floor presence. SQTs by definition may generate and submit option quotations electronically in options to which such SQT is assigned while such SQT is physically present on the floor of the Exchange. The SQTs quotations are subject to the obligations contained in Rule 1081. Non-SQT ROTs⁵ are not subject to the quoting requirements in proposed Rule 1081, rather they are subject to quarterly trading requirements which are specified in Commentary .01 to Phlx Rule 1014.

The Exchange proposes to adopt new sections (a) and (b) of Phlx Rule 1081 to specify the various obligations of electronic ROTs on Phlx. In registering as an electronic ROT, member organization commits to various obligations. Generally, the

⁴ System is defined at Phlx Rule 1000(b)(45).

⁵ A non-SQT ROT is an ROT who is neither an SQT nor an RSQT. See Rule 1014(b)(ii)(C). 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.

Exchange proposes to indicate that an electronic ROT's transactions, in its market making capacity,⁶ must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and those member organizations should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. The Exchange also proposes to note, similar to BX Rules at Chapter VII, Section 5(b) that electronic ROTs should not effect purchases or sales except in a reasonable and orderly manner. While this rule text is not explicitly noted in Phlx Rule 1014, the rule does today note at Phlx Rule 1014(a) that transactions of a Specialist and a ROT should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and those members should not enter into transactions or make bids or offers that are inconsistent with such a course of dealings.

Proposed Phlx Rule 1081(a) provides, ordinarily during trading hours,⁷ an electronic ROT must: (i) maintain a two-sided market in those options in which the electronic ROT is registered to trade, in a manner that enhances the depth, liquidity and competitiveness of the market; (ii) engage, to a reasonable degree under the existing circumstances, in dealings for its own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of (or demand for) a particular option contract, or a temporary distortion of

⁶ Electronic ROTs are permitted to enter orders on Phlx as permitted in Rule 1080(b)(i)(B). Orders are not considered market making activity for purposes of fulfilling quoting or the other obligations of an electronic ROT which are proposed herein.

⁷ The Exchange notes that a trading halt may cause the obligations of electronic ROTs to be suspended because the market is not open for trading. The Exchange intends that the obligations of an electronic ROT will be in effect when the Exchange is open for trading as specified in the Exchange's Rules.

price relationships between option contracts of the same class; (iii) compete with other electronic ROTs in all options in all capacities⁸ in which the electronic ROT is registered to trade; (iv) make markets that will be honored for the number of contracts entered into Phlx's System in all options in which the electronic ROT is registered to trade; (v) update quotations in response to changed market conditions in all options in which the electronic ROT is registered to trade; (v) maintain active markets in all options in which the electronic ROT is registered; and (vi) honor all orders attributed to the electronic ROT that the System routes to away markets pursuant to Rule 1080(m).⁹

Similar to BX Rules at Chapter VII, Section 5(c), Phlx proposes in Phlx Rule 1081(b) to provide, "If Phlx Regulation finds any substantial or continued failure to engage in a course of dealings as specified in paragraph (a) of this section, the electronic ROT will be subject to disciplinary action or suspension or revocation of registration in one or more of the securities in which the electronic ROT is registered. Nothing in this rule will limit any other power of the Board under these Rules, or procedures of Phlx with respect to the registration of an ROT or in respect of any violation by an ROT pursuant to this rule."¹⁰ The Exchange believes that the addition of these obligations will provide additional context as to the obligations of electronic ROTs on Phlx.

⁸ For example, competing as a Specialist and as an SQT, depending on the various capacities of market marking in which the electronic ROT is engaged.

⁹ Proposed Phlx Rule 1081(a)(i) – (vii) are similar to BX Rules at Chapter VII, Section 5(a).

¹⁰ The Exchange notes that an electronic ROT may be found to have violated other by-laws and rules of the Exchange which are separate and apart from these obligations. The Exchange has added this rule text to make clear that the obligations noted within this rule are not an exclusive list.

Current Quoting Requirements

The Exchange proposes to amend the current market making quoting obligations at Phlx Rule 1014(b)(ii)(D)(1). Currently, Phlx requires that in addition to the other requirements for ROTs set forth in Rule 1014, with some exceptions (e.g., when an RSQT functions as a Remote Specialist in particular options)¹¹ an SQT and an RSQT are responsible to quote two-sided markets in not less than 60% of the series in which such SQT or RSQT is assigned, provided that, on any given day, a Directed SQT (“DSQT”) or a Directed RSQT (“DRSQT”) are responsible to quote two-sided markets in the lesser of 99% of the series listed on the Exchange or 100% of the series listed on the Exchange minus one call-put pair,¹² in each case in at least 60% of the options in which such DSQT or DRSQT is assigned. Further, whenever a DSQT or DRSQT enters a quotation in an option in which such DSQT or DRSQT is assigned, such DSQT or DRSQT must maintain until the close of that trading day quotations for the lesser of 99% of the series of the option listed on the Exchange or 100% of the series of the option listed on the Exchange minus one call-put pair. The rule also states that to satisfy the applicable quoting requirements with respect to quoting a series, an SQT, RSQT, DSQT, or DRSQT must quote such series 90% of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as the Exchange may announce in

¹¹ Electronic Specialists have different quoting obligations currently in Phlx’s rule which will be described in more detail in this proposal. Also, SQTs, DSQTs, RSQTs and DRSQTs are deemed not to be assigned in any Quarterly Option Series, any adjusted option series, and any option series until the time to expiration for such series is less than nine months.

¹² A “call-put pair” refers to one call and one put that cover the same underlying instrument and have the same expiration date and exercise price. See Rule 1014(b)(ii)(D)(6).

advance.¹³ The rule notes that these obligations apply collectively to all appointed issues of an SQT, RSQT, DSQT, or DRSQT, rather than on an issue-by-issue basis.

Compliance with this obligation is determined on a monthly basis. However, determining compliance with the continuous quoting requirement on a monthly basis does not relieve an SQT, RSQT, DSQT, or DRSQT of the obligation to provide continuous two-sided quotes on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against an SQT, RSQT, DSQT, or DRSQT for failing to meet the continuous quoting obligation each trading day. Finally, the Exchange may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances.

Currently, with respect to a Specialist, Phlx Rule 1014(b)(ii)(D)(2) requires the Specialist (including the RSQT functioning as a Remote Specialist in particular options) quote two-sided markets in the lesser of 99% of the series or 100% of the series minus one call-put pair in each option in which such Specialist is assigned. To satisfy the requirement of this subparagraph (D)(2) with respect to quoting a series, the Specialist must quote such series 90% of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as the Exchange may announce in advance. These obligations apply collectively to all appointed issues of the Specialist, rather than on an issue-by-issue basis. Compliance with this obligation is determined on a monthly basis. However, determining compliance with the continuous quoting requirement on a monthly basis does not relieve the Specialist (including the RSQT functioning as a Remote Specialist in particular options) of the obligation to provide

¹³ See Phlx Rule 1014(b)(ii)(D)(1).

continuous two-sided quotes on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against the Specialist (including the RSQT functioning as a Remote Specialist in particular options) for failing to meet the continuous quoting obligation each trading day. Finally, the Exchange may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances.

Currently, Phlx Rule 1014(b)(ii)(D)(3) provides that SQTs, RSQTs and the Specialist assigned in an option shall submit electronic quotations with a size of not less than the minimum number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one contract. Phlx Rule 1014(b)(ii)(D)(4) provides that notwithstanding the foregoing, SQTs, DSQTs, RSQTs¹⁴ and DRSQTs shall be deemed not to be assigned in any Quarterly Option Series, any adjusted option series,¹⁵ and any option series until the time to expiration for such series is less than nine months. Thus, the quoting obligations described above do not apply to SQTs, DSQTs, RSQTs and DRSQTs respecting Quarterly Option Series, Adjusted Option Series, and series with an expiration of nine months or greater. Phlx Rule 1014(b)(ii)(D)(5) provides that if a technical failure or limitation of a System of the Exchange prevents a participant from maintaining, or prevents a participant from communicating to the Exchange, timely and accurate quotes, the duration of such failure or limitation shall not be included in any of the calculations under Rule 1014(b)(ii)(D) with respect to the affected quotes.

¹⁴ This provision does not apply to RSQTs when they are functioning as Remote Specialists in particular options.

¹⁵ Phlx defines an adjusted option series as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares (“Adjusted Options Series”).

Proposed Quoting Requirements

The Exchange proposes to amend its electronic quoting requirements at proposed Phlx Rule 1081(c). The Exchange notes that electronic ROTs must enter bids and offers for the options to which it is registered, except in an assigned options series listed intra-day on the Exchange. The Exchange notes that intra-day add of a series would be counted the following trading day (next business day after the intra-day add of a series was listed) when the option series would be available for a full trading day.¹⁶ Today, the electronic ROT is not held to quote an intra-day add of a series because the options series was not available for trading the entire day. The Exchange is adding this exception to the rule text to make clear that electronic ROTs would not be responsible for quoting an intra-day addition. The Exchange believes that not counting intra-day adds of a series that were not available for the entire day of trading is consistent with the Act because the electronic ROT would not have the opportunity to trade that particular options series for the entire trading day.

Further, the proposed rule text notes, as is the case today, on a daily basis an electronic ROT would be obligated to meet certain quoting requirements. An electronic ROT who is also the Specialist will be held to the Specialist obligations in options series in which the Specialist is assigned and will be held to electronic ROT obligations in all other options series where assigned. An electronic ROT who receives a Directed Order shall be held to the standard of a Directed SQT or Directed RSQT, as appropriate. This is the case today, although the current rule text does not state specifically that each obligation is separate. The Exchange's proposed rule text at Phlx Rule 1081(c) is not

¹⁶ An intra-day add of a series shall be defined, for purposes of this Rule 1081, as an option series that is added manually on the same day the series begins trading.

contained in the current rule, but is the current practice on Phlx. This additional detail is being added to the text of the proposed rule to further clarify the manner in which the quoting obligations are applied.

With respect to electronic ROTs, similar to the existing Phlx language at Phlx Rule 1014(b)(ii)(D)(3), the Exchange proposes to continue to require the best bid and best offer entered by an electronic ROT to have a size of not less than the minimum number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one (1) contract. Further, the rule text specifies at Phlx Rule 1081(c)(i) that an electronic ROT's bid and offer for a series of options contracts shall be accompanied by the number of contracts at that price the electronic ROT is willing to buy or sell.¹⁷ This language is similar to BX Rules at Chapter VII, Section 6(a). Today, Phlx Rule 1014(b)(ii)(D)(3) requires SQTs, RSQTs and the Specialist assigned in such option to submit electronic quotations with a size of not less than the minimum number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one contract. The Exchange is not introducing a new concept with this proposed language, rather the Exchange is retaining its current language regarding minimum size. The BX Rule differs from the Phlx Rule in this regard. BX's Rule Provides that a Participant "must have a size of at least one (1) contract" without reference to BX setting a minimum number. Phlx's Rule is generally similar to BX, except Phlx is retaining its rule text which permits the Exchange to determine the minimum number of contracts. The proposed rule text states, "The best bid and best offer submitted by an electronic ROT must have a size of not less than the minimum number of contracts determined by

¹⁷ See proposed Phlx Rule 1081(c)(i).

the Exchange on a class by class basis, which minimum shall be at least one (1) contract.”

Today, an electronic ROT’s bid and offer for a series of options contracts is quoted at a price for the number of contracts the electronic ROT is willing to buy or sell.

The Exchange proposes language at Phlx Rule 1081(c)(ii) that requires an electronic ROT that enters a bid (offer) in a series of an option in which he is registered on Phlx to enter an offer (bid).¹⁸ This requirement to maintain a two-sided quote is similar to what is required today on Phlx.¹⁹ The Exchange does not propose to amend the manner in which this provision is currently applied to an electronic ROT.

Proposed Phlx Rule 1081(c)(ii)(A) provides that SQTs and RSQTs, associated with the same member organization, are collectively required to provide two-sided quotations in 60% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization’s assigned options series are open for trading. The Exchange includes proposed rule text at Phlx Rule 1081(c)(ii)(D), which provides that the obligation at Phlx Rule 1081(c)(ii)(A) would be calculated by (i) taking the total number of seconds the member organization disseminates quotes in each assigned options series, excluding Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater for SQTs, RSQTs, Directed SQTs and Directed RSQTs ; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. SQTs and RSQTs would not be required to quote Quarterly Option Series, any Adjusted Options Series, and any option series with an expiration of nine

¹⁸ See proposed Phlx Rule 1081(c)(ii).

¹⁹ See Phlx Rule 1014(b)(ii)(D)(1). This requirement is also similar to BX Rules at Chapter VII, Section 6(b).

months or greater. Further, the rule text notes that quoting is not required in every assigned options series. Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the member organization.²⁰

Proposed Phlx Rule 1081(c)(ii)(A) also provides, similar to today, that notwithstanding the foregoing, a member organization shall not be required to make two-sided markets pursuant to 1081(c)(ii) in any Quarterly Option Series, any Adjusted Options Series, and any option series with an expiration of nine months or greater.²¹

The current Phlx rule requires electronic ROTs to quote 60% of the series 90% of the trading day.²² By comparison, the proposed rule change, which is similar to BX's Rule at Chapter VII, Section 6(d)(i)(1), reduces the quoting requirement for electronic ROTs by not requiring that an electronic ROT quote in every option series.²³ The ROT may quote any combination of series, and does not necessarily have to quote every assigned options series. Similar to today, these quotations must continue to meet the legal quote width requirements specified in Phlx Rule 1014(c)(i)(A)(1) and (2). The proposal better accommodates the occasional issues that may arise in a particular series, whether technical or manual. The existing requirement may at times discourage liquidity in particular options series because an electronic ROT is forced to focus on a momentary

²⁰ See Phlx Rule 1081(c)(ii)(D).

²¹ This is similar to Phlx Rule 1014(b)(ii)(D)(4). The Exchange is utilizing the phrase "series with an expiration of nine months or greater" in this version simply for clarity and to conform to the current BX language at BX Rules at Chapter VII at Section 6. Once the options series had less than nine months of expiration, the electronic ROT would be required to commence quoting the options series if appointed in that options series.

²² See Phlx Rule 1014(b)(ii)(D)(1).

²³ See proposed Phlx Rule 1081(c)(ii)(A) and (D).

lapse, rather than using the appropriate resources to focus on the options series that need and consume additional liquidity.

The Exchange is defining an Adjusted Options Series as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares. This definition at Proposed Phlx Rule 1081(c)(ii)(A)(i) is the same definition that is currently in Phlx Rule 1014(b)(ii)(D)(4).

Proposed Phlx Rule 1081(c)(ii)(B) provides that Specialists (including Remote Specialists), associated with the same member organization, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading. The Exchange includes proposed rule text at Phlx Rule 1081(c)(ii)(D), which provides that the obligation at Phlx Rule 1081(c)(ii)(B) would be calculated by (i) taking the total number of seconds the member organization disseminates quotes in each assigned options series; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. Further, the rule text notes that quoting is not required in every assigned options series.²⁴ Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the member organization.²⁵ The proposal to quote in aggregate all of assigned series 90% of the trading day would align Phlx's Rule to that of BX.

²⁴ See proposed Phlx Rule 1081(c)(ii)(B) and (D).

²⁵ See Phlx Rule 1081(c)(ii)(D).

This is an amendment from the current Phlx requirement which requires a Specialist to quote two-sided markets in the lesser of 99% of the series or 100% of the series minus one call-put pair in each option in which the Specialist is assigned. Today, the Specialist must quote such series 90% of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as the Exchange may announce in advance.²⁶ The Exchange desires to lower the requirement to conform to BX's requirement for Lead Market Makers, the equivalent of Phlx's Specialists, at BX Rules at Chapter VII, Section 14(f). As is the case today, these quotations must meet the legal quote width requirements specified in Phlx Rule 1014(c)(i)(A)(1) and (2). The Exchange notes that Specialists continue to have heightened quoting requirements as compared to electronic ROTs, which heightened obligations allow for the Specialist to receive certain participation rights.²⁷ The participation rights reward Specialists for making markets and providing other market participants an incentive to quote aggressively.

Today, Phlx Rule 1014(b)(ii)(D)(4) provides an exception from the quoting obligations in Quarterly Option Series, Adjusted Options Series, and any option series until the time for expiration for such series is less than nine months, for SQTs, DSQTs, RSQTs, and DRSQTs. This exception does not apply to Specialists or Remote Specialists because they are not listed as an excepted class. The Exchange's proposal continues to require Specialists and Remote Specialists to quote in Quarterly Option Series, Adjusted Options Series, and any option series until the time for expiration for

²⁶ See Phlx Rule 1014(b)(ii)(D)(2).

²⁷ See Phlx Rule 1014(g)(vii)(B)(1)(c).

such series is less than nine months where assigned.²⁸ This rule text does not conform to BX Rules at Chapter VII, Section 14. A BX Lead Market Maker is not required to quote Quarterly Options Series, Adjusted Options Series, or any series with a time to expiration of nine months or greater.

Proposed Phlx Rule 1081(c)(ii)(C) provides Directed SQTs and Directed RSQTs, associated with the same member organization, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading. The Exchange includes proposed rule text at Phlx Rule 1081(c)(ii)(D), which provides that the obligation at Phlx Rule 1081(c)(ii)(C) would be calculated by (i) taking the total number of seconds the member organization disseminates quotes in each assigned options series, excluding Quarterly Option Series, any Adjusted Options Series, and any option series with an expiration of nine months or greater for SQTs, RSQTs, Directed SQTs and Directed RSQTs ; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. Further, the rule text notes that quoting is not required in every assigned options series.²⁹ Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the member organization.³⁰ Notwithstanding the foregoing, a member organization shall not be required to make two-sided markets pursuant to 1081(c)(ii) in any Quarterly Option Series, any Adjusted

²⁸ See Phlx Rule 1081(c)(ii)(B).

²⁹ See proposed Phlx Rule 1081(c)(ii)(C) and (D).

³⁰ See Phlx Rule 1081(c)(ii)(D).

Options Series, and any option series with an expiration of nine months or greater.³¹ This provision is not being amended and is similar to the current Phlx rule and BX Rules at Chapter VII, Section 15(iv).³² These quotations must meet the legal quote width requirements specified in Phlx Rule 1014(c)(i)(A)(1) and (2).

The proposed provisions amend the current Phlx requirement which requires a Directed ROT to quote two-sided markets in the lesser of 99% of the series listed on the Exchange or 100% of the series listed on the Exchange minus one call-put pair, in each case in at least 60% of the options in which such DSQT or DRSQT is assigned. Whenever a DSQT or DRSQT enters a quotation in an option in which such DSQT or DRSQT is assigned, such DSQT or DRSQT must maintain until the close of that trading day quotations for the lesser of 99% of the series of the option listed on the Exchange or 100% of the series of the option listed on the Exchange minus one call-put pair. The Exchange desires to lower the requirement to conform to BX's requirement for Directed Market Makers in BX Rules at Chapter VII, Section 15(iii). The Exchange notes that Directed SQTs and Directed RSQTs continue to have heightened quoting requirements as compared to electronic ROTs, which heightened obligations allow for the Directed SQTs

³¹ As noted herein, for purposes of this Rule, an adjusted option series is defined as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares ("Adjusted Options Series"). Once the options series had less than nine months of expiration, the electronic ROT would be required to commence quoting the options series if appointed in that options series.

³² This is similar to Phlx Rule 1014(b)(ii)(D)(4). The Exchange is utilizing the phrase "series with an expiration of nine months or greater" in this version simply for clarity. This provision, which refers to any series with an expiration of nine months or greater, is the same measure utilized today on Phlx, however, it is phrased differently.

and Directed RSQTs to receive certain participation rights.³³ The enhanced participation rights reward Directed SQTs and Directed RSQTs for making markets and providing other market participants an incentive to quote aggressively.

A member organization shall be considered directed for purposes of the quoting obligations specified in proposed Rule 1081(c)(ii)(C) once the member organization receives a Directed Order in any option in which they are assigned and shall be considered directed until such time as the member organization notifies the Exchange that they are no longer directed.

As is the case today, Phlx Regulation may consider exceptions to the above-referenced requirement to quote based on demonstrated legal or regulatory requirements or other mitigating circumstances. For purposes of the Exchange's surveillance of member organization compliance with this rule, the Exchange may determine compliance on a monthly basis. The Exchange's monthly compliance evaluation of the quoting requirement does not relieve a member organization of the obligation to provide two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a member organization for failing to meet the quoting obligation each trading day.³⁴ Further, as is the case today, if a technical failure or limitation of a System of Phlx prevents a member organization from maintaining, or prevents a member organization from communicating to Phlx timely and accurate quotes, the duration of

³³ See Phlx Rule 1014(g)(viii)(B)(1).

³⁴ See Phlx Rule 1014(b)(ii)(D)(1) and (2).

such failure or limitation shall not be included in any of the calculations under subparagraph (c)(ii) of proposed Rule 1081 with respect to the affected quotes.³⁵

Example for calculating quoting for an electronic ROT:

Market Maker firm A (“MM A”) has Badges 1, 2 and 3. MM A has permission to quote underlying U which has options U1, U2, U3, U4, and U5. MM A also has permission to quote underlyings V and W.

Option U1 opened at 09:30:30 and closed at 16:00:39

Badge 1 quoted U1 at 09:35:30 @ 13.00(10) - 15.00(10)

Badge 1 updated quote in U1 at 09:50:31 @ 10.00(10) - 15.00(20)

Badge 1 purged quote at 15:55:40

Total quoted time for U1 is: 15:55:40-09:35:30 = (15-9)*3600+(55-35)*60+(40-30)=22810 (seconds)

Total available quote time for U1 is: 16:00:39-09:30:30 = (15-9)*3600+(60-30)*60+(39-30)=23409 (seconds)

Option U2 opened at 09:30:32 and closed at 16:00:29

Badge 2 quoted U2 at 10:05:30 @ 13.00(10) - 15.00(10)

Badge 2 updated quote in U2 at 11:00:01 @ 11.00(10) - 16.00(20)

Badge 2 purged quote at 15:05:40

Total quoted time for U2 is: 15:05:40-10:05:30 = (14-9)*3600+(65-35)*60+(40-30)=19810 (seconds)

Total available quote time for U2 is: 16:00:29-09:30:32 = (15-9)*3600+(59-30)*60+(89-32)=23397 (seconds)

Option U3 opened at 09:40:02 and closed at 16:01:20

Badge 3 quoted U3 at 11:10:21 @ 21.00(10) - 24.00(20)

Badge 3 purged quote at 15:00:05

Total quoted time for U3 is: 15:00:05-11:10:21 = (14-11)*3600+(59-10)*60+(65-21)=13784 (seconds)

Total available quote time for U3 is: 16:01:20-09:40:02 = (15-9)*3600+(61-40)*60+(20-2)=22878 (seconds)

Option U4 opened at 9:30:01 and closed at 16:00:20

Badge 1, 2 and 3 all quoted option U4:

Badge 1 quoted U4 at 09:38:59 @ 35.00(10) - 37.00(10)

Badge 1 updated quote in U4 at 10:30:21 @ 31.00(10) - 37.00(20)

Badge1 purged quote in U4 at 15:45:00

Badge 2 quoted U4 at 09:34:29 @ 35.00(10) - 37.00(10)

Badge 2 purged quote at 15:35:55

Badge 3 quoted U4 at 10:33:21 @ 36.00(10) - 38.00(20)

³⁵ See Phlx Rule 1014(b)(ii)(D)(5).

Badge 3 purged quote at 15:59:34

Since Badge 2 began quoting U4 at the earliest time, this time is used for the total quote time determination. Similarly, MM A's Badge 3 was last to purge his quote in U4 so this purge time is used for the total quote time determination.

Total quoted time for U4 is: $15:59:34-09:34:29 = (15-09)*3600+(59-34)*60+(34-29)=23105$ (seconds)

Total available quote time is: $16:00:20-09:30:01 = (15-9)*3600+(60-30)*60+(20-1)=23419$ (seconds)

Option U5 opened at 9:30:11 and closed at 16:00:23

No MM A badges quoted U5 thus, the total quoted time for U5 will be: 0 (seconds)

Total available quote time is: $16:00:23-09:30:11 = (15-9)*3600+(60-30)*60+(23-11)=23412$ (seconds)

The Total quote percentage for MM A is:

Total time for MM A quoted underlying U:

$22810+19810+13784+23105+0=79509$ (seconds)

Total eligible quoting time for MM A on underlying U:

$23409+23397+22878+23419+23412=116515$ (seconds)

Similarly assume:

Total time for MM A quoted underlying V: 70983(seconds)

Total eligible quoting time for MM A on underlying V: 86515(seconds)

Total time for MM A quoted underlying W: 0(seconds)

Total eligible quoting time for MM A on underlying W: 46513(seconds)

Then the total quoting percentage for MM A is:

$(79509+70983+0)/(116515+86515+46513)=150492/249563=60.31\%$

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,³⁶ in general, and furthers the objectives of Section 6(b)(5) of the Act,³⁷ 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

³⁶ 15 U.S.C. 78f(b).

³⁷ 15 U.S.C. 78f(b)(5).

market system, and, in general to protect investors and the public interest for the reasons stated below.

The Exchange believes that its proposed rule change provides further detail as to obligations of electronic ROTs on Phlx. The Exchange's proposed obligations, which are similar to BX Rules at Chapter VII, Section 5, delineate examples of the type of activity that constitutes a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market. This proposal is consistent with the Act because it removes impediments to and perfects the mechanism of a free and open market and a national market system by imposing obligations on market makers with respect to making markets on Phlx.

With respect to the quoting obligations, the Exchange's proposal seeks to conform the quoting obligations to that of BX's Rules.³⁸ The Exchange is amending the quoting obligations for electronic ROTs to lower the obligations. The Exchange's proposal that SQTs and RSQTs, associated with the same member organization, are collectively required to provide two-sided quotations in 60% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading seeks to promote just and equitable principles of trade, and to foster cooperation and coordination with persons engaged in facilitating transactions in securities by aligning Phlx's Rules with quoting obligations on BX. The Exchange notes that electronic ROTs are required to abide by the

³⁸ See BX Rules at Chapter VII at Sections 6, 14 and 15. The proposed rule text is different than the BX rule text with respect to quoting obligations, however the computation of the quoting obligations will be the same as BX's computations today.

Exchange's obligations in order to contribute to the maintenance of a fair and orderly market.

The proposal supports the quality of the Exchange's market by helping to ensure that electronic ROTs will continue to be obligated to quote in a percentage of their assigned series. Ultimately, the benefit the proposed rule change confers upon electronic ROTs is offset by the continued responsibilities to provide significant liquidity to the market to the benefit of market participants. Despite the reduction, the Exchange believes that the proposed rule text is consistent with the Act because the quoting obligations are similar to quoting obligations on BX today.³⁹ Determining compliance with the continuous quoting requirement on a monthly basis would not relieve an electronic ROT from the obligation to quote two-sided quotes for 60% of the cumulative number of seconds on a daily basis, nor would it prohibit the Exchange from taking disciplinary action against an electronic ROT for failing to meet the quoting obligation each trading day. For these reasons, the Exchange believes that the proposed changes to the quoting obligations are consistent with the Act. Further, the proposed changes to the quoting obligations for electronic ROTs are consistent with market maker obligations in place on BX as noted herein.⁴⁰

Further, the Exchange's proposal to amend the quoting obligations for Specialists and electronic Directed SQTs and Directed RSQTs is consistent with the Act because despite lowering the current obligations, the Exchange continues to impose higher quoting obligations on Specialists and electronic Directed SQTs and Directed RSQTs as

³⁹ See BX Rules at Chapter VII at Sections 6, 14 and 15.

⁴⁰ Id.

compared to SQTs and RSQTs because they are entitled to certain allocation benefits that other ROTs are not entitled to today. Phlx Rule 1014(g)(vii) provides for the allocation method for electronic ROTs on Phlx after the Specialist Participation Entitlement has been applied and Phlx Rule 1014(g)(viii) provides for the allocation method in the case of directed orders to the electronic Directed SQT and Directed RSQT, and such allocation will depend on the number of electronic ROTs present. The Specialist receives an entitlement after all Customer orders have been fully executed provided the Specialist's bid/offer is at or improves on the Exchange's disseminated price and up to the Specialist's displayed size.⁴¹ A DSQT or a DRSQT shall be allocated a participation entitlement as specified in Phlx Rule 1014(g)(viii)(B)(1) and (2). The Exchange notes that Specialists and Directed SQTs and Directed RSQTs continue to have heightened quoting requirements as compared to electronic ROTs, which heightened obligations allow for the Specialist, Directed SQTs and Directed RSQTs to receive certain enhanced participation rights.⁴² The enhanced participation rights reward Specialists, Directed SQTs and Directed RSQTs for making markets and providing other market participants an incentive to quote aggressively. While electronic ROTs will be subject to lower quoting requirements as compared to Specialists and electronic Directed SQTs and Directed RSQTs, they will also be entitled to lower allocations. The Exchange believes that the proposed rule text is consistent with the Act because the obligations are commensurate

⁴¹ The Specialist Participation Entitlement shall be 60% of remaining interest if there is one other ROT at that price. The Specialist Participation Entitlement shall be 40% of remaining interest if there are two ROTs at that price. Finally, the Specialist Participation Entitlement 30% of remaining interest if there are more than two other ROTs at that price. See Phlx Rule 1014(g)(vii)(B)(1)(c) and 1014(g)(ii).

⁴² See Phlx Rule 1014(g)(vii)(B)(1)(c) and (g)(viii)(B)(1).

with the ability to achieve certain allocations. The Exchange believes that its proposal will continue to align SQTs and RSQTs, Specialists and electronic Directed SQTs and Directed RSQTs accordingly. Also, the proposal will align with quoting requirements on BX today.⁴³

Finally the proposed rule text serves to provide more specificity to members regarding the manner in which quoting obligations are calculated.

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. Electronic ROTs will continue to be entitled to certain allocations, similar to today. Electronic ROTs, unlike other market participants, have obligations which the Exchange has memorialized within the proposed rule text. The Exchange believes that treating Electronic ROTs differently than other market participants does not impose an undue burden on competition because Electronic ROTs provide liquidity to the market which benefits market participants who interact with that liquidity. The Exchange requires Electronic ROTs today to maintain fair and orderly markets. The Exchange believes the allocation benefits are commensurate with the quoting obligations imposed on Electronic ROTs. Additionally, the Exchange believes that the varying quoting requirements as between electronic ROTs and Specialists and electronic Directed SQTs and Directed RSQTs does not impose an undue burden on competition because while electronic ROTs will be subject to lower quoting requirements as compared to Specialists and electronic Directed SQTs and Directed RSQTs, they will also be entitled to lower allocations.

⁴³ See BX Rules at Chapter VII at Sections 6, 14 and 15.

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-2018-22 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-2018-22. 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-2018-22 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.⁴⁴

Eduardo A. Aleman
Assistant Secretary

⁴⁴ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

New text is underlined; deleted text is in brackets.

Nasdaq PHLX Rules

* * * * *

Options Rules

* * * * *

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

(a) No change.

(b) *ROT*. (i) An 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. For purposes of this Rule 1014, the term "ROT" shall include a Streaming Quote Trader, and a Remote Streaming Quote Trader, as defined below.

Each ROT electing to engage in Exchange options transactions shall be assigned by the Exchange one or more classes of options, and Exchange options transactions initiated by such ROT on the Floor for any account in which he had an interest shall to the extent prescribed by the Exchange be in such assigned classes.

(ii) (A) *Streaming Quote Trader ("SQT")*. 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.

(B) and (C) No change.

(D) Reserved. [*Market Making Obligations*]

(1) In addition to the other requirements for ROTs set forth in this Rule 1014, except as provided in sub-paragraph (4) below, and except as provided in subparagraph (2) below when an RSQT functions as a Remote Specialist in particular options, an SQT and an RSQT shall be responsible to quote two-sided markets in not less than 60% of the series in which such SQT or RSQT is assigned, provided that, on any given day, a Directed SQT ("DSQT") or a Directed RSQT ("DRSQT") (as defined in Rule 1080(1)(i)(C)) shall be responsible to quote two-sided markets in the lesser of 99% of the series listed on the Exchange or 100% of the series listed on the Exchange minus one call-put pair, in each case in at least 60% of the options in which such DSQT or DRSQT is assigned.

Whenever a DSQT or DRSQT enters a quotation in an option in which such DSQT or

DRSQT is assigned, such DSQT or DRSQT must maintain until the close of that trading day quotations for the lesser of 99% of the series of the option listed on the Exchange or 100% of the series of the option listed on the Exchange minus one call-put pair. To satisfy the applicable requirements of this subparagraph (D)(1) with respect to quoting a series, an SQT, RSQT, DSQT, or DRSQT must quote such series 90% of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as the Exchange may announce in advance. These obligations will apply collectively to all appointed issues of an SQT, RSQT, DSQT, or DRSQT, rather than on an issue-by-issue basis. Compliance with this obligation will be determined on a monthly basis. However, determining compliance with the continuous quoting requirement on a monthly basis does not relieve an SQT, RSQT, DSQT, or DRSQT of the obligation to provide continuous two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against an SQT, RSQT, DSQT, or DRSQT for failing to meet the continuous quoting obligation each trading day.

The Exchange may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances.

(2) The specialist (including the RSQT functioning as a Remote Specialist in particular options) shall be responsible to quote two-sided markets in the lesser of 99% of the series or 100% of the series minus one call-put pair in each option in which such specialist is assigned. To satisfy the requirement of this subparagraph (D)(2) with respect to quoting a series, the specialist must quote such series 90% of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as the Exchange may announce in advance. These obligations will apply collectively to all appointed issues of the specialist, rather than on an issue-by-issue basis. Compliance with this obligation will be determined on a monthly basis. However, determining compliance with the continuous quoting requirement on a monthly basis does not relieve the specialist (including the RSQT functioning as a Remote Specialist in particular options) of the obligation to provide continuous two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against the specialist (including the RSQT functioning as a Remote Specialist in particular options) for failing to meet the continuous quoting obligation each trading day.

The Exchange may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances.

(3) SQTs, RSQTs and the specialist assigned in such option shall submit electronic quotations with a size of not less than the minimum number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one contract.

(4) Notwithstanding the foregoing, SQTs, DSQTs, RSQTs and DRSQTs shall be deemed not to be assigned in any Quarterly Option Series, any adjusted option series, and any option series until the time to expiration for such series is less than nine months.

Accordingly, the obligations set forth in this Rule shall not apply to SQTs, DSQTs, RSQTs and DRSQTs respecting Quarterly Option Series, adjusted option series, and series with an expiration of nine months or greater.

For purposes of this subsection (4), an adjusted option series is an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares.

This sub-section (4) does not apply to RSQTs when they are functioning as Remote Specialists in particular options.

(5) If a technical failure or limitation of a system of the Exchange prevents a participant from maintaining, or prevents a participant from communicating to the Exchange, timely and accurate quotes, the duration of such failure or limitation shall not be included in any of the calculations under this paragraph (D) with respect to the affected quotes.

(6) In this paragraph (D), the term "call-put pair" refers to one call and one put that cover the same underlying instrument and have the same expiration date and exercise price.]

(E) No change.

(c) – (g) No change.

••• *Commentary:* -----

.01 -.19 No change.

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Rule 1081. Electronic Market Maker Obligations and Quoting Requirements [Reserved]

For purposes of this rule an “electronic ROT” shall mean an SQT, RSQT, Specialist (including Remote Specialist), Directed SQT and Directed RSQT who enters electronic quotations into the Exchange’s System.

(a) In registering as an electronic ROT, a member organization commits to various obligations. Transactions of an electronic ROT in its market making capacity must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and those member organizations should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. Electronic ROTs should not effect purchases or sales except in a reasonable and orderly manner. Ordinarily during trading hours, an electronic ROT must:

(i) Maintain a two-sided market in those options in which the electronic ROT is registered to trade, in a manner that enhances the depth, liquidity and competitiveness of the market.

(ii) Engage, to a reasonable degree under the existing circumstances, in dealings for its own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of (or demand for) a particular option contract, or a temporary distortion of price relationships between option contracts of the same class.

(iii) Compete with other electronic ROTs in all options in all capacities in which the electronic ROT is registered to trade.

(iv) Make markets that will be honored for the number of contracts entered into System in all options in which the electronic ROT is registered to trade.

(v) Update quotations in response to changed market conditions in all options in which the electronic ROT is registered to trade.

(vi) Maintain active markets in all options in which the electronic ROT is registered.

(vii) Honor all orders attributed to the electronic ROT that the System routes to away markets pursuant to Rule 1080(m) of these Rules.

(b) If Phlx Regulation finds any substantial or continued failure to engage in a course of dealings as specified in paragraph (a) of this section, the electronic ROT will be subject to disciplinary action or suspension or revocation of registration in one or more of the securities in which the electronic ROT is registered. Nothing in this rule will limit any other power of the Board under these Rules, or procedures of Phlx with respect to the registration of an ROT or in respect of any violation by an ROT pursuant to this rule.

(c) Electronic ROTs must enter bids and offers for the options to which it is registered, except in an assigned options series listed intra-day on the Exchange. On a daily basis, an electronic ROT must make markets consistent with the applicable quoting requirements specified below. A member organization will be required to meet each market making obligation separately. An electronic ROT who is also the Specialist will be held to the Specialist obligations in options series in which the Specialist is assigned and will be held to electronic ROT obligations in all other options series where assigned. An electronic ROT who receives a Directed Order shall be held to the standard of a Directed SQT or Directed RSQT, as appropriate.

(i) Size Associated with Quotes. An electronic ROT's bid and offer for a series of options contracts shall be accompanied by the number of contracts at that price the electronic ROT is willing to buy or sell. The best bid and best offer submitted by an electronic ROT must have a size of not less than the minimum number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one (1) contract.

(ii) Two-Sided Quotes. An electronic ROT that enters a bid (offer) in a series of an option in which he is registered on Phlx must enter an offer (bid). These quotations must meet the legal quote width requirements specified in Phlx Rule 1014(c)(i)(A)(1) and (2).

(A) SQTs and RSQTs, associated with the same member organization, are collectively required to provide two-sided quotations in 60% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading. Notwithstanding the foregoing, a member organization shall not be required to make two-sided markets pursuant to this Rule 1081(c)(ii) in any Quarterly Option Series, any adjusted option series, and any option series with an expiration of nine months or greater.

(i) An adjusted option series is defined as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares ("Adjusted Options Series").

(B) Specialists (including Remote Specialists), associated with the same member organization, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading. Specialists shall be required to make two-sided markets pursuant to this rule in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater.

(C) Directed SQTs and Directed RSQTs, associated with the same member organization, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading. A member organization shall be considered directed in all assigned options once the member organization receives a Directed Order in any option in which they are assigned and shall be considered a Directed SQT or Directed RSQT until such time as the member organization notifies the Exchange that they are no longer directed. Notwithstanding the foregoing, a member organization shall not be required to make two-sided markets pursuant to this Rule 1081(c)(ii) in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater.

(D) Specifically, the Exchange will calculate subparagraphs (A) – (C) above by (i) taking the total number of seconds the member organization disseminates quotes in each assigned options series, excluding Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater for SQTs, RSQTs, Directed SQTs and Directed RSQTs ; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. Quoting is not required in every assigned options series. Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the member organization.

(iii) Phlx Regulation may consider exceptions to the above-referenced requirement to quote based on demonstrated legal or regulatory requirements or other mitigating circumstances. For purposes of the Exchange's surveillance of member organization compliance with this rule, the Exchange may determine compliance on a monthly basis. The Exchange's monthly compliance evaluation of the quoting requirement does not relieve a member organization of the obligation to provide two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a member organization for failing to meet the quoting obligation each trading day.

(v) If a technical failure or limitation of a System of Phlx prevents a member organization from maintaining, or prevents a member organization from communicating to Phlx timely and accurate quotes, the duration of such failure or limitation shall not be included in any of the calculations under this subparagraph (c)(ii) with respect to the affected quotes.

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