OMB APPROVAL
OMB Number: 3235-0045 Estimated average burden hours per response............38

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 29

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2018 - * 32
Amendment No. (req. for Amendments *)

Filing by Nasdaq PHLX LLC

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
☑	☐	☐	☐	☑	☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule

☐ 19b-4(f)(1)	☐ 19b-4(f)(4)
☐ 19b-4(f)(2)	☐ 19b-4(f)(5)
☐ 19b-4(f)(3)	☑ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☐

Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐

Exhibit 3 Sent As Paper Document ☐

Description

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

Proposal to adopt a new Market Order Spread Protection.

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 * Angela Last Name * Dunn

Title * Principal Associate General Counsel

E-mail * Angela.Dunn@nasdaq.com

Telephone * (215) 496-5692 Fax

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title *)

Date 04/20/2018

By Edward S. Knight

(Name *)

Executive Vice President and General Counsel

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.

edward.knight@nasdaq.com

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information * Add Remove View	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 * Add Remove View	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 * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications Add Remove View Exhibit Sent As Paper Document ☐	Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.
Exhibit 3 - Form, Report, or Questionnaire Add Remove View 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 Add Remove View	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
Exhibit 5 - Proposed Rule Text Add Remove View	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.
Partial Amendment Add Remove View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) Nasdaq PHLX LLC ("Phlx" or "Exchange"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] is filing with the Securities and Exchange Commission ("SEC" or "Commission") a proposal to adopt a new Market Order Spread Protection.

The Exchange requests that the Commission waive the 30-day operative delay period contained in Exchange Act Rule 19b-4(f)(6)(iii).[3]

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange (the "Board") on September 19, 2017. Exchange staff will advise the Board of any action taken pursuant to delegated authority. 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

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 17 CFR 240.19b-4(f)(6)(iii).

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 adopt a new Market Order Spread Protection rule similar to The Nasdaq Options Market LLC ("NOM").[4] The Exchange also proposes an amendment to Rule 1099, entitled "Order Protections."

Today, Phlx Rule 1099 includes various order protections which apply only to simple orders. The Exchange is proposing to amend Rule 1099 to include rule text which makes clear that the order protections within Rule 1099 apply only to simple orders. Further, the Exchange proposes to adopt Market Order Spread Protection functionality within Rule 1099(d), which protection would similarly apply only to simple orders.

This new mandatory risk protection entitled Market Order Spread Protection protects Market Orders[5] from being executed in very wide markets. This feature would be set at the same preset threshold[6] for all options traded on Phlx. The proposed new rule provides that a Market Order will be rejected if the best of the NBBO and the internal market PBBO[7] is wider than a preset threshold, which is selected by the Exchange and announced to members, at the time the Market Order is received by the System. NOM

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4 See NOM Rules at Chapter VI, Section 6(c).

5 Market Orders are orders to buy or sell at the best price available at the time of execution.

6 This preset threshold would initially be $5, as explained in more detail below.

7 This is the best bid and offer on the Phlx order book including non-displayed legging and stop orders. Resting AON orders are not considered as part of the internal market PBBO in applying the Market Order Spread Protection. Resting AON orders may be passed by in allocation if the incoming order does have sufficient quantity to satisfy the resting AON.

has two non-displayed order types, Price-Improving and Post-Only Orders, which may cause the order book on NOM to be better than the NBBO. Phlx similarly has non-displayed order types, all-or-none,[8] stop orders[9] and legging orders[10] (collectively "Non-Displayed Orders"). These Non-Displayed Orders may cause the order book on Phlx to be better than the NBBO. The Exchange also notes that orders which lock or cross another market[11] will cause the PBBO to reprice and also could result in the internal market PBBO being better than the NBBO. The Exchange notes that Non-Displayed Orders would be considered when validating orders on entry for the proposed Market Order Spread Protection, except for all-or-none orders. All-or-none orders have a quantity contingency requiring the full quantity of the order to execute in order for any trade to take place, which may cause the order to not execute. If an all-or-none contingency cannot be met, the all-or-none order would be bypassed until such time as the contingency could be met. For this reason, an all-or-none order will not be

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8 An all-or-none order is a limit or market order that is to be executed in its entirety or not at all.

9 A stop order is a limit or market order to buy or sell at a limit price when a trade or quote on the Exchange for a particular option contract reaches a specified price. A stop-market or stop-limit order shall not be elected by a trade that is reported late or out of sequence or by a complex order trading with another complex order.

10 A legging order is a limit order on the regular order book in an individual series that represents one leg of a two-legged Complex Order (which improves the cPBBO) that is to buy or sell an equal quantity of two options series resting on the CBOOK. Legging orders are firm orders that are included in the Exchange's displayed best bid or offer. Legging orders are not routable and are limit orders with a time-in-force of DAY, as they represent an individual component of a Complex Order. Legging orders are non-displayed orders that are automatically generated. See Phlx Rule 1098(f)(iii)(C).

11 Options Order Protection and Locked and Crossed Market Rules are located at Phlx Rule 1083. In the event of a locked and crossed market, the PBBO will be repriced and displayed in accordance with Phlx Rule 1082(a)(ii)(3)(g)(v).

considered during the validation of orders on entry for purposes of Market Order Spread Protection. Below are some examples:

Example No. 1:

If the Market Order Spread Protection threshold is set to $5.00, and a Market Order to buy is received while the NBBO and internal PBBO are both $1.00 - $6.05 and there are no Non-Displayed Orders resting on the book, such Market Order will be rejected. .

Example No. 2:

The following is an example of how a legging order interacts with the Market Order Spread Protection. Assume an option minimum price increment (MPV) is scaled in $0.05 increments and a limit buy order of $0.05 exists on the Exchange. If the system generates a legging order to sell at $ 0.11, this order will not be displayed at its limit of $0.11, because the order is priced at a non-MPV increment. This order will be displayed at the nearest MPV price of $0.15 (because of the option's $0.05 MPV increment). Thus, the displayed spread is $0.10; however the PBBO is $0.06. Assume this order makes up the best offer on the Exchange. For this example, assume the Market Order Spread Threshold in the System is set at $ 0.09. Further assume a Market Order to buy is submitted to the Exchange. Based on the Exchange's proposed implementation of Market Order Spread Protection, the Market Order to buy would execute against the resting sell order at $0.11, since $0.11 is the best available offer and the internal market PBBO spread is $0.06 (spread between the best bid of $0.05 and the best offer of $ 0.11) which is less than the Market Order Spread Threshold of $0.09.

Example No. 3:

The following is an example of how an all-or-none order interacts with Market Order Spread Protection. Assume an NBBO: 0 x 5.50 and a PBBO of 0 x 5.45. Also assume an all-or-none order is resting in the order book to sell 1000 at 4.95 and an incoming Market Order to buy 10. The all-or-none order would not be considered in the validation and the incoming Market Order would be rejected. In this example, if the all-or-none order had been considered in the validation that Market Order would have executed at 5.45, an inferior price because the full quantity of the resting all-or-none order could not be satisfied.

The proposed feature would assist with the maintenance of fair and orderly markets by ensuring that the best bid and offer displayed on the Exchange are within a reasonable range and preventing market orders from trading outside of the reasonable range when the best bid and offer displayed are not within the allowable range. The Exchange proposes this feature to avoid executions of Market Orders when the market is too wide for a reasonable execution.

Today, the NOM threshold is set at $5. Phlx will initially set the threshold to $5. Similar to NOM, the Exchange will notify Members of the threshold with advanced notice to members through an Options Trader Alert, and, thereafter, members will be notified in advance of any subsequent changes to the threshold. NOM set the differential at $5 to match the bid/ask differential permitted for quotes on the Exchange.[12] The

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12 See Chapter VII, Section 6(d)(ii) of NOM Rules which describes the bid/ask differentials. Options on equities (including Exchange-Traded Fund Shares), and on index options must be quoted with a difference not to exceed $5 between the bid and offer regardless of the price of the bid, including before and during the opening. However, respecting in-the-money series where the market for the underlying security is wider than $5, the bid/ask differential may be as wide as the

Exchange would consider a subsequent change to the threshold if it believed that the $5 initial threshold was too wide or too restrictive as between the bid and offer to create a reasonable range for executions. Phlx has the same differential.[13] Thus, the presence of a quote on the Exchange will ensure the NBBO is at least $5 wide. The Exchange believes the presence of a quote on the Exchange, or a bid/ask differential of the NBBO, which is no more than $5 wide affords Market Orders proper protection against erroneous execution and in the event a bid/ask differential is more than $5, then a Market Order is rejected. The threshold is appropriate because it seeks to ensure that the displayed bid and offer are within reasonable ranges and do not represent erroneous prices. The protection would reject Market Orders which are outside of the parameters of the Market Order Spread Protection. The Exchange's proposed threshold is a reasonable measure to ensure prices remain within the preset threshold set by the Exchange, which will be initially set at $5. This protection will bolster the normal resilience and market behavior that persistently produces robust reference prices. This feature should create a level of protection that prevents Market Orders from entering the Order Book outside of an acceptable range for the Market Order to execute.

Finally, the Market Order Spread Protection will be the same for all options traded on the Exchange, and is applicable to all Members that submit Market Orders. The Market Order Spread Protection would not apply during the Opening Process and trading halts, similar to the manner in which it operates today on NOM. Both the

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quotation for the underlying security on the primary market. The Exchange may establish differences other than the above for one or more series or classes of options.

13 See Phlx Rule 1014(c)(i)(A)(2).

Opening Process and trading halts have their own more restrictive boundaries than those proposed for the Market Order Spread Protection. With respect to the Opening Process, a Quality Opening Market is required. A Quality Opening Market requires a bid/ask differential applicable to the best bid and offer from all Valid Width Quotes defined in a table[14] to be determined by the Exchange.[15] The Exchange's requirements during the Opening Process are more restrictive than the proposed initial setting for the Market Order Spread Protection, which is proposed at $5. As provided in Phlx Rule 1047(g), trading halts are subject to the reopening process as provided for in Phlx Rule 1017(e). The same protections noted for the Opening Process above will apply for trading halts. The Exchange believes that the Market Order Spread Protection is unnecessary during the Opening Process and during a trading halt because other protections are in place to ensure that the best bid and offer displayed on the Exchange are within a reasonable range.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[16] in general, and furthers the objectives of Section 6(b)(5) of the Act,[17] in particular, in that it is designed to promote just and equitable principles of trade and to protect

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14 The table is published on the Exchange's website at: http://www.nasdaqtrader.com/content/phlx/phlx_systemtime.pdf.

15 The calculation of Quality Opening Market is based on the best bid and offer of Valid Width Quotes. The differential between the best bid and offer are compared to reach this determination. The allowable differential, as determined by the Exchange, takes into account the type of security (for example, Penny Pilot versus non-Penny Pilot issue), volatility, option premium, and liquidity. The Quality Opening Market differential is intended to ensure the price at which the Exchange opens reflects current market conditions. See Phlx Rule 1017(a)(viiii).

16 15 U.S.C. 78f(b).

17 15 U.S.C. 78f(b)(5).

investors and the public interest by mitigating risk to market participants. By adopting this mandatory risk protection, similar to NOM, the Exchange will protect market participants from the execution of erroneous Market Orders. The proposed feature would assist with the maintenance of fair and orderly markets by ensuring that the best bid and offer displayed on the Exchange are within a reasonable range and further the protection would prevent market orders from trading outside of the reasonable range when the best bid and offer displayed are not within the allowable range.

This feature should create a level of protection that prevents erroneous Market Orders from entering the Order Book and thereby reduce the negative impacts of sudden, unanticipated volatility, and serve to preserve an orderly market in a transparent and uniform manner, increase overall market confidence, and promote fair and orderly markets and the protection of investors. This feature is not optional and is applicable to all members submitting Market Orders.

Permitting the rejection of the Market Order at the better of the NBBO or Reference PBBO does not otherwise create an impediment to a free and open market because Non-Displayed Orders exist today on NOM with this same protection and provide investors the opportunity to trade at a better price than would otherwise be available, *e.g.* inside the disseminated best bid and offer for a security, which could result in better executions for investors. The Exchange's exclusion of all-or-none orders when validating orders on entry for purposes of Market Order Spread Protection is consistent with the protection of investors and the public interest. This contingency order is already bypassed today for purposes of priority when the contingency cannot be satisfied. The Exchange notes that because all-or-none orders have a size contingency, which may cause this order type not to execute, the result of including the all-or-none order in the validation of incoming orders could result in executions at inferior prices.

The Exchange's proposal to not apply the Market Order Spread Protection during the Opening Process and during is consistent with the Act because protections exist within those mechanisms to ensure that the best bid and offer displayed on the Exchange are within a reasonable range. The Exchange's Opening Process Rule 1017[18] and the Trading Halt Rule 1047[19] both contain more restrictive boundaries than those proposed for the Market Order Spread Protection. With respect to the Opening Process, a Quality Opening Market is required. A Quality Opening Market requires a bid/ask differential applicable to the best bid and offer from all Valid Width Quotes defined in a table to be determined by the Exchange. The Exchange's requirements during the Opening Process are more restrictive than the proposed initial setting for the Market Order Spread Protection, which is proposed at $5. As provided in Phlx Rule 1047(g), trading halts are subject to the reopening process as provided for in Phlx Rule 1017(e). The same protections noted for the Opening Process above will apply for trading halts. The Exchange believes that the Market Order Spread Protection is unnecessary during the Opening Process and during a trading halt because other protections are in place to ensure that the best bid and offer displayed on the Exchange are within a reasonable range.

18 With respect to the Opening Process, a Quality Opening Market is required. A Quality Opening Market a bid/ask differential applicable to the best bid and offer from all Valid Width Quotes defined in a table to be determined by the Exchange and published on the Exchange's web site. See Phlx Rule 1017(a)(viiii).

19 With respect to trading halts, Opening Process procedures will be used to reopen an option series after a trading halt, therefore, the same protections noted for the Opening Process will apply for a trading halt and the same restrictive boundaries would apply. See Phlx Rule 1017(e).

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the proposed amendments do not impose an undue burden on competition because the Market Order Spread Protection will be mandatory for all market participants. The Marker Order Spread Protection feature will provide market participants with additional price protection from anomalous executions. The Exchange does not believe the proposal creates any significant impact on competition.

The Exchange does not believe that accounting for Non-Displayed Orders, except for all-or-none orders, or repricing due to trade-through and locked and crossed market restrictions creates an undue burden on competition because it will serve to provide members with additional information in the rule text to anticipate the impact of the Market Order Spread Protection feature. Today, members are able to submit orders or quotes priced between the MPV for display at the nearest MPV.

The Exchange does not believe that not applying the Market Order Spread Protection during the Opening Process and during a trading halt creates an undue burden on competition because these mechanisms offer more restrictive protections than the proposed initial setting for the Market Order Spread Protection, which is proposed at $5.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

Not applicable.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)[20] of the Act and Rule 19b-4(f)(6) thereunder[21] in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

The Exchange believes that this proposal does not significantly affect the protection of investors or the public interest because the Market Order Spread Protection will mitigate risk to market participants and protect market participants from the execution of erroneous Market Orders. The proposed rule change does not impose any significant burden on competition because the Market Order Spread Protection will be mandatory for all market participants. Also, not applying the Market Orders Spread Protection during the Opening Process and trading halts does not impose any significant burden on competition because during the Opening Process and during a trading halt other more restrictive protections are in place to ensure that the best bid and offer displayed on the Exchange are within a reasonable range.[22]

Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that

[20] 15 U.S.C. 78s(b)(3)(A)(iii).

[21] 17 CFR 240.19b-4(f)(6).

[22] See notes 18 and 19 above.

subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

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

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the operative delay to permit the Exchange to immediately offer this Market Order Spread Protection on Phlx similar to NOM. It is consistent with the protection of investors and the public interest to offer this protection immediately as a mandatory risk protection for all market participants transacting simple orders to mitigate risk and protect market participants from entering Market Orders outside of an reasonable range for the Market Order to execute.

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

This rule change is similar to NOM Rules at Chapter VI, Section 6(c). NOM's Market Order Spread Protection does not apply to the Opening Process and during trading halts today.

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

Not applicable.

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

Not applicable.

11. Exhibits

1. Notice of Proposed Rule Change for publication in the Federal Register.

5. Text of the proposed rule change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-Phlx-2018-32)

April __, 2018

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Adopt a New Market Order Spread Protection

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 April 20, 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 adopt a new Market Order Spread Protection.

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

1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

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 adopt a new Market Order Spread Protection rule similar to The Nasdaq Options Market LLC ("NOM").[3] The Exchange also proposes an amendment to Rule 1099, entitled "Order Protections."

Today, Phlx Rule 1099 includes various order protections which apply only to simple orders. The Exchange is proposing to amend Rule 1099 to include rule text which makes clear that the order protections within Rule 1099 apply only to simple orders. Further, the Exchange proposes to adopt Market Order Spread Protection functionality within Rule 1099(d), which protection would similarly apply only to simple orders.

This new mandatory risk protection entitled Market Order Spread Protection protects Market Orders[4] from being executed in very wide markets. This feature would be set at the same preset threshold[5] for all options traded on Phlx. The proposed new rule provides that a Market Order will be rejected if the best of the NBBO and the internal market PBBO[6] is wider than a preset threshold, which is selected by the Exchange and

[3] See NOM Rules at Chapter VI, Section 6(c).

[4] Market Orders are orders to buy or sell at the best price available at the time of execution.

[5] This preset threshold would initially be $5, as explained in more detail below.

[6] This is the best bid and offer on the Phlx order book including non-displayed legging and stop orders. Resting AON orders are not considered as part of the internal market PBBO in applying the Market Order Spread Protection. Resting

announced to members, at the time the Market Order is received by the System. NOM has two non-displayed order types, Price-Improving and Post-Only Orders, which may cause the order book on NOM to be better than the NBBO. Phlx similarly has non-displayed order types, all-or-none,[7] stop orders[8] and legging orders[9] (collectively "Non-Displayed Orders"). These Non-Displayed Orders may cause the order book on Phlx to be better than the NBBO. The Exchange also notes that orders which lock or cross another market[10] will cause the PBBO to reprice and also could result in the internal market PBBO being better than the NBBO. The Exchange notes that Non-Displayed Orders would be considered when validating orders on entry for the proposed Market Order Spread Protection, except for all-or-none orders. All-or-none orders have a quantity contingency requiring the full quantity of the order to execute in order for any

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AON orders may be passed by in allocation if the incoming order does have sufficient quantity to satisfy the resting AON.

7 An all-or-none order is a limit or market order that is to be executed in its entirety or not at all.

8 A stop order is a limit or market order to buy or sell at a limit price when a trade or quote on the Exchange for a particular option contract reaches a specified price. A stop-market or stop-limit order shall not be elected by a trade that is reported late or out of sequence or by a complex order trading with another complex order.

9 A legging order is a limit order on the regular order book in an individual series that represents one leg of a two-legged Complex Order (which improves the cPBBO) that is to buy or sell an equal quantity of two options series resting on the CBOOK. Legging orders are firm orders that are included in the Exchange's displayed best bid or offer. Legging orders are not routable and are limit orders with a time-in-force of DAY, as they represent an individual component of a Complex Order. Legging orders are non-displayed orders that are automatically generated. See Phlx Rule 1098(f)(iii)(C).

10 Options Order Protection and Locked and Crossed Market Rules are located at Phlx Rule 1083. In the event of a locked and crossed market, the PBBO will be repriced and displayed in accordance with Phlx Rule 1082(a)(ii)(3)(g)(v).

trade to take place, which may cause the order to not execute. If an all-or-none contingency cannot be met, the all-or-none order would be bypassed until such time as the contingency could be met. For this reason, an all-or-none order will not be considered during the validation of orders on entry for purposes of Market Order Spread Protection. Below are some examples:

Example No. 1:

If the Market Order Spread Protection threshold is set to $5.00, and a Market Order to buy is received while the NBBO and internal PBBO are both $1.00 - $6.05 and there are no Non-Displayed Orders resting on the book, such Market Order will be rejected. .

Example No. 2:

The following is an example of how a legging order interacts with the Market Order Spread Protection. Assume an option minimum price increment (MPV) is scaled in $0.05 increments and a limit buy order of $0.05 exists on the Exchange. If the system generates a legging order to sell at $ 0.11, this order will not be displayed at its limit of $0.11, because the order is priced at a non-MPV increment. This order will be displayed at the nearest MPV price of $0.15 (because of the option's $0.05 MPV increment). Thus, the displayed spread is $0.10; however the PBBO is $0.06. Assume this order makes up the best offer on the Exchange. For this example, assume the Market Order Spread Threshold in the System is set at $ 0.09. Further assume a Market Order to buy is submitted to the Exchange. Based on the Exchange's proposed implementation of Market Order Spread Protection, the Market Order to buy would execute against the resting sell order at $0.11, since $0.11 is the best available offer and the internal market

PBBO spread is $0.06 (spread between the best bid of $0.05 and the best offer of $ 0.11) which is less than the Market Order Spread Threshold of $0.09.

Example No. 3:

The following is an example of how an all-or-none order interacts with Market Order Spread Protection. Assume an NBBO: 0 x 5.50 and a PBBO of 0 x 5.45. Also assume an all-or-none order is resting in the order book to sell 1000 at 4.95 and an incoming Market Order to buy 10. The all-or-none order would not be considered in the validation and the incoming Market Order would be rejected. In this example, if the all-or-none order had been considered in the validation that Market Order would have executed at 5.45, an inferior price because the full quantity of the resting all-or-none order could not be satisfied.

The proposed feature would assist with the maintenance of fair and orderly markets by ensuring that the best bid and offer displayed on the Exchange are within a reasonable range and preventing market orders from trading outside of the reasonable range when the best bid and offer displayed are not within the allowable range. The Exchange proposes this feature to avoid executions of Market Orders when the market is too wide for a reasonable execution.

Today, the NOM threshold is set at $5. Phlx will initially set the threshold to $5. Similar to NOM, the Exchange will notify Members of the threshold with advanced notice to members through an Options Trader Alert, and, thereafter, members will be notified in advance of any subsequent changes to the threshold. NOM set the differential at $5 to match the bid/ask differential permitted for quotes on the Exchange.[11] The

11 See Chapter VII, Section 6(d)(ii) of NOM Rules which describes the bid/ask differentials. Options on equities (including Exchange-Traded Fund Shares), and

Exchange would consider a subsequent change to the threshold if it believed that the $5 initial threshold was too wide or too restrictive as between the bid and offer to create a reasonable range for executions. Phlx has the same differential.[12] Thus, the presence of a quote on the Exchange will ensure the NBBO is at least $5 wide. The Exchange believes the presence of a quote on the Exchange, or a bid/ask differential of the NBBO, which is no more than $5 wide affords Market Orders proper protection against erroneous execution and in the event a bid/ask differential is more than $5, then a Market Order is rejected. The threshold is appropriate because it seeks to ensure that the displayed bid and offer are within reasonable ranges and do not represent erroneous prices. The protection would reject Market Orders which are outside of the parameters of the Market Order Spread Protection. The Exchange's proposed threshold is a reasonable measure to ensure prices remain within the preset threshold set by the Exchange, which will be initially set at $5. This protection will bolster the normal resilience and market behavior that persistently produces robust reference prices. This feature should create a level of protection that prevents Market Orders from entering the Order Book outside of an acceptable range for the Market Order to execute.

Finally, the Market Order Spread Protection will be the same for all options traded on the Exchange, and is applicable to all Members that submit Market Orders.

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on index options must be quoted with a difference not to exceed $5 between the bid and offer regardless of the price of the bid, including before and during the opening. However, respecting in-the-money series where the market for the underlying security is wider than $5, the bid/ask differential may be as wide as the quotation for the underlying security on the primary market. The Exchange may establish differences other than the above for one or more series or classes of options.

12 See Phlx Rule 1014(c)(i)(A)(2).

The Market Order Spread Protection would not apply during the Opening Process and trading halts, similar to the manner in which it operates today on NOM. Both the Opening Process and trading halts have their own more restrictive boundaries than those proposed for the Market Order Spread Protection. With respect to the Opening Process, a Quality Opening Market is required. A Quality Opening Market requires a bid/ask differential applicable to the best bid and offer from all Valid Width Quotes defined in a table[13] to be determined by the Exchange.[14] The Exchange's requirements during the Opening Process are more restrictive than the proposed initial setting for the Market Order Spread Protection, which is proposed at $5. As provided in Phlx Rule 1047(g), trading halts are subject to the reopening process as provided for in Phlx Rule 1017(e). The same protections noted for the Opening Process above will apply for trading halts. The Exchange believes that the Market Order Spread Protection is unnecessary during the Opening Process and during a trading halt because other protections are in place to ensure that the best bid and offer displayed on the Exchange are within a reasonable range.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[15] in general, and furthers the objectives of Section 6(b)(5) of the Act,[16] in particular,

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[13] The table is published on the Exchange's website at: http://www.nasdaqtrader.com/content/phlx/phlx_systemtime.pdf.

[14] The calculation of Quality Opening Market is based on the best bid and offer of Valid Width Quotes. The differential between the best bid and offer are compared to reach this determination. The allowable differential, as determined by the Exchange, takes into account the type of security (for example, Penny Pilot versus non-Penny Pilot issue), volatility, option premium, and liquidity. The Quality Opening Market differential is intended to ensure the price at which the Exchange opens reflects current market conditions. See Phlx Rule 1017(a)(viiii).

[15] 15 U.S.C. 78f(b).

in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest by mitigating risk to market participants. By adopting this mandatory risk protection, similar to NOM, the Exchange will protect market participants from the execution of erroneous Market Orders. The proposed feature would assist with the maintenance of fair and orderly markets by ensuring that the best bid and offer displayed on the Exchange are within a reasonable range and further the protection would prevent market orders from trading outside of the reasonable range when the best bid and offer displayed are not within the allowable range.

This feature should create a level of protection that prevents erroneous Market Orders from entering the Order Book and thereby reduce the negative impacts of sudden, unanticipated volatility, and serve to preserve an orderly market in a transparent and uniform manner, increase overall market confidence, and promote fair and orderly markets and the protection of investors. This feature is not optional and is applicable to all members submitting Market Orders.

Permitting the rejection of the Market Order at the better of the NBBO or Reference PBBO does not otherwise create an impediment to a free and open market because Non-Displayed Orders exist today on NOM with this same protection and provide investors the opportunity to trade at a better price than would otherwise be available, *e.g.* inside the disseminated best bid and offer for a security, which could result in better executions for investors. The Exchange's exclusion of all-or-none orders when validating orders on entry for purposes of Market Order Spread Protection is consistent with the protection of investors and the public interest. This contingency order is already

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[16] 15 U.S.C. 78f(b)(5).

bypassed today for purposes of priority when the contingency cannot be satisfied. The Exchange notes that because all-or-none orders have a size contingency, which may cause this order type not to execute, the result of including the all-or-none order in the validation of incoming orders could result in executions at inferior prices.

The Exchange's proposal to not apply the Market Order Spread Protection during the Opening Process and during is consistent with the Act because protections exist within those mechanisms to ensure that the best bid and offer displayed on the Exchange are within a reasonable range. The Exchange's Opening Process Rule 1017[17] and the Trading Halt Rule 1047[18] both contain more restrictive boundaries than those proposed for the Market Order Spread Protection. With respect to the Opening Process, a Quality Opening Market is required. A Quality Opening Market requires a bid/ask differential applicable to the best bid and offer from all Valid Width Quotes defined in a table to be determined by the Exchange. The Exchange's requirements during the Opening Process are more restrictive than the proposed initial setting for the Market Order Spread Protection, which is proposed at $5. As provided in Phlx Rule 1047(g), trading halts are subject to the reopening process as provided for in Phlx Rule 1017(e). The same protections noted for the Opening Process above will apply for trading halts. The Exchange believes that the Market Order Spread Protection is unnecessary during the

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17 With respect to the Opening Process, a Quality Opening Market is required. A Quality Opening Market a bid/ask differential applicable to the best bid and offer from all Valid Width Quotes defined in a table to be determined by the Exchange and published on the Exchange's web site. See Phlx Rule 1017(a)(viiii).

18 With respect to trading halts, Opening Process procedures will be used to reopen an option series after a trading halt, therefore, the same protections noted for the Opening Process will apply for a trading halt and the same restrictive boundaries would apply. See Phlx Rule 1017(e).

Opening Process and during a trading halt because other protections are in place to ensure that the best bid and offer displayed on the Exchange are within a reasonable range.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the proposed amendments do not impose an undue burden on competition because the Market Order Spread Protection will be mandatory for all market participants. The Marker Order Spread Protection feature will provide market participants with additional price protection from anomalous executions. The Exchange does not believe the proposal creates any significant impact on competition.

The Exchange does not believe that accounting for Non-Displayed Orders, except for all-or-none orders, or repricing due to trade-through and locked and crossed market restrictions creates an undue burden on competition because it will serve to provide members with additional information in the rule text to anticipate the impact of the Market Order Spread Protection feature. Today, members are able to submit orders or quotes priced between the MPV for display at the nearest MPV.

The Exchange does not believe that not applying the Market Order Spread Protection during the Opening Process and during a trading halt creates an undue burden on competition because these mechanisms offer more restrictive protections than the proposed initial setting for the Market Order Spread Protection, which is proposed at $5.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act[19] and subparagraph (f)(6) of Rule 19b-4 thereunder.[20]

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

IV. Solicitation of Comments

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

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[19] 15 U.S.C. 78s(b)(3)(A)(iii).

[20] 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

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-2018-32 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-2018-32. 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-2018-32 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.[21]

Eduardo A. Aleman
Assistant Secretary

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[21] 17 CFR 200.30-3(a)(12).

EXHIBIT 5

New text is underlined.

Nasdaq PHLX Rules

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Rule 1099. Order Protections

The following order protections apply to simple orders.

(a) – (c) No change.

(d) **Market Order Spread Protection**. Market Orders will be rejected if the best of the NBBO and the internal market PBBO (the "Reference PBBO") is wider than a preset threshold at the time the Market Order is received by the System. Market Order Spread Protection shall not apply to the Opening Process or during a halt.

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