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

File No.* SR - 2018 - * 49
Amendment No. (req. for Amendments *)

Filing by Nasdaq PHLX LLC

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

Initial * ☑ Amendment * ☐ Withdrawal ☐

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

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule

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

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

Section 806(e)(1) * ☐ Section 806(e)(2) * ☐

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

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐ Exhibit 3 Sent As Paper Document ☐

Description

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

Proposal to amend Rule 1064(d) related to Anticipatory Hedging.

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Angela Last Name * Dunn

Title * Principal Associate General Counsel

E-mail * Angela.Dunn@nasdaq.com

Telephone * (215) 496-5692 Fax

Signature

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

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

Date 06/20/2018

By Edward S. Knight

(Name *)

(Title *)

Executive Vice President and General Counsel

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.

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information * Add Remove View	The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.
Exhibit 1 - Notice of Proposed Rule Change * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications Add Remove View Exhibit Sent As Paper Document ☐	Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.
Exhibit 3 - Form, Report, or Questionnaire Add Remove View Exhibit Sent As Paper Document ☐	Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.
Exhibit 4 - Marked Copies Add Remove View	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
Exhibit 5 - Proposed Rule Text Add Remove View	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.
Partial Amendment Add Remove View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) Nasdaq PHLX LLC ("Phlx" or "Exchange"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] is filing with the Securities and Exchange Commission ("SEC" or "Commission") a proposal to amend Rule 1064(d) related to Anticipatory Hedging.

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 June 20, 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:

Angela Saccomandi Dunn
Principal Associate General Counsel
Nasdaq, Inc.
215-496-5692

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

a. Purpose

The Exchange proposes to amend Rule 1064 entitled "Crossing, Facilitation and Solicited Orders." Specifically, the Exchange proposes to amend 1064(d)(iii)(A) to add a

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

[2] 17 CFR 240.19b-4.

specific eligibility size when transacting options on the Nasdaq 100® Index including options with nonstandard expiration dates[3] ("NDX" and "NDXP"). The Exchange also proposes to amend an incorrect cross-reference to Rule 1064 and replace certain references with a defined term.

Rule 1064(d) describes rules for anticipatory hedging on Phlx. The rule provides:

> '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) the terms and conditions of the order and any changes in the terms of the order of which the member, member organization or person associated with a member or member organization has knowledge are disclosed to the trading crowd, or (ii) the trade can no longer reasonably be considered imminent in view of the passage of time since the order was received. For purposes of this Rule, an order to buy or sell a "related instrument" means, in reference to an index option, an order to buy or sell securities comprising 10% or more of the component securities in the index or an order to buy or sell a futures contract on an economically equivalent index.'

Among other conditions, Rule 1064(d)(iii) provides that it 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 the option order is in a class designated as eligible for "tied hedge" transactions[4] as determined by the Exchange and is within the designated tied hedge eligibility size parameters, which parameters shall be

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3 NDX represents A.M.-settled options on the Nasdaq 100® Index. NDXP represent P.M.-settled options on the Nasdaq 100® Index.

4 A tied hedge transaction is described in Rule 1064(d)(iii)(C)-(H).

determined by the Exchange and may not be smaller than 500 contracts per order (there shall be no aggregation of multiple orders to satisfy the size parameter).

When Phlx originally adopted the anticipatory hedge rule in 2001,[5] the Exchange believed that the prohibition on anticipatory hedging was necessary to prevent members and associated persons from using undisclosed non-public information about imminent solicited option transactions to trade the relevant option or any closely-related instrument in advance of persons represented in the relevant options crowd. The Exchange notes that this rule was designed to preserve the right to cross orders in advance of submitting a proposal to the trading crowd, while at the same time assuring that orders that are the subject of crossing are exposed to the auction market (trading crowd) in a meaningful way by prohibiting behavior such as anticipatory hedging.[6]

The Exchange notes that the primary purpose of the provision, "not smaller than 500 contracts" is to limit use of the tied hedge procedures to larger orders that might benefit from a member's or member organization's ability to execute a facilitating hedge.[7] In that filing the Exchange stated that it believes that, given the decreased amount of liquidity available at the NBBO, the frequency with which quotes may flicker, and differing costs associated with accessing liquidity on various markets, as well as for

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5 See Securities Exchange Act Release No. 44740 (August 23, 2001), 66 FR 45721 (August 29, 2001) (SR-Phlx-2001-61).

6 See Securities Exchange Act Release No. 61066 (November 25, 2009), 74 FR 63162 (December 2, 2009) (SR-Phlx-2009-98).

7 See note 5 above.

ease of administration, the proposed 500 contract minimum should be sufficient to address these considerations.[8]

The Exchange is proposing to add an exception to the eligibility size parameters for options on the Nasdaq 100® Index including options with nonstandard expiration dates ("NDX" and "NDXP") which lowers the size eligibility for this index to not smaller than 50 contracts per order. The Exchange believes that this smaller order eligibility size is appropriate for NDX and NDXP because the index value for NDX and NDXP is high as compared to other securities instruments. An index has a multiplier of 100. The Exchange believes that lowering the eligibility size for NDX and NDXP from 500 to 50 contracts is appropriate because it would reduce the minimal notional value of the trade.

For example NDX, as of May 8, 2018, had an Index Level of 6801.60 and therefore the notional value calculated by multiply by 100 would be $680,160 as compared to RUT (Russell 2000) which had an index value of 1582.16 with a notional value of $158,216 (100 x index value) on May 8, 2018. Please note NDX is approximately 4.25 times larger than RUT. Specifically, comparing the premium value of NDX front month at-the-money calls for May 18th 6800 midpoint would be $77.95. Utilizing this value with 500 contracts would equate to a total premium for NDX of $3,897,500 and utilizing this value with 50 contracts would equate to a total premium for NDX of $389,750. By comparison, the premium value of RUT front month at-the-money calls for May 18th 1580 midpoint would be $10.45. Utilizing this value with 500 contracts would equate to a total premium for RUT of $522,500 and utilizing this value with 50 contracts would equate to a total premium for RUT of $52,250. The example

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8 See note 5 above.

demonstrates the larger size of NDX (4.25 times larger) as compared to another broad based index, RUT. The total premium of 50 contracts of NDX ($389,750) is smaller than 500 contracts of RUT ($522,500), however compared to other option orders including other broad based indexes, NDX would be larger.

For example NDX, as of April 23, 2018, had an Index Level of 6,691.92 and therefore the notional value calculated by multiply by 100 would be $669,192 as compared to SPX (S&P 500) which had an index value of 2,674.77 with a notional value of $267,477 (100 x index value) on April 23, 2018. Please note NDX is approximately 2.5 times larger than SPX. Specifically, comparing the premium value of NDX front month at-the-money calls for May 18th 6690 midpoint would be $147.60. Utilizing this value with 500 contracts would equate to a total premium for NDX of $7,380,000 and utilizing this value with 50 contracts would equate to a total premium for NDX of $738,000. By comparison, the premium value of SPX front month at-the-money calls for May 18th 2675 midpoint would be $39.05. Utilizing this value with 500 contracts would equate to a total premium for SPX of $1,952,500 and utilizing this value with 50 contracts would equate to a total premium for SPX of $195,250. The example demonstrates the size of NDX as compared to another large broad based index, SPX. The total premium of 50 contracts of NDX ($738,000) is smaller than 500 contracts of SPX ($1,952,500). This example reflects the size comparison against a large broad based index and demonstrates the size of NDX.

The Exchange notes that this smaller size carve out for NDX is in line with the original intent of the selection of the size of the contracts, to limit use of the tied hedge procedures to larger orders that might benefit from a member's or member organization's ability to execute a facilitating hedge. The Exchange notes that a size of 50 contracts for NDX is still considered a large size order and in fact, in the case of NDX, a larger size than 500 contracts for an option contract.

The Exchange notes that it conducts certain surveillances in connection with anticipatory hedging. Specifically, the Exchange conducts an on-floor surveillance to ensure both the stock and option component parts of the trade were exposed in open outcry and there was a reasonable opportunity for the trading crowd to participant in the transaction. Further, post-trade surveillance is conducted with respect to anticipatory hedging rules. The Exchange notes that pursuant to Phlx Rule 1064(d)(iii)(G), prior to entering tied hedge orders on behalf of customers, the member or member organization must deliver to the customer a written notification informing the customer that his order may be executed using the Exchange's tied hedge procedures. The written notification must disclose the terms and conditions contained herein and be in a form approved by the Exchange. The Exchange notes that tied hedge transactions does not occur with great frequency on the Exchange’s trading floor.

<u>Amend Cross Reference and Define Term</u>

The Exchange proposes to amend Rule 1066(f)(4) entitled “Tied Hedge Order.” Currently, the rule provides that a tied hedge order is an option order that is tied to a hedge transaction as defined in Commentary .04 to Rule 1064, following the receipt of an option order in a class determined by the Exchange as eligible for “tied hedge” transactions. The Exchange proposes to replace Commentary .04 to Rule 1064 within Rule 1066(f)(4) to reference Rule 1064(d)(iii) to correct the cross-reference.

The Exchange also proposes to replace legacy references to the Exchange's trading platform in Rule 1066, namely "PHLX XL" and "PHLX XL II" with the term "System" which was recently defined by the Exchange.[9]

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[10] in general, and furthers the objectives of Section 6(b)(5) of the Act,[11] 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, by permitting NDX and NDXP to meet the eligibility requirements for Rule 1064(d).

The Exchange's proposed amendment to Rule 1064(d) to permit lower size eligibility requirements for NDX and NDXP of not smaller than 50 contracts per order is consistent with the Act and the protection of investors and the public interest because this smaller order eligibility size is appropriate for NDX and NDXP. NDX is a broad based index that is designed to reflect the movement of a large segment of the market. Each of these options represents a notional value equal to 100 units of the index. NDX is a large-cap growth index with 105 components. As with other broad based indexes, NDX has a large notional value as compared to non-index options. The index value for NDX and NDXP is 6400. Based on the index multiplier of 100, an index option would equate to 640,000 in notional value, which is high. The Exchange believes that lowering the

9 System is defined in Phlx Rule 1000(b)(45).

10 15 U.S.C. 78f(b).

11 15 U.S.C. 78f(b)(5).

eligibility size for NDX and NDXP from 500 to 50 contracts is appropriate because it would reduce the notional value of one contract to 64,000 in notional value. The proposed rule would permit an eligibility size for NDX and NDXP that takes into account the notional value for this index. The Exchange believes that permitting the lower eligibility size for NDX and NDXP does not substantively amend the eligible order size, rather it provides a more appropriate mathematical equivalent.

The Exchange notes that this smaller size carve out for NDX is in line with the original intent of the selection of the size of the contracts, to limit use of the tied hedge procedures to larger orders that might benefit from a member's or member organization's ability to execute a facilitating hedge. The Exchange notes that a size of 50 contracts for NDX is still considered a large size order and in fact, in the case of NDX, a larger size than 500 contracts for an option contract.

Amend Cross Reference and Define Term

The Exchange's proposal to replace Commentary .04 to Rule 1064 with Rule 1064(d)(iii) to correct the cross-reference and replace "PHLX XL" and "PHLX XL II" with the term "System" are consistent with the Act because they will provide more clarity as to the Exchange's Rules. The Exchange also proposes to replace the words "PHLX XL" in the title of Phlx Rule 1066 with the newly defined term System. The term PHLX XL is the name of the Exchange's trading platform. The term "System" is intended to define the electronic trading platform.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the proposed amendment to Rule 1064(d) to permit lower size eligibility requirements for NDX and NDXP will apply uniformly to all market participants. The Exchange notes that this smaller size carve out for NDX is in line with the original intent of the selection of the size of the contracts, to limit use of the tied hedge procedures to larger orders that might benefit from a member's or member organization's ability to execute a facilitating hedge. The Exchange's proposal to replace Commentary .04 to Rule 1064 with Rule 1064(d)(iii) to correct the cross-reference and replace "PHLX XL" and "PHLX XL II" with the term "System" are non-substantive rule changes.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

The Exchange does not consent to an extension of the time period for Commission action.

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

Not applicable.

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

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-2018-49)

June __, 2018

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing of Proposed Rule Change Relating to Anticipatory Hedging

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1], and Rule 19b-4 thereunder,[2] notice is hereby given that on June 20, 2018, Nasdaq PHLX LLC ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 1064(d) related to Anticipatory Hedging.

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

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at

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

2 17 CFR 240.19b-4.

the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange proposes to amend Rule 1064 entitled "Crossing, Facilitation and Solicited Orders." Specifically, the Exchange proposes to amend 1064(d)(iii)(A) to add a specific eligibility size when transacting options on the Nasdaq 100® Index including options with nonstandard expiration dates[3] ("NDX" and "NDXP"). The Exchange also proposes to amend an incorrect cross-reference to Rule 1064 and replace certain references with a defined term.

Rule 1064(d) describes rules for anticipatory hedging on Phlx. The rule provides:

> '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) the terms and conditions of the order and any changes in the terms of the order of which the member, member organization or person associated with a member or member organization has knowledge are disclosed to the trading crowd, or (ii) the trade can no longer reasonably be considered imminent in view of the passage of time since the order was received. For purposes of this Rule, an order to buy or sell a "related instrument" means, in reference to an index option, an order to buy or sell securities comprising 10% or more of the component securities in the index or an order to buy or sell a futures contract on an economically equivalent index.'

Among other conditions, Rule 1064(d)(iii) provides that it does not prohibit a member or member organization from buying or selling a stock, security futures or

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futures position following receipt of an option order, including a complex order, but prior to announcing such order to the trading crowd, provided that the option order is in a class designated as eligible for "tied hedge" transactions[4] as determined by the Exchange and is within the designated tied hedge eligibility size parameters, which parameters shall be determined by the Exchange and may not be smaller than 500 contracts per order (there shall be no aggregation of multiple orders to satisfy the size parameter).

When Phlx originally adopted the anticipatory hedge rule in 2001,[5] the Exchange believed that the prohibition on anticipatory hedging was necessary to prevent members and associated persons from using undisclosed non-public information about imminent solicited option transactions to trade the relevant option or any closely-related instrument in advance of persons represented in the relevant options crowd. The Exchange notes that this rule was designed to preserve the right to cross orders in advance of submitting a proposal to the trading crowd, while at the same time assuring that orders that are the subject of crossing are exposed to the auction market (trading crowd) in a meaningful way by prohibiting behavior such as anticipatory hedging.[6]

The Exchange notes that the primary purpose of the provision, "not smaller than 500 contracts" is to limit use of the tied hedge procedures to larger orders that might benefit from a member's or member organization's ability to execute a facilitating

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[5] See Securities Exchange Act Release No. 44740 (August 23, 2001), 66 FR 45721 (August 29, 2001) (SR-Phlx-2001-61).

[6] See Securities Exchange Act Release No. 61066 (November 25, 2009), 74 FR 63162 (December 2, 2009) (SR-Phlx-2009-98).

hedge.[7] In that filing the Exchange stated that it believes that, given the decreased amount of liquidity available at the NBBO, the frequency with which quotes may flicker, and differing costs associated with accessing liquidity on various markets, as well as for ease of administration, the proposed 500 contract minimum should be sufficient to address these considerations.[8]

The Exchange is proposing to add an exception to the eligibility size parameters for options on the Nasdaq 100® Index including options with nonstandard expiration dates ("NDX" and "NDXP") which lowers the size eligibility for this index to not smaller than 50 contracts per order. The Exchange believes that this smaller order eligibility size is appropriate for NDX and NDXP because the index value for NDX and NDXP is high as compared to other securities instruments. An index has a multiplier of 100. The Exchange believes that lowering the eligibility size for NDX and NDXP from 500 to 50 contracts is appropriate because it would reduce the minimal notional value of the trade.

For example NDX, as of May 8, 2018, had an Index Level of 6801.60 and therefore the notional value calculated by multiply by 100 would be $680,160 as compared to RUT (Russell 2000) which had an index value of 1582.16 with a notional value of $158,216 (100 x index value) on May 8, 2018. Please note NDX is approximately 4.25 times larger than RUT. Specifically, comparing the premium value of NDX front month at-the-money calls for May 18th 6800 midpoint would be $77.95. Utilizing this value with 500 contracts would equate to a total premium for NDX of $3,897,500 and utilizing this value with 50 contracts would equate to a total premium for

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7 See note 5 above.

8 See note 5 above.

NDX of $389,750. By comparison, the premium value of RUT front month at-the-money calls for May 18th 1580 midpoint would be $10.45. Utilizing this value with 500 contracts would equate to a total premium for RUT of $522,500 and utilizing this value with 50 contracts would equate to a total premium for RUT of $52,250. The example demonstrates the larger size of NDX (4.25 times larger) as compared to another broad based index, RUT. The total premium of 50 contracts of NDX ($389,750) is smaller than 500 contracts of RUT ($522,500), however compared to other option orders including other broad based indexes, NDX would be larger.

For example NDX, as of April 23, 2018, had an Index Level of 6,691.92 and therefore the notional value calculated by multiply by 100 would be $669,192 as compared to SPX (S&P 500) which had an index value of 2,674.77 with a notional value of $267,477 (100 x index value) on April 23, 2018. Please note NDX is approximately 2.5 times larger than SPX. Specifically, comparing the premium value of NDX front month at-the-money calls for May 18th 6690 midpoint would be $147.60. Utilizing this value with 500 contracts would equate to a total premium for NDX of $7,380,000 and utilizing this value with 50 contracts would equate to a total premium for NDX of $738,000. By comparison, the premium value of SPX front month at-the-money calls for May 18th 2675 midpoint would be $39.05. Utilizing this value with 500 contracts would equate to a total premium for SPX of $1,952,500 and utilizing this value with 50 contracts would equate to a total premium for SPX of $195,250. The example demonstrates the size of NDX as compared to another large broad based index, SPX. The total premium of 50 contracts of NDX ($738,000) is smaller than 500 contracts of

SPX ($1,952,500). This example reflects the size comparison against a large broad based index and demonstrates the size of NDX.

The Exchange notes that this smaller size carve out for NDX is in line with the original intent of the selection of the size of the contracts, to limit use of the tied hedge procedures to larger orders that might benefit from a member's or member organization's ability to execute a facilitating hedge. The Exchange notes that a size of 50 contracts for NDX is still considered a large size order and in fact, in the case of NDX, a larger size than 500 contracts for an option contract.

The Exchange notes that it conducts certain surveillances in connection with anticipatory hedging. Specifically, the Exchange conducts an on-floor surveillance to ensure both the stock and option component parts of the trade were exposed in open outcry and there was a reasonable opportunity for the trading crowd to participant in the transaction. Further, post-trade surveillance is conducted with respect to anticipatory hedging rules. The Exchange notes that pursuant to Phlx Rule 1064(d)(iii)(G), prior to entering tied hedge orders on behalf of customers, the member or member organization must deliver to the customer a written notification informing the customer that his order may be executed using the Exchange's tied hedge procedures. The written notification must disclose the terms and conditions contained herein and be in a form approved by the Exchange. The Exchange notes that tied hedge transactions does not occur with great frequency on the Exchange's trading floor.

<u>Amend Cross Reference and Define Term</u>

The Exchange proposes to amend Rule 1066(f)(4) entitled "Tied Hedge Order." Currently, the rule provides that a tied hedge order is an option order that is tied to a hedge transaction as defined in Commentary .04 to Rule 1064, following the receipt of an option order in a class determined by the Exchange as eligible for "tied hedge" transactions. The Exchange proposes to replace Commentary .04 to Rule 1064 within Rule 1066(f)(4) to reference Rule 1064(d)(iii) to correct the cross-reference.

The Exchange also proposes to replace legacy references to the Exchange's trading platform in Rule 1066, namely "PHLX XL" and "PHLX XL II" with the term "System" which was recently defined by the Exchange.[9]

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[10] in general, and furthers the objectives of Section 6(b)(5) of the Act,[11] 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, by permitting NDX and NDXP to meet the eligibility requirements for Rule 1064(d).

The Exchange's proposed amendment to Rule 1064(d) to permit lower size eligibility requirements for NDX and NDXP of not smaller than 50 contracts per order is consistent with the Act and the protection of investors and the public interest because this smaller order eligibility size is appropriate for NDX and NDXP. NDX is a broad based index that is designed to reflect the movement of a large segment of the market. Each of these options represents a notional value equal to 100 units of the index. NDX is a large-cap growth index with 105 components. As with other broad based indexes, NDX has a

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[9] System is defined in Phlx Rule 1000(b)(45).

[10] 15 U.S.C. 78f(b).

[11] 15 U.S.C. 78f(b)(5).

large notional value as compared to non-index options. The index value for NDX and NDXP is 6400. Based on the index multiplier of 100, an index option would equate to 640,000 in notional value, which is high. The Exchange believes that lowering the eligibility size for NDX and NDXP from 500 to 50 contracts is appropriate because it would reduce the notional value of one contract to 64,000 in notional value. The proposed rule would permit an eligibility size for NDX and NDXP that takes into account the notional value for this index. The Exchange believes that permitting the lower eligibility size for NDX and NDXP does not substantively amend the eligible order size, rather it provides a more appropriate mathematical equivalent.

The Exchange notes that this smaller size carve out for NDX is in line with the original intent of the selection of the size of the contracts, to limit use of the tied hedge procedures to larger orders that might benefit from a member's or member organization's ability to execute a facilitating hedge. The Exchange notes that a size of 50 contracts for NDX is still considered a large size order and in fact, in the case of NDX, a larger size than 500 contracts for an option contract.

Amend Cross Reference and Define Term

The Exchange's proposal to replace Commentary .04 to Rule 1064 with Rule 1064(d)(iii) to correct the cross-reference and replace "PHLX XL" and "PHLX XL II" with the term "System" are consistent with the Act because they will provide more clarity as to the Exchange's Rules. The Exchange also proposes to replace the words "PHLX XL" in the title of Phlx Rule 1066 with the newly defined term System. The term PHLX XL is the name of the Exchange's trading platform. The term "System" is intended to define the electronic trading platform.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the proposed amendment to Rule 1064(d) to permit lower size eligibility requirements for NDX and NDXP will apply uniformly to all market participants. The Exchange notes that this smaller size carve out for NDX is in line with the original intent of the selection of the size of the contracts, to limit use of the tied hedge procedures to larger orders that might benefit from a member's or member organization's ability to execute a facilitating hedge. The Exchange's proposal to replace Commentary .04 to Rule 1064 with Rule 1064(d)(iii) to correct the cross-reference and replace "PHLX XL" and "PHLX XL II" with the term "System" are non-substantive rule changes.

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

No written comments were either solicited or received.

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

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

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2018-49 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-2018-49. 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-2018-49 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.[12]

Eduardo A. Aleman
Assistant Secretary

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

EXHIBIT 5

New text is underlined; deleted text is in brackets.

Nasdaq PHLX Rules

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Rule 1064. Crossing, Facilitation and Solicited Orders

(a) – (c) No change.

(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) and (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) the option order is in a class designated as eligible for "tied hedge" transactions (as described below) as determined by the Exchange and is within the designated tied hedge eligibility size parameters, which parameters shall be determined by the Exchange and may not be smaller than 500 contracts per order<u>, except that options on the Nasdaq 100® Index including options with nonstandard expiration dates ("NDX" and "NDXP") may not be smaller than 50 contracts per order</u> (there shall be no aggregation of multiple orders to satisfy the size parameter);

(B) – (I) No change.

(e) No change.

• • • ***Commentary:*** ------------------

.01 and **.02** No change.

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Rule 1066. Certain Types of Floor-Based (Non-[PHLX XL]<u>System</u>) Orders Defined

(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) - (3) No change.

(4) *Tied Hedge Order.* A tied hedge order is an option order that is tied to a hedge transaction as defined in [Commentary .04 to]Rule 1064(d)(iii), following the receipt of an option order in a class determined by the Exchange as eligible for "tied hedge" transactions.

(5) – (8) No change.

(g) No change.

(h) *Routing order types*. In the System[Phlx XL II], the following order types will be available and governed by Rule 1080(m): DNR (do not route), FIND and SRCH.

• • • ***Commentary:*** ------------------

.01 and **.02** No change.

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