

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="61"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2018"/> - * <input type="text" value="40"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by   
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"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<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"/>
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**Description**

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

Proposal to change the name of the Floor Broker Management System, to require all members that operate on the Exchange Floor to enter and submit Floor based trades using that system, and to extend the availability of the Snapshot functionality.

**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="Brett"/>	Last Name * <input type="text" value="Kitt"/>
Title * <input type="text" value="Senior Associate General Counsel"/>	
E-mail * <input type="text" value="Brett.Kitt@nasdaq.com"/>	
Telephone * <input type="text" value="(301) 978-8132"/>	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="05/16/2018"/>	<input type="text" value="Executive Vice President and General Counsel"/>
By <input type="text" value="Edward S. Knight"/>	<input type="text" value="edward.knight@nasdaq.com"/>

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

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

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

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

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

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

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

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

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Exhibit Sent As Paper Document

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

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

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Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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

**Partial Amendment**

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

1. Text of the Proposed Rule Change

(a) Nasdaq PHLX LLC (“Phlx” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to change the name of the Floor Broker Management System, to require all members that operate on the Exchange Floor, including Floor Brokers, Registered Options Traders, and Specialists, to enter and submit Floor-based trades using that system, and to extend the availability of the Snapshot functionality of the Floor Broker Management System to Registered Options Traders and Specialists.

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Directors of the Exchange on May 15, 2018. No other action is necessary for the filing of the rule change.

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

Brett M. Kitt  
Senior Associate General Counsel  
Nasdaq, Inc.  
(301) 978-8132

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

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

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

a. Purpose

The Exchange proposes to amend its Rules to change the name of its electronic order entry system, the Floor Broker Management System, to the Floor Based Management System (“FBMS”). The Exchange also proposes to extend to the other members that operate on the Exchange Floor – Registered Options Traders (“ROT”)³ and Specialists⁴ – the same general obligation it imposes upon Floor Brokers regarding orders on the Floor of the Exchange, which is to enter such orders using FBMS, rather than by writing paper tickets that memorialize the orders and then submitting the matched trade tickets to an Exchange Data Entry Technician (“DET”).

Presently and in most instances, the Exchange requires Floor Brokers to enter orders using the Floor Broker Management System. The Floor Broker Management System is an electronic order entry system that is accessible to Floor Brokers and their employees on the Exchange floor through desktop and tablet computers. As is described in Commentary .06 to Rule 1080, FBMS enables Floor Brokers and their employees to enter, route, and report transactions stemming from options orders received on the Exchange. It also establishes an electronic audit trail for options orders represented and executed by Floor Brokers on the Exchange. Pursuant to Rule 1063(e)(i), Floor Brokers must enter certain information into the Floor Broker Management System about each of

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<sup>3</sup> Rule 1014(b) defines a ROT as a “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.” A ROT includes a Streaming Quote Trader and a Remote Streaming Quote Trader.

<sup>4</sup> Rule 1020 describes the functions of a (Options) Specialist.

the orders they receive when they receive them and prior to representing such orders in the trading crowd.

At the time when the Exchange introduced FBMS, the Exchange did not deem it necessary for ROTs or Specialists to use FBMS because the Exchange specifically intended to use FBMS as an electronic audit trail for Floor Brokers. Accordingly, ROTs and Specialists presently are neither required nor permitted to enter or execute orders using the Floor Broker Management System. Instead, ROTs and Specialists must record order and related execution details on paper trading tickets. ROTs and Specialists provide such matched trade tickets to Exchange DETs who then manually input the information written on the tickets into the Exchange's electronic trading system, which is included in the electronic audit trail.

The manual order entry process that ROTs and Specialists utilize has become outmoded in comparison to the Floor Broker Management System. The process of manually recording order and execution information onto tickets, submitting such tickets to Exchange DETs, and then the DETs entering the information written on such tickets into the Exchange's electronic system is less efficient than the entry of order information into the Floor Broker Management System. Also, manual trades, often, are reported with a "Late" or "Out Of Sequence" trade condition due to this manual process. The order entry system used for trade tickets executed by ROTs and Specialists is also more prone to human error than is the Floor Broker Management System insofar as the latter system automatically enforces the Exchange's priority and trade-through rules, while the former does not. Moreover, unlike the Floor Broker Management System, the existing process

for ROTs and Specialists does not establish an immediate audit trail for orders due to the manual handling of orders.

To address these inefficiencies, mitigate risks, and to improve the compliance record, the Exchange proposes to modernize the order entry process for ROTs and Specialists by replacing it with the Floor Broker Management System, which will be renamed the “Floor Based Management System” or “FBMS” to reflect its broader applicability to Floor Brokers, ROTs and Specialists.

To effectuate these changes, the Exchange proposes several amendments and additions to the Exchange’s Rules.

First, the Exchange proposes to amend Rule 1000(f), which sets forth the means by which options transactions may be executed on the Exchange, to expressly permit ROTs and Specialists to execute orders utilizing FBMS.<sup>5</sup> The proposal would also

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<sup>5</sup> The Exchange notes that Rule 1014(g) sets forth the allocation of responsibility among the parties to a trade to allocate, match, and time stamp trades executed in open outcry and to submit matched trade tickets to a DET located on the trading floor immediately upon execution. The Exchange proposes to amend Rule 1014(g)(vi) (and Floor Advice F-2) to clarify that this allocation of responsibility also applies when members execute trades electronically using FBMS. Thus, in accordance with Rule 1014(g)(vi)(a), if a trade involves a Floor Broker, the Floor Broker will be responsible for entering trade information into FBMS (or onto a paper trade ticket, if one of the FBMS exceptions apply), unless the Floor Broker delegates this responsibility to a Specialist (and the Specialist accepts this responsibility). In accordance with Rule 1014(g)(vi)(b), where a trade involves a Specialist but no Floor Broker is present, the Specialist will be responsible for entering the trade information into FBMS (or submitting it using a paper trade ticket). In other cases, where the trade involves no Floor Brokers or Specialists (for example, where it involves several ROTs), then the largest on-floor participant will be responsible for submitting the trade into FBMS (or submitting it using a paper trade ticket), in accordance with Rule 1014(g)(vi)(c). Finally, as set forth in Rule 1014(g)(vi)(d), where the trade involves only one seller and buyer and no Floor Broker or Specialist is involved (e.g., both participants are ROTs), then the seller will be responsible for entering the trade information into

amend Rule 1000(f) to prohibit ROTs and Specialists from executing orders in the Exchange's options trading crowd, with certain exceptions. These exceptions are: (1) malfunctions in FBMS or another problem with Exchange systems; (2) executing orders in the trading crowd pursuant to Rule 1059 (cabinet trades) and Rule 1079 (FLEX equity, index, and currency options); (3) multi-leg orders involving more than 15 legs; (4) certain split price orders; and (5) the use of the Snapshot functionality to provisionally execute certain categories of trades in the trading crowd. Although the Exchange established these exemptions with Floor Brokers in mind, they are also applicable to ROTs and Specialists. For example, malfunctions in FBMS would impact ROTs and Specialists to the same degree as they would impact Floor Brokers. Likewise, limitations on the design of FBMS that prevent it from handling multi-leg orders of more than 15 legs, cabinet orders, or FLEX orders, or certain split price orders apply equally to Floor Brokers and to ROTs and Specialists that engage in such trades.

As to Snapshot, the Exchange proposes to authorize ROTs and Specialists, like Floor Brokers, to use Snapshot to provisionally execute, in the options trading crowd, multi-leg orders and simple orders in options on exchange traded funds that are included in the Options Penny Pilot, subject to the procedures for and the limitations to the use of Snapshot. These procedures and limitations for Snapshot are set forth presently in Rule

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FBMS (or submitting it using a paper trade ticket), unless either the seller or the buyer is a Remote Streaming Quote Trader (as defined in Rule 1014(a)(ii)(B)), in which case the on-floor participant in the transaction shall do so.

1063(e)(v), but the Exchange proposes to move them to a new Section 1069, where they will apply broadly to “members” rather than only to Floor Brokers.<sup>6</sup>

The Exchange believes that the Snapshot functionality is appropriate for use by ROTs and Specialists, notwithstanding the fact that ROTs and Specialists trade on a proprietary basis, rather than on an agency basis like Floor Brokers. ROTs and Specialists are subject to the same risk as are Floor Brokers with respect to Floor-based trading – i.e., the risk that the market will move faster than participants are able to manually enter and submit paper trade tickets on trades consummated in open outcry – which Snapshot exists to mitigate. Furthermore, the Exchange believes that the same parameters and limitations that the Exchange established for Floor Brokers’ use of Snapshot are appropriate for ROTs and Specialists. The Exchange does not anticipate that the use of Snapshot by ROTs or Specialists will pose any increased or unique risks relative to its use by Floor Brokers. As such, the Exchange proposes to employ the same methods it utilizes presently to surveil Floor Brokers’ use of Snapshot to also monitor ROTs’ and Specialists’ uses of Snapshot.<sup>7</sup>

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<sup>6</sup> As part of this filing, the Exchange proposes to delete obsolete language from Rule 1063(e) that announced the initial implementation date for the Snapshot functionality and described the manner in which the Exchange would alert members of the availability of the functionality. This language is obsolete because Snapshot has been implemented and it is presently available for use by Floor Brokers.

<sup>7</sup> For example, the Exchange will monitor ROTs and Specialists to determine whether they exhibit patterns of using Snapshot excessively, including in circumstances where the nature of the orders or movements in the markets for such orders do not reasonably warrant the use of Snapshot or the full extent of its use. The Exchange will compare the times of provisional executions in the crowd that Snapshot captures with the records of such times that Options Exchange Officials capture to ensure accuracy. The Exchange will also surveil for patterns of orders subject to Snapshots that ROTs and Specialists abandon without

The following is an example of how Snapshot would apply to a hypothetical trade by a ROT. In this example, a ROT enters a multi-leg order into FBMS to buy 50 MRK Mar 50 calls, buy 50 MRK Mar 53.50 calls, sell 50 MRK Mar 54 Calls, and sell 50 MRK Mar 52.50 calls for a \$3.00 debit and the ROT wants specific prices entered on each leg of this trade. He enters the trading crowd, lawfully announces the order, and requests bids and offers from the trading crowd. A Market Maker in the trading crowd offers to sell 50 contracts at a \$3.00 credit while the National Best Bid or Offer is \$2.75 bid and \$3.30 offer. At this point, the ROT will provisionally execute the trade orally in the trading crowd and contemporaneously clicking the Snapshot button. Within the 30 second time frame in which the Snapshot is active, the ROT will open the Complex Calculator, enter his specific prices and submit the trade to the Trading System using FBMS for potential execution.

Second, the Exchange proposes to establish an analogue for ROTs and Specialists to Rule 1063(e)(i), which sets forth the responsibilities of Floor Brokers to enter certain order information into FBMS. Similar to Rule 1063(e)(i), new Rule 1081 will require ROTs and Specialists, prior to the negotiation<sup>8</sup> of such an order in the trading crowd, to

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submitting them to the Trading System for final execution. The Exchange notes, however, that Snapshot surveillance that the Exchange performs to protect Floor Brokers' customers will not be required for ROTs and Specialists insofar as ROTs and Specialists trade on a proprietary basis and not on behalf of customers.

<sup>8</sup> Whereas Rule 1063(e)(i) provides that a Floor Broker must enter information into FBMS "contemporaneously upon receipt of an order" and prior to its "representation" of a trade on behalf of a client, proposed Rule 1081 (and proposed Floor Advices A-2 and B-7) will provide that a ROT or Specialist must enter information into FBMS "prior to" their "negotiation" of a trade. The Exchange proposes to use the term "negotiation" throughout the proposed Rules in lieu of "representation" to reflect the fact that ROTs and Specialists trade on a proprietary basis and do not represent orders on behalf of others. The Exchange

enter certain information into FBMS, which will include the following: (i) the order type (i.e., market maker<sup>9</sup>) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, or complex (i.e., spread, straddle), or contingency order (as described in Rule 1066); (v) number of contracts; (vi) limit price or market order or, in the case of a multi-leg order, net debit or credit, if applicable; and (vii) whether the transaction is to open or close a position, as applicable (collectively, the "required information").<sup>10</sup> It provides that a Registered Options Trader or Specialist must enter complete alpha/numeric identification assigned by the Exchange for all orders entered.<sup>11</sup>

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also proposes to omit the requirement that ROTs and Specialists enter information into FBMS "contemporaneously upon receipt of an order" because ROTs and Specialists trade on a proprietary basis and do not receive orders.

- <sup>9</sup> Rule 1063(e)(i) presently requires a Floor Broker to enter into FBMS information about whether an order is customer, firm, broker-dealer, or professional in nature. The Exchange proposes to add "market maker" as another potential order type, given that Floor Brokers may represent orders on behalf of market makers. Proposed Rule 1081 and Proposed Floor Advices A-2 and B-7 also will provide for ROTs and Specialists to enter market maker orders in FBMS. However, unlike Rule 1063(e)(1), proposed Rule 1081 and proposed Floor Advices A-2 and B-7 will only permit ROTs and Specialists to enter market maker orders into FBMS because they will not enter trades on behalf of customers, firms, broker-dealers, or professional customers.
- <sup>10</sup> Proposed Rule 1081(a) omits the requirement in Rule 1063(e) that information entered into FBMS include the Options Clearing Corporation clearing number of the broker-dealer that submitted an order. Proposed Rule 1081(a) omits this requirement because it does not apply to ROTs and Specialists that will be trading on a proprietary basis. Proposed Floor Advices A-2 and B-7 also omit this requirement.
- <sup>11</sup> Unlike the corresponding provision of Rule 1063(e), this provision omits the phrase "on behalf of Exchange Registered Options Traders" after requiring entry of "complete alpha/numeric identification assigned by the Exchange for all orders." The Exchange proposes this omission because a ROT or Specialist will, in all instances in which they utilize FBMS, need to enter the alpha-numeric information that the Exchange has assigned to them as well as, perhaps, alpha/numeric information that the Exchange has assigned any other ROT or Specialist with which they are trading.

It also provides that additional information with respect to an order shall be inputted into FBMS contemporaneously upon receipt, which may occur after the negotiation and execution of the order. Such information might include badge information for a ROT that trades with another ROT. In the event that ROTs and Specialists execute orders in the trading crowd pursuant to Rule 1000(f)(ii),<sup>12</sup> the Rule requires ROTs and Specialists to record the required information on trade tickets, to stamp each ticket with the time of entry on the trading floor before negotiating an order for execution, to stamp each ticket again upon execution of an order, and to ensure that the required information that is recorded on such trade tickets is entered into the Exchange's electronic Trading System by DETs for inclusion in the electronic audit trail.<sup>13</sup>

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<sup>12</sup> The Exchange also proposes to amend corresponding language in Rule 1063(e)(ii) that states presently that Floor Brokers must record information on trade tickets “[i]n the event of a malfunction in the FBMS or in the event that the Exchange determines that Floor Brokers are permitted to execute orders in the Exchange’s options trading crowd for a specific reason pursuant to Rule 1000(f)(iii).” The proposed amendment will update and clarify this provision by stating that a Floor Broker must record information on trade tickets “[i]n the event that Floor Brokers execute orders in the Exchange’s options trading crowd pursuant to Rule 1000(f)(ii).” The proposed amended language is more accurate than the existing language in that most of the exceptions to the use of FBMS set forth in Rule 1000(f) apply automatically and do not require the prior permission of the Exchange. The Exchange also proposes to make an amendment to similar language in Floor Advice C-2.

<sup>13</sup> Simultaneously with this proposal, the Exchange proposes to amend the last sentences of paragraphs (i) and (ii) of Rule 1063(e) to address unintended inconsistencies between them and to clarify as well that when Floor Brokers must record trade information on paper trade tickets, they or their employees must ensure that the recorded information is entered into the Exchange’s electronic Trading System by DETs for inclusion in the electronic audit trail. Presently, Rule 1063(e)(i) states that Floor Brokers must enter the information into the Trading System and ensure that it is submitted for inclusion in the electronic audit trail, but DETs are responsible for entering this information into the Trading System. Meanwhile, Rule 1063(e)(ii) incorrectly suggests that either Floor Brokers or DETs may enter the information recorded on trade tickets into the

Moreover, proposed Rule 1081(d) states that when ROTs and Specialists submit orders for execution through FBMS, the order will be executed based on market conditions that exist at the time of execution<sup>14</sup> and otherwise in accordance with the Exchange's Rules. If the order cannot be executed, the Trading System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the ROT or Specialist on the FBMS. Lastly, it states that the Registered Options Trader or Specialist may resubmit the returned order for execution, as long as the quotes that comprise the order have not been withdrawn.<sup>15</sup> Registered Options Traders and Specialists are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Rules 1014, 1033 and 1084.

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Trading System. The Exchange's proposals clarify, correct, and harmonize these two provisions. The Exchange also proposes to apply these changes to Floor Advice C-2 and include it in proposed Rule 1081 and proposed Floor Advices A-2 and B-7.

<sup>14</sup> Simultaneously with this proposal, the Exchange proposes to make a change to Rule 1063(e)(iv) to clarify that when a Floor Broker submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution.

<sup>15</sup> Proposed Rule 1081(d) omits language from Rule 1063(e)(iv) stating that a Floor Broker may re-submit a returned order, provided that the quotes/orders that comprise the cross have not been withdrawn. The Exchange proposes to omit this language from proposed Rule 1081(d) because ROTs and Specialists will not engage in crosses. Similarly, proposed Rule 1081(d) differs from Rule 1063(e)(iv) in that proposed Rule 1081(d) excludes language which states that FBMS is designed to execute "two-sided" orders. ROTs and Specialists act for their own accounts, and not for others, such that they will not use FBMS to execute two-sided orders.

Additionally, and as discussed earlier, proposed Rule 1081 will permit ROTs and Specialists to utilize the Snapshot feature of FBMS in accordance with the procedures and limitations set forth in proposed Rule 1069. Proposed Rule 1081 also incorporates and adapts Commentary .01 of Rule 1063, and will provide that a ROT or Specialist that wishes to place a limit order on the limit order book cannot submit such a limit order using a paper ticket; instead, the ROT or Specialist must submit the limit order electronically through the FBMS (unless an exception to the use of FBMS applies).<sup>16</sup>

The Exchange notes that, as set forth in proposed Rule 1081(a), it anticipates that it will make FBMS available to ROTs and Specialists during the Second Quarter of 2018. To facilitate the transition to FBMS, the Exchange will not require ROTs or Specialists to utilize FBMS until one month after the date on which the Commission approves the Exchange's proposal. The Exchange will notify Members via an Options Trader Alert, to be posted on the Exchange's website, at least seven calendar days prior to the date when FBMS will be available for use by ROTs and Specialists. The alert will also contain the mandatory start date.

Next, the Exchange proposes to amend Rule 1066, which list certain order types that are eligible for entry on FBMS, to clarify that the Rule permits all members operating on the Exchange Floor, including Floor Brokers, ROTs, and Specialists, to enter such orders on FBMS.

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<sup>16</sup> The Exchange notes that it does not propose to incorporate Commentary .02 to Rule 1063, which requires Floor Brokers to make reasonable efforts to ascertain when orders entrusted to them are for the account of a customer or a broker-dealer. This provision does not apply to ROTs or Specialists, which do not act on an agency basis.

The Exchange proposes to amend Commentary .06 to Rule 1080, which describes the functions of FBMS, to clarify that it applies to all members that operate on the Exchange Floor, including Floor Brokers, ROTs, and Specialists. It also proposes to amend a cross-reference in the Rules to a description of the features of FBMS to include a cross-reference to proposed Rule 1081.<sup>17</sup>

The Exchange proposes to amend its Option Floor Procedure Advices and Order & Decorum Regulations (“Advices”), which presently govern the use of FBMS only by Floor Brokers, so that they also cover the use of FBMS by ROTs and Specialists as well. Specifically, the proposal establishes new Advices A-2 and B-7, which largely replicate Advice C-2 (governing use by Floor Brokers of FBMS) for Specialists and ROTs, respectively. The proposal also amends certain Advices to extend their references to Floor Brokers to also include ROTs and Specialists, including Advice A-2 (All-or-None Option Orders), Advice F-2 (Allocation, Time Stamping, Matching and Access to Matched Trades)<sup>18</sup> and F-4 (Orders Executed as Spreads, Straddles, Combinations or Synthetics and other Order Ticket Marketing Requirements).

Lastly, the Exchange also proposes to update existing references in its Rulebook to the “Floor Broker Management System” so that they refer instead to the new name of the system, the “Floor Based Management System.” In addition to the Rules mentioned

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<sup>17</sup> The Exchange proposes to correct a typographical error that appears in this Commentary. The word “trial” in the phrase “audit trial” will be changed to “trail.”

<sup>18</sup> The Exchange proposes to amend Advice F-2 to include the same clarification it proposes to make to Rule 1014(g)(vi).

above, these conforming changes affect Rules 911, 1063, 1064, and 1098, and Advices A-9, B-6, B-8, C-2, and C-3.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>19</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>20</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

In particular, by providing for a uniform system of order entry on the Exchange floor, the Exchange's proposal to extend FBMS to ROTs and Specialists will help ensure fair and equal treatment for all members that operate on the Exchange floor. It will also serve the interests of investors and the public to establish an electronic order entry system for ROTs and Specialists that is more accurate, less prone to error, less time intensive (thereby helping to ensure customer trade priority), and that establishes an immediately available audit trail.

The Exchange also believes that it is consistent with the Act for ROTs and Specialists to utilize FBMS notwithstanding the fact that it designed FBMS for use by Floor Brokers, and to do so subject to the same general conditions, requirements, and exceptions which apply presently to Floor Brokers. The Exchange initially designed FBMS for use by Floor Brokers because the Exchange sought to establish an electronic audit trail mechanism for Floor Brokers, in particular; however, the Exchange never

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<sup>19</sup> 15 U.S.C. 78f(b).

<sup>20</sup> 15 U.S.C. 78f(b)(5).

intended to specifically exclude ROTs and Specialists from FBMS and it perceives no policy basis for doing so now. Moreover, to the extent that the Exchange proposes to make FBMS available to all Floor participants, it perceives no basis for doing so on anything but the same terms. That is, the Exchange anticipates no unique risks associated with the use of FBMS by ROTs and Specialists, and it believes that the exceptions to FBMS that exist in Rule 1000(f) are each applicable to ROTs and Specialists. That said, the Exchange proposes minor alterations to the Rules that presently govern the use of FBMS by Floor Brokers to, among other things, account for the fact that ROTs and Specialists negotiate orders on the Floor on their own behalf and do not represent orders on the Floor on behalf of others.

Similarly, the Exchange believes that it is consistent with the Act to extend the availability of the Snapshot functionality of FBMS to ROTs and Specialists. The Exchange's rationale for providing Snapshot to Floor Brokers is equally applicable to ROTs and Specialists. ROTs and Specialists are subject to the same risk as are Floor Brokers when trading in open outcry on the Exchange Floor. This risk, which arises from the manual processes inherent in Floor-based trading, is that the Exchange's Trading System will reject a trade due to a change in market conditions that occurs between the time when the parties negotiate a lawful and valid trade on the Floor, enter the trade information into FBMS, and submit it to the Trading System. The use of Snapshot by ROTs and Specialists will promote just and equitable principles of trade and serve the interests of investors and the public by mitigating this risk and by increasing the likelihood that ROTs and Specialists will be able to execute their orders and do so in line with their expectations and needs. Again, the Exchange perceives no unique risks or

concerns associated with the use of Snapshot by ROTs or Specialists that would necessitate proposing any special changes to or restrictions on their use of the Snapshot functionality.

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's proposal to extend FBMS to ROTs and Specialists is intended to modernize and otherwise improve the Exchange's internal order entry process; it is neither intended nor expected to materially affect the competitive position of the Exchange vis-a-vis other exchanges. If anything, this proposal would improve the options floor trading environment for ROTs and Specialists, thereby making the Exchange a more attractive venue for floor trading.

The Exchange also does not believe that its proposal to extend the availability of the Snapshot functionality to ROTs and Specialists will burden competition. To the contrary, the Exchange intends for this proposal to make its options trading Floor more competitive with other floor trading venues that have less stringent anti-trade-through procedures as compared to the Exchange. The proposal is also intended to make the Floor more competitive with electronic options trading venues that feature near-instantaneous and autonomous execution processes which eliminate the risks that Snapshot exists to mitigate.

The Exchange does not anticipate that its proposals will impact intra-market competition because the proposals will simply extend the benefits of FBMS and Snapshot to all categories of its Floor participants.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others  
No written comments were either solicited or received.
6. Extension of Time Period for Commission Action  
Not Applicable.
7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)  
Not applicable.
8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission  
Not applicable.
9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act  
Not applicable.
10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act  
Not applicable.
11. Exhibits
  1. Notice of Proposed Rule Change for publication in the Federal Register.
  5. Text of the proposed rule change.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-Phlx-2018-40)

May \_\_, 2018

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing of Proposed Rule Change to Extend the Applicability of the Floor Broker Management System and the Snapshot Functionality to Registered Options Traders and Specialists.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on May 16, 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 change the name of the Floor Broker Management System and to require all members that operate on the Exchange Floor, including Floor Brokers, Registered Options Traders, and Specialists, to enter and submit Floor-based trades using that system.

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

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

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

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

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

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

1. Purpose

The Exchange proposes to amend its Rules to change the name of its electronic order entry system, the Floor Broker Management System, to the Floor Based Management System ("FBMS"). The Exchange also proposes to extend to the other members that operate on the Exchange Floor – Registered Options Traders ("ROTs")<sup>3</sup> and Specialists<sup>4</sup> – the same general obligation it imposes upon Floor Brokers regarding orders on the Floor of the Exchange, which is to enter such orders using FBMS, rather than by writing paper tickets that memorialize the orders and then submitting the matched trade tickets to an Exchange Data Entry Technician ("DET").

Presently and in most instances, the Exchange requires Floor Brokers to enter orders using the Floor Broker Management System. The Floor Broker Management System is an electronic order entry system that is accessible to Floor Brokers and their

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<sup>3</sup> Rule 1014(b) defines a ROT as a "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." A ROT includes a Streaming Quote Trader and a Remote Streaming Quote Trader.

<sup>4</sup> Rule 1020 describes the functions of a (Options) Specialist.

employees on the Exchange floor through desktop and tablet computers. As is described in Commentary .06 to Rule 1080, FBMS enables Floor Brokers and their employees to enter, route, and report transactions stemming from options orders received on the Exchange. It also establishes an electronic audit trail for options orders represented and executed by Floor Brokers on the Exchange. Pursuant to Rule 1063(e)(i), Floor Brokers must enter certain information into the Floor Broker Management System about each of the orders they receive when they receive them and prior to representing such orders in the trading crowd.

At the time when the Exchange introduced FBMS, the Exchange did not deem it necessary for ROTs or Specialists to use FBMS because the Exchange specifically intended to use FBMS as an electronic audit trail for Floor Brokers. Accordingly, ROTs and Specialists presently are neither required nor permitted to enter or execute orders using the Floor Broker Management System. Instead, ROTs and Specialists must record order and related execution details on paper trading tickets. ROTs and Specialists provide such matched trade tickets to Exchange DETs who then manually input the information written on the tickets into the Exchange's electronic trading system, which is included in the electronic audit trail.

The manual order entry process that ROTs and Specialists utilize has become outmoded in comparison to the Floor Broker Management System. The process of manually recording order and execution information onto tickets, submitting such tickets to Exchange DETs, and then the DETs entering the information written on such tickets into the Exchange's electronic system is less efficient than the entry of order information into the Floor Broker Management System. Also, manual trades, often, are reported with

a “Late” or “Out Of Sequence” trade condition due to this manual process. The order entry system used for trade tickets executed by ROTs and Specialists is also more prone to human error than is the Floor Broker Management System insofar as the latter system automatically enforces the Exchange’s priority and trade-through rules, while the former does not. Moreover, unlike the Floor Broker Management System, the existing process for ROTs and Specialists does not establish an immediate audit trail for orders due to the manual handling of orders.

To address these inefficiencies, mitigate risks, and to improve the compliance record, the Exchange proposes to modernize the order entry process for ROTs and Specialists by replacing it with the Floor Broker Management System, which will be renamed the “Floor Based Management System” or “FBMS” to reflect its broader applicability to Floor Brokers, ROTs and Specialists.

To effectuate these changes, the Exchange proposes several amendments and additions to the Exchange’s Rules.

First, the Exchange proposes to amend Rule 1000(f), which sets forth the means by which options transactions may be executed on the Exchange, to expressly permit ROTs and Specialists to execute orders utilizing FBMS.<sup>5</sup> The proposal would also

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<sup>5</sup> The Exchange notes that Rule 1014(g) sets forth the allocation of responsibility among the parties to a trade to allocate, match, and time stamp trades executed in open outcry and to submit matched trade tickets to a DET located on the trading floor immediately upon execution. The Exchange proposes to amend Rule 1014(g)(vi) (and Floor Advice F-2) to clarify that this allocation of responsibility also applies when members execute trades electronically using FBMS. Thus, in accordance with Rule 1014(g)(vi)(a), if a trade involves a Floor Broker, the Floor Broker will be responsible for entering trade information into FBMS (or onto a paper trade ticket, if one of the FBMS exceptions apply), unless the Floor Broker delegates this responsibility to a Specialist (and the Specialist accepts this responsibility). In accordance with Rule 1014(g)(vi)(b), where a trade involves a

amend Rule 1000(f) to prohibit ROTs and Specialists from executing orders in the Exchange's options trading crowd, with certain exceptions. These exceptions are: (1) malfunctions in FBMS or another problem with Exchange systems; (2) executing orders in the trading crowd pursuant to Rule 1059 (cabinet trades) and Rule 1079 (FLEX equity, index, and currency options); (3) multi-leg orders involving more than 15 legs; (4) certain split price orders; and (5) the use of the Snapshot functionality to provisionally execute certain categories of trades in the trading crowd. Although the Exchange established these exemptions with Floor Brokers in mind, they are also applicable to ROTs and Specialists. For example, malfunctions in FBMS would impact ROTs and Specialists to the same degree as they would impact Floor Brokers. Likewise, limitations on the design of FBMS that prevent it from handling multi-leg orders of more than 15 legs, cabinet orders, or FLEX orders, or certain split price orders apply equally to Floor Brokers and to ROTs and Specialists that engage in such trades.

As to Snapshot, the Exchange proposes to authorize ROTs and Specialists, like Floor Brokers, to use Snapshot to provisionally execute, in the options trading crowd, multi-leg orders and simple orders in options on exchange traded funds that are included in the Options Penny Pilot, subject to the procedures for and the limitations to the use of

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Specialist but no Floor Broker is present, the Specialist will be responsible for entering the trade information into FBMS (or submitting it using a paper trade ticket). In other cases, where the trade involves no Floor Brokers or Specialists (for example, where it involves several ROTs), then the largest on-floor participant will be responsible for submitting the trade into FBMS (or submitting it using a paper trade ticket), in accordance with Rule 1014(g)(vi)(c). Finally, as set forth in Rule 1014(g)(vi)(d), where the trade involves only one seller and buyer and no Floor Broker or Specialist is involved (e.g., both participants are ROTs), then the seller will be responsible for entering the trade information into FBMS (or submitting it using a paper trade ticket), unless either the seller or the buyer is a Remote Streaming Quote Trader (as defined in Rule 1014(a)(ii)(B)), in which case the on-floor participant in the transaction shall do so.

Snapshot. These procedures and limitations for Snapshot are set forth presently in Rule 1063(e)(v), but the Exchange proposes to move them to a new Section 1069, where they will apply broadly to “members” rather than only to Floor Brokers.<sup>6</sup>

The Exchange believes that the Snapshot functionality is appropriate for use by ROTs and Specialists, notwithstanding the fact that ROTs and Specialists trade on a proprietary basis, rather than on an agency basis like Floor Brokers. ROTs and Specialists are subject to the same risk as are Floor Brokers with respect to Floor-based trading – *i.e.*, the risk that the market will move faster than participants are able to manually enter and submit paper trade tickets on trades consummated in open outcry – which Snapshot exists to mitigate. Furthermore, the Exchange believes that the same parameters and limitations that the Exchange established for Floor Brokers’ use of Snapshot are appropriate for ROTs and Specialists. The Exchange does not anticipate that the use of Snapshot by ROTs or Specialists will pose any increased or unique risks relative to its use by Floor Brokers. As such, the Exchange proposes to employ the same methods it utilizes presently to surveil Floor Brokers’ use of Snapshot to also monitor ROTs’ and Specialists’ uses of Snapshot.<sup>7</sup>

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<sup>6</sup> As part of this filing, the Exchange proposes to delete obsolete language from Rule 1063(e) that announced the initial implementation date for the Snapshot functionality and described the manner in which the Exchange would alert members of the availability of the functionality. This language is obsolete because Snapshot has been implemented and it is presently available for use by Floor Brokers.

<sup>7</sup> For example, the Exchange will monitor ROTs and Specialists to determine whether they exhibit patterns of using Snapshot excessively, including in circumstances where the nature of the orders or movements in the markets for such orders do not reasonably warrant the use of Snapshot or the full extent of its use. The Exchange will compare the times of provisional executions in the crowd that Snapshot captures with the records of such times that Options Exchange Officials capture to ensure accuracy. The Exchange will also surveil for patterns

The following is an example of how Snapshot would apply to a hypothetical trade by a ROT. In this example, a ROT enters a multi-leg order into FBMS to buy 50 MRK Mar 50 calls, buy 50 MRK Mar 53.50 calls, sell 50 MRK Mar 54 Calls, and sell 50 MRK Mar 52.50 calls for a \$3.00 debit and the ROT wants specific prices entered on each leg of this trade. He enters the trading crowd, lawfully announces the order, and requests bids and offers from the trading crowd. A Market Maker in the trading crowd offers to sell 50 contracts at a \$3.00 credit while the National Best Bid or Offer is \$2.75 bid and \$3.30 offer. At this point, the ROT will provisionally execute the trade orally in the trading crowd and contemporaneously clicking the Snapshot button. Within the 30 second time frame in which the Snapshot is active, the ROT will open the Complex Calculator, enter his specific prices and submit the trade to the Trading System using FBMS for potential execution.

Second, the Exchange proposes to establish an analogue for ROTs and Specialists to Rule 1063(e)(i), which sets forth the responsibilities of Floor Brokers to enter certain order information into FBMS. Similar to Rule 1063(e)(i), new Rule 1081 will require ROTs and Specialists, prior to the negotiation<sup>8</sup> of such an order in the trading crowd, to

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of orders subject to Snapshots that ROTs and Specialists abandon without submitting them to the Trading System for final execution. The Exchange notes, however, that Snapshot surveillance that the Exchange performs to protect Floor Brokers' customers will not be required for ROTs and Specialists insofar as ROTs and Specialists trade on a proprietary basis and not on behalf of customers.

<sup>8</sup> Whereas Rule 1063(e)(i) provides that a Floor Broker must enter information into FBMS "contemporaneously upon receipt of an order" and prior to its "representation" of a trade on behalf of a client, proposed Rule 1081 (and proposed Floor Advices A-2 and B-7) will provide that a ROT or Specialist must enter information into FBMS "prior to" their "negotiation" of a trade. The Exchange proposes to use the term "negotiation" throughout the proposed Rules in lieu of "representation" to reflect the fact that ROTs and Specialists trade on a proprietary basis and do not represent orders on behalf of others. The Exchange

enter certain information into FBMS, which will include the following: (i) the order type (i.e., market maker<sup>9</sup>) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, or complex (i.e., spread, straddle), or contingency order (as described in Rule 1066); (v) number of contracts; (vi) limit price or market order or, in the case of a multi-leg order, net debit or credit, if applicable; and (vii) whether the transaction is to open or close a position, as applicable (collectively, the "required information").<sup>10</sup> It provides that a Registered Options Trader or Specialist must enter complete alpha/numeric identification assigned by the Exchange for all orders entered.<sup>11</sup> It also provides that additional information with respect to an order shall be inputted into

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also proposes to omit the requirement that ROTs and Specialists enter information into FBMS "contemporaneously upon receipt of an order" because ROTs and Specialists trade on a proprietary basis and do not receive orders.

<sup>9</sup> Rule 1063(e)(i) presently requires a Floor Broker to enter into FBMS information about whether an order is customer, firm, broker-dealer, or professional in nature. The Exchange proposes to add "market maker" as another potential order type, given that Floor Brokers may represent orders on behalf of market makers. Proposed Rule 1081 and Proposed Floor Advices A-2 and B-7 also will provide for ROTs and Specialists to enter market maker orders in FBMS. However, unlike Rule 1063(e)(1), proposed Rule 1081 and proposed Floor Advices A-2 and B-7 will only permit ROTs and Specialists to enter market maker orders into FBMS because they will not enter trades on behalf of customers, firms, broker-dealers, or professional customers.

<sup>10</sup> Proposed Rule 1081(a) omits the requirement in Rule 1063(e) that information entered into FBMS include the Options Clearing Corporation clearing number of the broker-dealer that submitted an order. Proposed Rule 1081(a) omits this requirement because it does not apply to ROTs and Specialists that will be trading on a proprietary basis. Proposed Floor Advices A-2 and B-7 also omit this requirement.

<sup>11</sup> Unlike the corresponding provision of Rule 1063(e), this provision omits the phrase "on behalf of Exchange Registered Options Traders" after requiring entry of "complete alpha/numeric identification assigned by the Exchange for all orders." The Exchange proposes this omission because a ROT or Specialist will, in all instances in which they utilize FBMS, need to enter the alpha-numeric information that the Exchange has assigned to them as well as, perhaps, alpha/numeric information that the Exchange has assigned any other ROT or Specialist with which they are trading.

FBMS contemporaneously upon receipt, which may occur after the negotiation and execution of the order. Such information might include badge information for a ROT that trades with another ROT. In the event that ROTs and Specialists execute orders in the trading crowd pursuant to Rule 1000(f)(ii),<sup>12</sup> the Rule requires ROTs and Specialists to record the required information on trade tickets, to stamp each ticket with the time of entry on the trading floor before negotiating an order for execution, to stamp each ticket again upon execution of an order, and to ensure that the required information that is recorded on such trade tickets is entered into the Exchange's electronic Trading System by DETs for inclusion in the electronic audit trail.<sup>13</sup>

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<sup>12</sup> The Exchange also proposes to amend corresponding language in Rule 1063(e)(ii) that states presently that Floor Brokers must record information on trade tickets “[i]n the event of a malfunction in the FBMS or in the event that the Exchange determines that Floor Brokers are permitted to execute orders in the Exchange’s options trading crowd for a specific reason pursuant to Rule 1000(f)(iii).” The proposed amendment will update and clarify this provision by stating that a Floor Broker must record information on trade tickets “[i]n the event that Floor Brokers execute orders in the Exchange’s options trading crowd pursuant to Rule 1000(f)(ii).” The proposed amended language is more accurate than the existing language in that most of the exceptions to the use of FBMS set forth in Rule 1000(f) apply automatically and do not require the prior permission of the Exchange. The Exchange also proposes to make an amendment to similar language in Floor Advice C-2.

<sup>13</sup> Simultaneously with this proposal, the Exchange proposes to amend the last sentences of paragraphs (i) and (ii) of Rule 1063(e) to address unintended inconsistencies between them and to clarify as well that when Floor Brokers must record trade information on paper trade tickets, they or their employees must ensure that the recorded information is entered into the Exchange’s electronic Trading System by DETs for inclusion in the electronic audit trail. Presently, Rule 1063(e)(i) states that Floor Brokers must enter the information into the Trading System and ensure that it is submitted for inclusion in the electronic audit trail, but DETs are responsible for entering this information into the Trading System. Meanwhile, Rule 1063(e)(ii) incorrectly suggests that either Floor Brokers or DETs may enter the information recorded on trade tickets into the Trading System. The Exchange’s proposals clarify, correct, and harmonize these two provisions. The Exchange also proposes to apply these changes to Floor

Moreover, proposed Rule 1081(d) states that when ROTs and Specialists submit orders for execution through FBMS, the order will be executed based on market conditions that exist at the time of execution<sup>14</sup> and otherwise in accordance with the Exchange's Rules. If the order cannot be executed, the Trading System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the ROT or Specialist on the FBMS. Lastly, it states that the Registered Options Trader or Specialist may resubmit the returned order for execution, as long as the quotes that comprise the order have not been withdrawn.<sup>15</sup> Registered Options Traders and Specialists are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Rules 1014, 1033 and 1084.

Additionally, and as discussed earlier, proposed Rule 1081 will permit ROTs and Specialists to utilize the Snapshot feature of FBMS in accordance with the procedures and limitations set forth in proposed Rule 1069. Proposed Rule 1081 also incorporates

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Advice C-2 and include it in proposed Rule 1081 and proposed Floor Advices A-2 and B-7.

<sup>14</sup> Simultaneously with this proposal, the Exchange proposes to make a change to Rule 1063(e)(iv) to clarify that when a Floor Broker submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution.

<sup>15</sup> [Proposed Rule 1081\(d\) omits language from Rule 1063\(e\)\(iv\) stating that a Floor Broker may re-submit a returned order, provided that the quotes/orders that comprise the cross have not been withdrawn. The Exchange proposes to omit this language from proposed Rule 1081\(d\) because ROTs and Specialists will not engage in crosses. Similarly, proposed Rule 1081\(d\) differs from Rule 1063\(e\)\(iv\) in that proposed Rule 1081\(d\) excludes language which states that FBMS is designed to execute "two-sided" orders. ROTs and Specialists act for their own accounts, and not for others, such that they will not use FBMS to execute two-sided orders.](#)

and adapts Commentary .01 of Rule 1063, and will provide that a ROT or Specialist that wishes to place a limit order on the limit order book cannot submit such a limit order using a paper ticket; instead, the ROT or Specialist must submit the limit order electronically through the FBMS (unless an exception to the use of FBMS applies).<sup>16</sup>

The Exchange notes that, as set forth in proposed Rule 1081(a), it anticipates that it will make FBMS available to ROTs and Specialists during the Second Quarter of 2018. To facilitate the transition to FBMS, the Exchange will not require ROTs or Specialists to utilize FBMS until one month after the date on which the Commission approves the Exchange's proposal. The Exchange will notify Members via an Options Trader Alert, to be posted on the Exchange's website, at least seven calendar days prior to the date when FBMS will be available for use by ROTs and Specialists. The alert will also contain the mandatory start date.

Next, the Exchange proposes to amend Rule 1066, which list certain order types that are eligible for entry on FBMS, to clarify that the Rule permits all members operating on the Exchange Floor, including Floor Brokers, ROTs, and Specialists, to enter such orders on FBMS.

The Exchange proposes to amend Commentary .06 to Rule 1080, which describes the functions of FBMS, to clarify that it applies to all members that operate on the Exchange Floor, including Floor Brokers, ROTs, and Specialists. It also proposes to

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<sup>16</sup> The Exchange notes that it does not propose to incorporate Commentary .02 to Rule 1063, which requires Floor Brokers to make reasonable efforts to ascertain when orders entrusted to them are for the account of a customer or a broker-dealer. This provision does not apply to ROTs or Specialists, which do not act on an agency basis.

amend a cross-reference in the Rules to a description of the features of FBMS to include a cross-reference to proposed Rule 1081.<sup>17</sup>

The Exchange proposes to amend its Option Floor Procedure Advices and Order & Decorum Regulations (“Advices”), which presently govern the use of FBMS only by Floor Brokers, so that they also cover the use of FBMS by ROTs and Specialists as well. Specifically, the proposal establishes new Advices A-2 and B-7, which largely replicate Advice C-2 (governing use by Floor Brokers of FBMS) for Specialists and ROTs, respectively. The proposal also amends certain Advices to extend their references to Floor Brokers to also include ROTs and Specialists, including Advice A-2 (All-or-None Option Orders), Advice F-2 (Allocation, Time Stamping, Matching and Access to Matched Trades)<sup>18</sup> and F-4 (Orders Executed as Spreads, Straddles, Combinations or Synthetics and other Order Ticket Marketing Requirements).

Lastly, the Exchange also proposes to update existing references in its Rulebook to the “Floor Broker Management System” so that they refer instead to the new name of the system, the “Floor Based Management System.” In addition to the Rules mentioned above, these conforming changes affect Rules 911, 1063, 1064, and 1098, and Advices A-9, B-6, B-8, C-2, and C-3.

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<sup>17</sup> [The Exchange proposes to correct a typographical error that appears in this Commentary. The word “trial” in the phrase “audit trial” will be changed to “trail.”](#)

<sup>18</sup> The Exchange proposes to amend Advice F-2 to include the same clarification it proposes to make to Rule 1014(g)(vi).

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>19</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>20</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

In particular, by providing for a uniform system of order entry on the Exchange floor, the Exchange's proposal to extend FBMS to ROTs and Specialists will help ensure fair and equal treatment for all members that operate on the Exchange floor. It will also serve the interests of investors and the public to establish an electronic order entry system for ROTs and Specialists that is more accurate, less prone to error, less time intensive (thereby helping to ensure customer trade priority), and that establishes an immediately available audit trail.

The Exchange also believes that it is consistent with the Act for ROTs and Specialists to utilize FBMS notwithstanding the fact that it designed FBMS for use by Floor Brokers, and to do so subject to the same general conditions, requirements, and exceptions which apply presently to Floor Brokers. The Exchange initially designed FBMS for use by Floor Brokers because the Exchange sought to establish an electronic audit trail mechanism for Floor Brokers, in particular; however, the Exchange never intended to specifically exclude ROTs and Specialists from FBMS and it perceives no policy basis for doing so now. Moreover, to the extent that the Exchange proposes to

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<sup>19</sup> 15 U.S.C. 78f(b).

<sup>20</sup> 15 U.S.C. 78f(b)(5).

make FBMS available to all Floor participants, it perceives no basis for doing so on anything but the same terms. That is, the Exchange anticipates no unique risks associated with the use of FBMS by ROTs and Specialists, and it believes that the exceptions to FBMS that exist in Rule 1000(f) are each applicable to ROTs and Specialists. That said, the Exchange proposes minor alterations to the Rules that presently govern the use of FBMS by Floor Brokers to, among other things, account for the fact that ROTs and Specialists negotiate orders on the Floor on their own behalf and do not represent orders on the Floor on behalf of others.

Similarly, the Exchange believes that it is consistent with the Act to extend the availability of the Snapshot functionality of FBMS to ROTs and Specialists. The Exchange's rationale for providing Snapshot to Floor Brokers is equally applicable to ROTs and Specialists. ROTs and Specialists are subject to the same risk as are Floor Brokers when trading in open outcry on the Exchange Floor. This risk, which arises from the manual processes inherent in Floor-based trading, is that the Exchange's Trading System will reject a trade due to a change in market conditions that occurs between the time when the parties negotiate a lawful and valid trade on the Floor, enter the trade information into FBMS, and submit it to the Trading System. The use of Snapshot by ROTs and Specialists will promote just and equitable principles of trade and serve the interests of investors and the public by mitigating this risk and by increasing the likelihood that ROTs and Specialists will be able to execute their orders and do so in line with their expectations and needs. Again, the Exchange perceives no unique risks or concerns associated with the use of Snapshot by ROTs or Specialists that would

necessitate proposing any special changes to or restrictions on their use of the Snapshot functionality.

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's proposal to extend FBMS to ROTs and Specialists is intended to modernize and otherwise improve the Exchange's internal order entry process; it is neither intended nor expected to materially affect the competitive position of the Exchange vis-a-vis other exchanges. If anything, this proposal would improve the options floor trading environment for ROTs and Specialists, thereby making the Exchange a more attractive venue for floor trading.

The Exchange also does not believe that its proposal to extend the availability of the Snapshot functionality to ROTs and Specialists will burden competition. To the contrary, the Exchange intends for this proposal to make its options trading Floor more competitive with other floor trading venues that have less stringent anti-trade-through procedures as compared to the Exchange. The proposal is also intended to make the Floor more competitive with electronic options trading venues that feature near-instantaneous and autonomous execution processes which eliminate the risks that Snapshot exists to mitigate.

The Exchange does not anticipate that its proposals will impact intra-market competition because the proposals will simply extend the benefits of FBMS and Snapshot to all categories of its Floor participants.

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

No written comments were either solicited or received.

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

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

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2018-40 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-2018-40. 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-2018-40 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>21</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>21</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

Deleted text is [bracketed]. New text is underlined.

**Nasdaq PHLX Rules****Rules of the Exchange**

\* \* \* \* \*

**Rule 911. Member and Member Organization Participation**

(a) Participation in the Exchange as a member or member organization requires current registration as such with the Exchange. Such registration shall be conditioned upon the member or member organization's initial and continuing compliance with the following requirements:

(1) – (2) No change.

(3) compliance with all applicable Rules and operating procedures of the Exchange and the Commission in the use of the system including, but not limited to, PSX, PHLX XL and the Floor Based[Broker] Management System ("FBMS") (for purposes of this Rule, PSX, PHLX XL and FBMS together shall be defined as ("System"));

...

\* \* \* \* \*

**Options Rules**

\* \* \* \* \*

**Rules Applicable to Trading of Options on Stocks, Exchange-Traded Fund Shares and Foreign Currencies (Rules 1000—1098)****Rule 1000. Applicability, Definitions and References**

(a) – (e) No change.

(f) All Exchange options transactions shall be executed in one of the following ways:

(i) automatically by the Exchange Trading System pursuant to Rule 1080 and other applicable options rules; or

[(ii) by and among members in the Exchange's options trading crowd none of whom is a Floor Broker; or]

[(iii)](ii) through the Options Floor [Broker]Based Management System[ for trades involving at least one Floor Broker]. Members authorized to operate on the floor [Although Floor Brokers may represent orders in the trading crowd, Floor Brokers] are not permitted to execute orders in the Exchange's options trading crowd, except as follows:

- (A) The Exchange may determine to permit executions otherwise than in accordance with subparagraphs (i) - (ii[i]) above respecting an option or all options in the event of a problem with Exchange systems.
- (B) In addition, [Floor Brokers]members can execute orders in the options trading crowd pursuant to Rule 1059, Accommodation Transactions (cabinet trades), and Rule 1079, FLEX Equity, Index and Currency Options.
- (C) Multi-leg orders with more than 15 legs can be executed in the trading crowd.
- (D) The following split price orders that, due to FBMS system limitations, require manual calculation:
  - (I) simple orders not expressed in the applicable minimum increment ("sub-MPV") and that cannot be evenly split into two whole numbers to create a price at the midpoint of the minimum increment; and (II) complex and multi-leg orders with at least one option leg with an odd-numbered volume that must trade at a sub-MPV price or one leg that qualifies under (I) above.
- (E) As set forth in Rule 106[3(e)(v)]<sup>2</sup>, [Floor Brokers]members may use the Snapshot feature of the Options Floor [Broker]Based Management System to provisionally execute, in the options trading crowd, multi-leg orders (as defined in Rule 1066(f)) and simple orders in options on ETFs that are included in the Options Penny Pilot.

Surveillance staff must approve all executions submitted under this Rule 1000(f)(ii[i])(A)-(D) to validate that each abides by applicable priority and trade through rules. Under subsection (f)(ii[i])(D), the rounding of prices may be used only where necessary to execute the trade at the MPV, and only to the benefit of a customer order or, where multiple customers' orders are involved, for the customer order that is earliest in time. If no customer order is involved, rounding of prices is available to the non-customer order that is earliest in time.

(g) Manner of Bidding and Offering. Bids and offers to be effective must either be entered electronically in a form and manner prescribed by the Exchange (as quotes or orders) or made by public outcry in the trading crowd (to which Rule 110 applies). All bids and offers shall be general ones and shall not be specified for acceptance by particular members.

Public Outcry - Pursuant to Rule 110, bids and offers must be made in an audible tone of voice. A member shall be considered "in" on a bid or offer, while he remains at the post, unless he shall distinctly and audibly say "out." A member bidding and offering in immediate and rapid succession shall be deemed "in" until he shall say "out" on either bid or offer. Once the trading crowd has provided a quote, it will remain in effect until: (A) a reasonable amount of time has passed, or (B) there is a significant change in the price of the underlying security, or (C) the market given in response to the request has been improved. In the case of a dispute, the term "significant change" will be interpreted on a case-by-case basis by an Options Exchange Official based upon the extent of the recent trading in the option and, in the case of equity and index options, in the underlying security, and any other relevant factors.

With respect to [orders involving a Floor Broker ]using the Options Floor [Broker]Based Management System to execute an order pursuant to Rule 1000(f), a member must audibly say "out" before [the Floor Broker submits ]the order is submitted into the FBMS for execution and, if the order is not executed, the member must audibly say "out" before each time the [Floor Broker]member resubmits the order for execution.

\* \* \* \* \*

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

(a) – (f) No change.

(g) *Equity Option, Index Option and U.S. dollar-settled Foreign Currency Option Priority and Parity*

(i) – (v) No change.

(vi) In order to facilitate timely tape reporting of trades, it is the duty of the persons identified below to allocate, match and time stamp trades executed in open outcry and to submit the matched trade tickets to an Exchange Data Entry Technician ("DET") located on the trading floor immediately upon execution. When executing trades electronically, it is also the duty of the persons identified below to enter and submit trade information to the Trading System using the Options Floor Based Management System. [ Trades executed electronically via the XL System and through the Options Floor Broker Management System are automatically trade reported without further action required by executing parties:]

(a) in a trade involving a floor broker, the floor broker shall so do, provided that a floor broker may delegate this responsibility to the specialist (or an assistant to the specialist under the specialist's direct supervision) if the specialist agrees to accept such responsibility, and, in the event of such delegation, the specialist (or an assistant to the specialist under the specialist's direct supervision) shall do so:

- (b) in all other cases where the specialist is a participant (i.e., where there is no floor broker), the specialist (or an assistant to the specialist under the specialist's direct supervision) shall do so;
- (c) in any other case (i.e., where there is no floor broker and no specialist is involved), the largest on-floor participant shall do so (for example, where several Registered Options Traders are involved); and
- (d) if there is only one seller and one buyer (no floor broker and no specialist is involved), the seller shall do so (for example, where only two Registered Options Traders are involved), unless either the seller or the buyer is an RSQT, in which case the on-floor participant in the transaction shall do so.

The person responsible for trade allocation (the "Allocating Participant") shall, for each trade allocated by such Allocating Participant, circle his or her badge identification number on the trade tickets, identifying himself or herself as the Allocating Participant in the particular trade. If the Allocating Participant is not a participant in the trade to be allocated, he/she shall identify himself/herself by initiating the trade tickets. In the case of a trade executed using the Floor Based Management System, [in which a Floor Broker is ]the Allocating Participant[, such Floor Broker] shall allocate the trade using the Options Floor Based[Broker] Management System.

(vii) – (viii) No change.

••• *Commentary:* -----

No change.

\* \* \* \* \*

### **Rule 1063. Responsibilities of Floor Brokers**

(a) – (d) No change.

(e) (i) *Options Floor [Broker]Based Management System*. In order to create an electronic audit trail for equity, equity index and U.S. dollar-settled foreign currency options orders represented by Floor Brokers on the Exchange's Options Floor, a Floor Broker or such Floor Broker's employees shall, contemporaneously upon receipt of an order and prior to the representation of such an order in the trading crowd, record all options orders represented by such Floor Broker onto the electronic Options Floor [Broker]Based Management System ("FBMS") (as described in Rule 1080, Commentary .06). The following specific information with respect to orders represented by a Floor Broker shall be recorded by such Floor Broker or such Floor Broker's employees: (i) the order type (i.e., customer, firm, broker-dealer, professional, market maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle), or contingency order as described in Rule 1066; (v) number of contracts; (vi)

limit price or market order or, in the case of a multi-leg order, net debit or credit, if applicable; (vii) whether the transaction is to open or close a position; and (viii) The Options Clearing Corporation ("OCC") clearing number of the broker-dealer that submitted the order (collectively, the "required information"). A Floor Broker must enter complete alpha/numeric identification assigned by the Exchange for all orders entered on behalf of Exchange Registered Option Traders. Any additional information with respect to the order shall be inputted into the Options Floor [Broker]Based Management System contemporaneously upon receipt, which may occur after the representation and execution of the order. In the event of a malfunction in the Options Floor [Broker]Based Management System, Floor Brokers shall record the required information on trade tickets, and shall not represent an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. [Floor Brokers or their employees shall enter the required information that is recorded on such trade tickets into the Exchange's electronic system for inclusion in the electronic audit trail.]Floor Brokers or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

(ii) Pursuant to Rule 1000(f), Floor Brokers are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event [of a malfunction in the FBMS or in the event that the Exchange determines]that Floor Brokers [are permitted to ]execute orders in the Exchange's options trading crowd[ for a specific reason] pursuant to Rule 1000(f)(ii)[i]), Floor Brokers shall record the required information on trade tickets, and shall not represent an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Floor Brokers or their employees shall [either enter]ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system [or ensure that such information is] by DETs[entered] for inclusion in the electronic audit trail.

(iii) Complex Calculator. The FBMS will calculate and display a suggested price of each individual component of a multi-leg order up to 15 legs submitted on a net debit or credit basis.

(iv) Execution. FBMS is [also ]designed to execute two-sided orders entered by Floor Brokers, including multi-leg orders up to 15 legs, after representation in the trading crowd. When a Floor Broker submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the Floor Broker in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Floor Broker on the FBMS. The Floor Broker may resubmit the order for execution, as long as the quotes/orders that comprise the cross have not been withdrawn. Floor Brokers are

responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Rules 1014, 1033 and 1084.

(v) Snapshot Feature. The Snapshot feature of FBMS may be utilized by Floor Brokers as set forth in Rule 1069.[The Snapshot feature of FBMS records the market prevailing at the time the Snapshot is triggered. It records all information required to determine compliance with priority and trade-through requirements, including the following: (1) Away Best Bid and Offer; (2) the Exchange Best Bid and Offer; (3) customer orders at the top of the Exchange book; and (4) the best bid and offer of all-or-none orders.]

[A. *Availability.*]

[1. A Floor Broker is permitted to trigger the Snapshot feature only at the time he or she provisionally executes a trade in the trading crowd involving a multi-leg order (as defined in Rule 1066(f)) or a simple order in an option on an ETF that is included in the Options Penny Pilot. For purposes of this provision, provisional execution occurs when either: (i) the participants to a trade reach a verbal agreement in the trading crowd as to the terms of the trade; or (ii) a Floor Broker announces that he is crossing an order in accordance with Rule 1064(a).]

[2. A Floor Broker is prohibited from triggering the Snapshot feature for the purpose of obtaining favorable priority or trade-through conditions or avoiding unfavorable priority or trade-through conditions.]

[3. A Floor Broker may have only one Snapshot outstanding across all options classes and series at a given time.]

[4. Surveillance Staff will monitor and enforce proper usage of the Snapshot feature on a post-trade basis.]

[B. *Snapshot Timer.* After triggering the Snapshot feature, the Floor Broker will have no more than 30 seconds to submit the provisionally executed trade along with the Snapshot into the System. The Snapshot will automatically become unavailable and expire if the Floor Broker fails to submit a provisionally executed trade along with the Snapshot within 30 seconds after triggering the Snapshot.]

[C. *Verification.* After the Floor Broker submits the provisionally executed trade along with the Snapshot, the System then determines whether the terms of the provisionally executed trade submitted by the Floor Broker are consistent with applicable priority and trade-through rules based on the market prevailing at the time of the Snapshot.]

[1. If the provisionally executed trade submitted with the Snapshot is consistent with the applicable priority and trade-through rules based on the market prevailing at the time of the Snapshot, the System will report the trade to the Consolidated Tape.]

[2. If the provisionally executed trade is not consistent with the applicable priority and trade-through rules based on the market prevailing at the time of the Snapshot, the System will reject the trade.]

[3. If an order exists on the Exchange's limit order book that has priority at the time when a Floor Broker seeks to take a Snapshot, the System will not prevent the Floor Broker from taking a Snapshot, but the Floor Broker must clear the order on the book, re-announce and provisionally re-execute the trade, and take a new Snapshot before submitting the provisionally executed trade to the System or else the System will reject the trade upon submission.]

[D. *Taking a New Snapshot*]

[1. A Floor Broker may take a new Snapshot and trigger a new 30-second timer provided that the Floor Broker first re-announces and provisionally re-executes the trade in the crowd, as described in paragraphs (A) through (C) above, if: (i) the Snapshot expired before the Floor Broker submitted a provisional execution to the Trading System; (ii) the Trading System rejected a provisional execution that is subject to a Snapshot; or (iii) the Floor Broker affirmatively canceled a Snapshot or permitted it to expire in anticipation of the Trading System rejecting the provisional execution that is subject to it.]

*[The Exchange anticipates that it will implement the Snapshot feature described in Rule 1063(e) during the Fourth Quarter of 2017. The Exchange will notify members via an Options Trader Alert, to be posted on the Exchange's website, at least seven calendar days prior to the date when Snapshot will be available for use.]*

(f) Floor Brokers or their employees shall enter the required information (as described in paragraph (e) above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity and index options and U.S. dollar-settled foreign currency options. Floor Brokers or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

••• *Commentary:* -----

.01 A Floor Broker who wishes to place a limit order on the limit order book must submit such a limit order electronically through the Options Floor [Broker]Based Management System.

.02 Floor Brokers must make reasonable efforts to ascertain whether each order entrusted to them is for the account of a customer or a broker-dealer. If it is ascertained that the order is for the account of a broker-dealer, the responsible Floor Broker must advise the crowd of that fact prior to bidding/offering on behalf of the order or submitting the order for execution. The Floor Broker or his employees must make the appropriate notation on

the Options Floor [Broker]Based Management System when it has been determined that the order is for an account of a broker/dealer.

#### **Rule 1064. Crossing, Facilitation and Solicited Orders**

(a) *Crossing*. Except as provided in paragraph (e) below, an Options Floor Broker who holds orders to buy and sell the same option series may cross such orders, provided that he proceeds in the following manner:

(i) – (ii) No change.

(iii) If such higher bid or lower offer is not taken, he may cross the orders at such higher bid or lower offer by announcing by public outcry that he is crossing and giving the quantity and price. All such orders are not deemed executed until entered into and executed through the Options Floor [Broker]Based Management System ("FBMS"), except for where there is a provisional execution using the Snapshot feature of FBMS (as described in Rule 106[3]9) to cross multi-leg orders (as defined in Rule 1066(f)) or simple orders in options on ETFs that are included in the Options Penny Pilot; bids and offers can be withdrawn pursuant to Rule 1000(g).

(iv) No change.

(b) *Facilitation Orders*. Except as provided in paragraph (e) below, a Floor Broker holding an options order for a public customer and a contra-side order may cross such orders in accordance with paragraph (a) above or may execute such orders as a facilitation cross in the following manner:

(i) The Floor Broker or his employees must enter the appropriate notation onto the Options Floor [Broker]Based Management System for the public customer's order, together with all of the terms of the order, including any contingency involving other options or the underlying or related securities.

(ii) No change.

(iii) After all market participants in the crowd are given a reasonable opportunity to accept all terms and conditions made on behalf of the public customer whose order is subject to facilitation, the Floor Broker may immediately thereafter cross all or any remaining part of such order and the facilitation order at each customer's bid or offer by announcing by public outcry that he is crossing and by stating the quantity and price(s). All such orders are not deemed executed until entered into and executed through the Options Floor [Broker]Based Management System ("FBMS"); bids and offers can be withdrawn pursuant to Rule 1000(g).

Once a Floor Broker has announced an order as subject to facilitation and has established a bid (or offer) in between the market for the option(s) to be facilitated, the order cannot

be broken up by a subsequent superior bid or offer for just one component to the facilitated order.

(c) *Solicited Orders*. Except as provided in paragraph (e) below, for the purpose of this Rule, a solicitation occurs whenever an order, other than a cross, is presented for execution in the trading crowd resulting from an away-from-the-crowd expression of interests to trade by one broker dealer to another.

(i) No change.

(ii) A member or member organization representing an order in options ("originating order") may solicit another member, member organization or non-member broker-dealer outside the trading crowd ("solicited party") to participate in the transaction on a proprietary basis provided that the member or member organization representing the originating order, upon entering the trading crowd must:

(A) – (B) No change.

(C) give the trading crowd a reasonable opportunity to accept the bid or offer. All such orders are not deemed executed until entered into and executed through the Options Floor [Broker]Based Management System ("FBMS"); bids and offers can be withdrawn pursuant to Rule 1000(g).

(iii) The Floor Broker or his employees must note on the Options Floor [Broker]Based Management System that the trade involves a solicited order.

The members of the trading crowd shall have priority over the solicited party order.

(d) *Anticipatory Hedging*. No member organization or person associated with a member or member organization who has knowledge of the material terms and conditions of a solicited order, an order being facilitated, or orders being crossed, the execution of which are imminent, shall enter, based on such knowledge, an order to buy or sell an option for the same underlying security; an order to buy or sell the security underlying such class; or an order to buy or sell any related instrument until (i) or (ii) occur:

(i) – (ii) No change.

(iii) Furthermore, Rule 1064(d) does not prohibit a member or member organization from buying or selling a stock, security futures or futures position following receipt of an option order, including a complex order, but prior to announcing such order to the trading crowd, provided that:

(A) – (H) No change.

(I) All such orders are not deemed executed until entered into and executed by the Options Floor [Broker]Based Management System ("FBMS"); bids and offers can be withdrawn pursuant to Rule 1000(g).

(e) *Floor Qualified Contingent Cross*. A Floor Qualified Contingent Cross Order is comprised of an originating order to buy or sell at least 1,000 contracts, or 10,000 contracts in the case of Mini Options, that is identified as being part of a qualified contingent trade, as that term is defined in subsection (3) below, coupled with a contra-side order or orders totaling an equal number of contracts.

(1) Floor Qualified Contingent Cross Orders are immediately executed upon entry into the System by an Options Floor Broker provided that (i) no Customer Orders are at the same price on the Exchange's limit order book and (ii) the price is at or between the NBBO.

(a) Floor Qualified Contingent Cross Orders shall be submitted into the System by Floor Brokers on the Floor via the Floor [Broker]Based Management System.

(b) – (c) No change.

(2) – (3) No change.

••• *Commentary:* -----

No change.

\* \* \* \* \*

### **Rule 1066. Certain Types of Floor-Based (Non-PHLX XL) Orders Defined**

These order types are eligible for entry by a [Floor Broker]member for execution through the Options Floor [Broker]Based Management System ("FBMS") [ and, respecting transactions where there is no Floor Broker involved, for execution by members in the trading crowd].

(a) – (e) No change.

(f) *Multi-leg Orders*. A multi-leg order is any spread type order (including a spread, straddle and combination order) for the same account or tied hedge order as defined below:

(1) – (5) No change.

(6) *Spread Type Order* - A spread type order is a multi-leg order submitted through the Floor [Broker]Based Management System ("FBMS") involving the simultaneous purchase and/or sale of two or more different options series (up to 15) in the same

underlying security, priced as a net debit or credit based on the relative prices of the individual components, for the same account, for the purpose of executing a particular investment strategy. A spread type order may include as one of the legs a stated number of units of an underlying security (stock or Exchange Traded Fund Share ("ETF")) coupled with the purchase or sale of options contract(s). The underlying security must be the deliverable for the options component of that Complex Order and represent exactly 100 shares per option for regular way delivery.

(7) – (8) No change.

(g) – (h) No change.

••• *Commentary:* -----

No change.

\* \* \* \* \*

**Rule 1069. [Reserved]Snapshot Feature**  
[Reserved]

(a) The Snapshot feature of FBMS records the market prevailing at the time the Snapshot is triggered. It records all information required to determine compliance with priority and trade-through requirements, including the following: (1) Away Best Bid and Offer; (2) the Exchange Best Bid and Offer; (3) customer orders at the top of the Exchange book; and (4) the best bid and offer of all-or-none orders.

(i) Availability.

(A) A member is permitted to trigger the Snapshot feature only at the time he or she provisionally executes a trade in the trading crowd involving a multi-leg order (as defined in Rule 1066(f)) or a simple order in an option on an ETF that is included in the Options Penny Pilot. For purposes of this provision, provisional execution occurs when either: (1) the participants to a trade reach a verbal agreement in the trading crowd as to the terms of the trade; or (2) a member announces that he is crossing an order in accordance with Rule 1064(a).

(B) A member is prohibited from triggering the Snapshot feature for the purpose of obtaining favorable priority or trade-through conditions or avoiding unfavorable priority or trade-through conditions.

(C) A member may have only one Snapshot outstanding across all options classes and series at a given time.

(D) Surveillance Staff will monitor and enforce proper usage of the Snapshot feature on a post-trade basis.

(ii). Snapshot Timer. After triggering the Snapshot feature, the member will have no more than 30 seconds to submit the provisionally executed trade along with the Snapshot into the System. The Snapshot will automatically become unavailable and expire if the member fails to submit a provisionally executed trade along with the Snapshot within 30 seconds after triggering the Snapshot.

(iii). Verification. After the member submits the provisionally executed trade along with the Snapshot, the System then determines whether the terms of the provisionally executed trade submitted by the member is consistent with applicable priority and trade-through rules based on the market prevailing at the time of the Snapshot.

(A) If the provisionally executed trade submitted with the Snapshot is consistent with the applicable priority and trade-through rules based on the market prevailing at the time of the Snapshot, the System will report the trade to the Consolidated Tape.

(B) If the provisionally executed trade is not consistent with the applicable priority and trade-through rules based on the market prevailing at the time of the Snapshot, the System will reject the trade.

(C) If an order exists on the Exchange's limit order book that has priority at the time when a member seeks to take a Snapshot, the System will not prevent the member from taking a Snapshot, but the member must clear the order on the book, re-announce and provisionally re-execute the trade, and take a new Snapshot before submitting the provisionally executed trade to the System or else the System will reject the trade upon submission.

(iv). Taking a New Snapshot

(A) A member may take a new Snapshot and trigger a new 30-second timer provided that the member first re-announces and provisionally re-executes the trade in the crowd, as described in paragraphs (i) through (iii) above, if: (1) the Snapshot expired before the member submitted a provisional execution to the Trading System; (2) the Trading System rejected a provisional execution that is subject to a Snapshot; or (3) the member affirmatively canceled a Snapshot or permitted it to expire in anticipation of the Trading System rejecting the provisional execution that is subject to it.

\* \* \* \* \*

## **Rule 1080. Phlx**

(a) – (p) No change.

••• *Commentary:* -----

.01 - .05 No change.

**.06 Options Floor [Broker]Based Management System.** (a) The Options Floor [Broker]Based Management System ("FBMS") is a component of PHLX XL designed to enable members[Floor Brokers] and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. The FBMS also is designed to establish an electronic audit trail for options orders negotiated, represented and executed by [Floor Brokers]members on the Exchange, to the extent permissible under Rule 1000(f), such that the audit [trial]trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order. The features of FBMS are described in Rules 1063(e) and 1081.

.07 - .08 No change.

**Rule 1081. [Reserved]Use of Floor Based Management System by Registered Options Traders and Specialists**

[Reserved]

(a) Options Floor Based Management System. In order to create an electronic audit trail for equity, equity index and U.S. dollar-settled foreign currency options orders negotiated by Registered Options Traders and Specialists on the Exchange's Options Floor, a Registered Options Trader, a Specialist, or their respective employees shall, prior to the negotiation of such an order in the trading crowd, record all options orders negotiated by such Registered Options Trader or Specialist onto the electronic Options Floor Based Management System ("FBMS") (as described in Rule 1080, Commentary .06). The following specific information with respect to orders negotiated by a Registered Options Trader or Specialist shall be recorded by such Registered Options Trader, Specialist, or their respective employees: (i) the order type (i.e., market maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle) or contingency order as described in Rule 1066; (v) number of contracts; (vi) limit price or market order or, in the case of a multi-leg order, net debit or credit, if applicable; and (vii) whether the transaction is to open or close a position, as applicable (collectively, the "required information"). A Registered Options Trader or Specialist must enter complete alpha/numeric identification assigned by the Exchange for all orders entered. Any additional information with respect to the order shall be inputted into the Options Floor Based Management System contemporaneously upon receipt, which may occur after the negotiation and execution of the order. In the event of a malfunction in the Options Floor Based Management System, a Registered Options Trader or Specialist shall record the required information on trade tickets, and shall not negotiate an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Registered Options Traders, Specialists, or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

The Exchange anticipates that it will make FBMS available to Registered Options Traders and Specialists during the Second Quarter of 2018. To facilitate the transition to FBMS, the Exchange will not require Registered Options Traders or Specialists to utilize FBMS until one month after the date on which the Commission approves the Exchange's proposal. The Exchange will notify members via an Options Trader Alert, to be posted on the Exchange's website, at least seven calendar days prior to the date when FBMS will be available for use by Registered Options Traders and Specialists. The alert will also contain the mandatory start date.

(b) Pursuant to Rule 1000(f), Registered Options Traders and Specialists are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event that Registered Options Traders or Specialists execute orders in the Exchange's options trading crowd pursuant to Rule 1000(f)(ii), Registered Options Traders or Specialists shall record the required information on trade tickets, and shall not negotiate an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Registered Options Traders, Specialists, or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

(c) Complex Calculator. The FBMS will calculate and display a suggested price of each individual component of a multi-leg order up to 15 legs submitted on a net debit or credit basis.

(d) Execution. FBMS is designed to execute orders entered by Registered Options Traders or Specialists, including multi-leg orders up to 15 legs, after negotiation in the trading crowd. When a Registered Options Trader or Specialist submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the Registered Options trader or Specialist in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced in an Options Trader Alert, after which it will be returned to the Registered Options Trader or Specialist on the FBMS. The Registered Options Trader or Specialist may resubmit the order for execution, as long as the quotes that comprise the order have not been withdrawn. Registered Options Traders and Specialists are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Rules 1014, 1033 and 1084.

(e) Snapshot Feature. The Snapshot feature of FBMS may be utilized by Registered Options Traders and Specialists as set forth in Rule 1069.

(f) Registered Options Traders, Specialists or their employees shall enter the required information (as described in paragraph (a) above) for FLEX options, or ensure that such

information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity and index options and U.S. dollar-settled foreign currency options. Registered Options Traders, Specialists or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

**••• Commentary: -----**

.01 A Registered Options Trader or Specialist who wishes to place a limit order on the limit order book must submit such a limit order electronically through the Options Floor Based Management System.

\* \* \* \* \*

### **Rule 1098. Complex Orders on the System**

#### (a) Definitions

(i) – (vi) No change.

(vii) Participant, Phlx market maker and Phlx electronic market maker. The term "participant" means SQTs, RSQTs, non-SQT ROTs, specialists and non-Phlx market makers on another exchange; non-broker-dealer customers, Firms and non-market-maker off-floor broker-dealers; and Floor Brokers using the Options Floor [Broker]Based Management System. The term "Phlx market maker" means SQTs, RSQTs, specialists and non-SQT ROTs. The term "Phlx electronic market maker" means SQTs, RSQTs and specialists.

(viii) – (x). No change.

(b) Complex orders may be entered in increments of \$0.01 with certain "time in force" designations and as certain order types with certain contingencies as follows:

(i) – (ii). No change.

(iii) Floor Brokers using the Options Floor [Broker]Based Management System may enter the Complex Orders listed in paragraph (a) above as Day, GTC or IOC on behalf of non-broker-dealer customers and non-market-maker off-floor broker-dealers, and as IOC only on behalf of SQTs, RSQTs, non-SQT ROTs, specialists, non-Phlx market makers on another exchange and Firms.

(iv) – (v). No change.

(c) – (i) No change.

\* \* \* \* \*

## FLOOR PROCEDURES

\* \* \* \* \*

### OPTION FLOOR PROCEDURE ADVICES AND ORDER & DECORUM REGULATIONS

#### A. SPECIALISTS

A-1. No change.

#### A-2 [Reserved] Options Floor Based Management System

Options Floor Based Management System. In order to create an electronic audit trail for options orders negotiated by Specialists on the Exchange's Options Floor, a Specialist or such Specialist's employees shall, prior to the negotiation of such an order in the trading crowd, record all options orders negotiated by such Specialist onto the electronic Options Floor Based Management System (as described in Rule 1080, Commentary .06). The following specific information with respect to orders negotiated by a Specialist shall be recorded by such Specialist or such Specialist's employees: (i) the order type (i.e., market maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle) or contingency order as described in Rule 1066; (v) number of contracts; (vi) limit price or market order or, in the case of a multi-leg order, net debit or credit, if applicable; and (vii) whether the transaction is to open or close a position, as applicable (collectively, the "required information"). A Specialist must enter complete alpha/numeric identification assigned by the Exchange for all orders entered. Any additional information with respect to the order shall be inputted into the Options Floor Based Management System contemporaneously upon receipt, which may occur after the negotiation and execution of the order.

Pursuant to Rule 1000(f), Specialists are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event that Specialists execute orders in the Exchange's options trading crowd pursuant to Rule 1000(f)(ii) (other than for the use of Snapshot, as set forth in Rule 1000(f)(ii)(E)), Specialists shall record the required information on trade tickets, and shall not negotiate an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Specialists or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

Specialists or their employees shall enter the required information (as described above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity, equity index and U.S. dollar-settled foreign currency options. Specialists or their

employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

FBMS is designed to execute orders entered by Specialists, including multi-leg orders up to 15 legs, after negotiation in the trading crowd. When a Specialist submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the Specialist in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Specialist on the FBMS. The Specialist may resubmit the order for execution, as long as the quotes that comprise the order have not been withdrawn. Specialists are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Rules 1014, 1033 and 1084.

A Specialist is prohibited from triggering the Snapshot feature for the purpose of obtaining favorable priority or trade-through conditions or avoiding unfavorable priority or trade-through conditions.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

**A-3 – A-8.** No change.

**A-9. All-or-None Option Orders**

An all-or-none option order is a limit order which is to be executed in its entirety, or not at all. Unlike a fill-or-kill order, an all-or-none order is not cancelled if it is not executed as soon as it is represented in the trading crowd. An all-or-none order has no standing respecting executions in the crowd except with respect to other all-or-none orders.

When represented in the crowd, all-or-none orders are not included as part of the bid or offer.

When entered electronically pursuant to Rule 1080 or into Options Floor [Broker]Based Management System pursuant to Rule 1063 or 1081, an all-or-none order has standing and is eligible for execution in time priority with all other customer orders and all-or-none professional orders (as specified in Rule 1000(b)(14)) at that price if the all-or-none contingency can be met.

#### FINE SCHEDULE

Fine not applicable

**A-10 – A-14** No change.

#### **B. REGISTERED OPTIONS TRADERS**

**B-1 – B-5** No change.

#### **B-6 Priority of Options Orders for Equity Options, Index Options and U.S. Dollar-Settled Foreign Currency Options by Account Type (EQUITY OPTION, INDEX OPTION AND U.S. DOLLAR-SETTLED FOREIGN CURRENCY OPTION ONLY)**

##### **Section A**

No change.

##### **Section B**

Orders of controlled accounts, other than ROTs and Specialists market making in-person, must be

- (1) verbally communicated as for a controlled account when placed on the floor and when represented to the trading crowd and
- (2) recorded as for a controlled account by making the appropriate notation in the Options Floor [Broker]Based Management System.

In any instance where an order is misrepresented in this fashion due to factors which give rise to the concern that it was the result of anything other than an inadvertent error, the Exchange may determine to bypass the fine schedule below and refer the incident to the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement for possible disciplinary proceedings in accordance with those procedures set forth under the Rule 8000 and 9000 Series.

**Sections C – F** No change.

#### **B-7 [Reserved]Options Floor Based Management System**

Options Floor Based Management System. In order to create an electronic audit trail for options orders negotiated by Registered Options Traders on the Exchange's Options Floor, a Registered Options Trader or such Registered Options Trader's employees shall, prior to the negotiation of such an order in the trading crowd, record all options orders negotiated by such Registered Options Trader onto the electronic Options Floor Based Management System (as described in Rule 1080, Commentary .06). The following specific information with respect to orders negotiated by a Registered Options Trader shall be recorded by such Registered Options Trader or such Registered Options Trader's employees: (i) the order type (i.e., market maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle) or contingency order as described in Rule 1066; (v) number of contracts; (vi) limit price or market order or, in the case of a multi-leg order, net debit or credit, if applicable; and (vii) whether the transaction is to open or close a position, as applicable (collectively, the "required information"). A Registered Options Trader must enter complete alpha/numeric identification assigned by the Exchange for all orders entered. Any additional information with respect to the order shall be inputted into the Options Floor Based Management System contemporaneously upon receipt, which may occur after the negotiation and execution of the order.

Pursuant to Rule 1000(f), Registered Options Traders are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event that Registered Options Traders execute orders in the Exchange's options trading crowd pursuant to Rule 1000(f)(ii) (other than for the use of Snapshot, as set forth in Rule 1000(f)(ii)(E)), Registered Options Traders shall record the required information on trade tickets, and shall not negotiate an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Registered Options Traders or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

Registered Options Traders or their employees shall enter the required information (as described above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity, equity index and U.S. dollar-settled foreign currency options. Registered Options Traders or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

FBMS is designed to execute orders entered by Registered Options Traders, including multi-leg orders up to 15 legs, after negotiation in the trading crowd. When a Registered Options Trader submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the Registered Options Trader in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be

executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Registered Options Trader on the FBMS. The Registered Options Trader may resubmit the order for execution, as long as the quotes that comprise the order have not been withdrawn. Registered Options Traders are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Rules 1014, 1033 and 1084.

A Registered Options Trader is prohibited from triggering the Snapshot feature for the purpose of obtaining favorable priority or trade-through conditions or avoiding unfavorable priority or trade-through conditions.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

**B-8 Use of Floor Brokers by an ROT While on the Floor**

(a) When an ROT who is on the floor gives an order to a Floor Broker for execution, the ROT must initial and time stamp the order ticket. The Floor Broker or his employees must indicate on the Options Floor [Broker]Based Management System whether such order is opening or closing.

(b) If such order opens or increases a position in the account of an ROT, the ROT must be aware of the terms of the trade, initial and time stamp the order and retain a copy of the ticket.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

<u>1st Occurrence</u>	<u>\$250.00</u>
<u>2nd Occurrence</u>	<u>\$500.00</u>
<u>3rd Occurrence</u>	<u>\$1,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of</u>

## Enforcement

**B-9 – B-12** No change.

**C. FLOOR BROKERS**

**C-1** No Change.

**C-2 Options Floor [Broker]Based Management System**

Options Floor [Broker]Based Management System. In order to create an electronic audit trail for options orders represented by Floor Brokers on the Exchange's Options Floor, a Floor Broker or such Floor Broker's employees shall, contemporaneously upon receipt of an order and prior to the representation of such an order in the trading crowd, record all options orders represented by such Floor Broker onto the electronic Options Floor [Broker]Based Management System (as described in Rule 1080, Commentary .06). The following specific information with respect to orders represented by a Floor Broker shall be recorded by such Floor Broker or such Floor Broker's employees: (i) the order type (i.e., customer, firm, broker-dealer, professional, market maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle), or contingency order as described in Rule 1066; (v) number of contracts; (vi) limit price or market order or, in the case of a complex or multi-leg order, net debit or credit, if applicable; (vii) whether the transaction is to open or close a position; and (viii) The Options Clearing Corporation ("OCC") clearing number of the broker-dealer that submitted the order (collectively, the "required information"). A Floor Broker must enter complete alpha/numeric identification assigned by the Exchange for all orders entered on behalf of Exchange Registered Option Traders. Any additional information with respect to the order shall be inputted into the Options Floor [Broker]Based Management System contemporaneously upon receipt, which may occur after the representation and execution of the order.

Pursuant to Rule 1000(f), Floor Brokers are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event [of a malfunction in the Options Floor Broker Management System or in the event that the Exchange determines] that Floor Brokers [are permitted to ]execute orders in the Exchange's options trading crowd [for a specific reason ]pursuant to Rule 1000(f)(ii)(iii) (other than for the use of Snapshot, as set forth in Rule 1000(f)(ii)(E)), Floor Brokers shall record the required information on trade tickets, and shall not represent an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Floor Brokers or their employees shall [either enter the required information that is recorded on such trade tickets into the Exchange's electronic trading system or ensure that such information is entered for inclusion in the electronic audit trail]ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

Floor Brokers or their employees shall enter the required information (as described above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity, equity index and U.S. dollar-settled foreign currency options. Floor Brokers or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

FBMS is also designed to execute two-sided orders entered by Floor Brokers, including multi-leg orders up to 15 legs, after representation in the trading crowd. When a Floor Broker submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the Floor Broker in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Floor Broker on the FBMS. The Floor Broker may resubmit the order for execution, as long as the quotes/orders that comprise the cross have not been withdrawn. Floor Brokers are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Rules 1014, 1033 and 1084.

A Floor Broker is prohibited from triggering the Snapshot feature for the purpose of obtaining favorable priority or trade-through conditions or avoiding unfavorable priority or trade-through conditions.

**FINE SCHEDULE (Implemented on a two-year running calendar basis)**

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

**C-3 Handling Orders of ROTs and Other Registered Options Market Makers**

(a) No change.

(b) Upon receipt of an options order on the Exchange for any account of a person registered as an options market maker on another national securities exchange, the Floor

Broker or his employees must so indicate on the Options Floor [Broker]Based Management System and must ensure that the order is represented in the trading crowd as a "BD" order for the purposes of the Exchange's yielding requirements. A Floor Broker must make reasonable efforts to inquire which orders placed with him for execution on the Exchange qualify as such orders.

(c) Before handling an opening transaction on behalf of a ROT, the Floor Broker or his employees must ascertain that the ROT is aware of the terms of the trade and assure that the floor ticket has been initialed and time-stamped by the ROT and that the order is appropriately entered on the Options Floor [Broker]Based Management System. The Floor Broker must note on the Options Floor [Broker]Based Management System any opening off-floor order to be cleared into an Exchange market maker account, as indicated by a ROT seeking market maker margin treatment for such order pursuant to Rule 1014, Commentary .01 and Advice B-4, and comply with the requirements of Advice B-12 respecting multiply traded options.

(d) No change.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

**C-4 - C-9** No change.

**D. – E.** No change.

## **F. MISCELLANEOUS**

**F-1** No Change.

### **F-2 Allocation, Time Stamping, Matching and Access to Matched Trades**

(a) In order to facilitate timely tape reporting of trades, it is the duty of the persons identified below to allocate, match and time stamp trades executed in open outcry and to submit the matched trade tickets to an Exchange Data Entry Technician ("DET") located on the trading floor immediately upon execution. When executing trades electronically, it is also the duty of the persons identified below to enter and submit trade information to the Trading System using the Options Floor Based Management System. [Trades

executed electronically via the XL System and through the Options Floor Broker Management System are automatically trade reported without further action required by executing parties:]

(i) in a trade involving a Floor Broker, the Floor Broker shall do so, provided that a Floor Broker may delegate this responsibility to the Specialist (or an assistant to the Specialist under the Specialist's direct supervision) if the Specialist agrees to accept such responsibility, and, in the event of such delegation, the Specialist (or an assistant to the Specialist under the Specialist's direct supervision) shall do so:

(ii) in all other cases where the Specialist is a participant (i.e., where there is no Floor Broker), the Specialist (or an assistant to the Specialist under the Specialist's direct supervision) shall do so.

(iii) in any other case (i.e., where there is no Floor Broker and no Specialist is involved), the largest participant shall do so (for example, where several Registered Options Traders are involved):

and

(iv) if there is only one seller and one buyer (no Floor Broker and no Specialist is involved), the seller shall do so (for example, where only two Registered Options Traders are involved).

The person responsible for trade allocation (the "Allocation Participant") shall, for each trade allocated by such Allocating Participant, circle his or her badge identification number on the trade tickets, identifying himself or herself as the Allocating Participant in the particular trade. If the Allocating Participant is not a participant in the trade to be allocated, he/she shall identify himself/herself/ by initialing the trade tickets. In the case of a trade, executed using the Floor Based Management System, [in which a Floor Broker is the Allocating Participant]such [Floor Broker]member shall allocate the trade using the Options Floor [Broker]Based Management System.

(b) A member or member organization initiating an options transaction, whether acting as principal or agent, must report or ensure that the transaction is reported within 90 seconds of the execution to the tape. Transactions not reported within 90 seconds after execution shall be designated as late. A pattern or practice of late reporting without exceptional circumstances may be considered conduct inconsistent with just and equitable principles of trade.

(c) Execution times must be recorded on the reverse side of one or more of the tickets to a matched trade.

(d) Once a trade has been matched and submitted to a DET located on the trading floor for reporting, the respective parties to the trade must preserve the matched tickets, or copies thereof, for a period of not less than three years.

(e) Member access to tickets comprising a matched trade is available to any participant of that trade, as well as the respective Specialist and any Options Exchange Official acting in his capacity as an Options Exchange Official. Requests to review trade matches must be made with the Specialist Unit.

FINE SCHEDULE (Implemented on a three-year running calendar basis).

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

**F-2 (b)**

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,500.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

**F-3 Reserved.**

**F-4 Orders Executed as Spreads, Straddles, Combinations or Synthetics and Other Order Ticket Marking Requirements**

(a) Sp, St, Comb, Syn - Members executing spread, straddle or combination orders in reliance upon the "spread priority rule," Rule 1033(d), or synthetic option (buy-write, synthetic put and synthetic call) orders, must mark the tickets as "sp" for spreads, "st" for straddles, "comb" for combinations and "syn" for synthetics. [In the case of trades involving a Floor Broker, such Floor Broker or his employees] Members or their employees must make the appropriate notation on the Options Floor [Broker] Based Management System.

(b) Additional Marking Requirements - The following is a list of requirements to mark order tickets or, in the case of trades involving [a Floor Broker, for such Floor Broker or his employees] the Options Floor Based Management System to make the appropriate

notations on the Options Floor [Broker]Based Management System, including a description and reference to the Rule or Advice requiring such mark or notation:

Circling "yield"	yielding/11(a) (1)	Advice B-6
acronym	identification letter/#s	Advice F-1
ROT initial/time stamp	on-floor brokered orders	Advice B-8, C-3
SS	sold sale	Advice F-3
F	facilitation	Advice B-11
BD	non-member BD	Advice A-11
B/X	bid-exempt	Rule 1072
N	non-Phlx ROTs	Advice C-3
P	off-floor/market maker margin	Rule 1014, Comm. .01
P/A	principal acting as agent	Rule 1015

**FINE SCHEDULE (Implemented on a two-year running calendar basis)**

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

**F-5 - F-35** No Change.

**G. – H.** No Change.

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