

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 23	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2018 - * 63	Amendment No. (req. for Amendments *)
Filing by Nasdaq PHLX LLC Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934				
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" 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 checked="" 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"/>			
<b>Description</b>				
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).				
<input type="text" value="A proposal to amend Exchange Rule 1101A, Terms of Option Contracts"/>				
<b>Contact Information</b>				
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="Carla"/>	Last Name *	<input type="text" value="Behnfeldt"/>	
Title *	<input type="text" value="Associate General Counsel"/>			
E-mail *	<input type="text" value="carla.behnfeldt@nasdaq.com"/>			
Telephone *	<input type="text" value="(215) 496-5208"/>	Fax	<input type="text"/>	
<b>Signature</b>				
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="10/23/2018"/>	<input type="text" value="Global Legal and Policy Officer"/>		
By	<input type="text" value="Edward S. Knight"/>	<input type="text"/>		
(Name *)		<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 amend Exchange Rule 1101A, Terms of Option Contracts. The Exchange requests that the Commission waive the 30-day operative delay period contained in Exchange Act Rule 19b-4(f)(6)(iii).<sup>3</sup>

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange (the “Board”) on September 19, 2017. Exchange staff will advise the Board of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

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

Carla Behnfeldt  
Associate General Counsel  
Nasdaq, Inc.

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

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

<sup>3</sup> 17 CFR 240.19b-4(f)(6)(iii).

(215) 496-5208

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

a. Purpose

The purpose of the proposed rule change is to adopt new Exchange Rules 1101A(e)(I), 1101A(f) and 1101A(g). Proposed Rules 1101A(e)(I) and 1101A(g) would establish the manner of determining an underlying index component security's price for purposes of calculating the current index value at expiration of an overlying index option when (i) the primary market for that security does not open for trading on a given day, and (ii) the Options Clearing Corporation ("OCC") does not exercise its authority to establish the index option settlement value.<sup>4</sup> They also acknowledge OCC's authority under its own rules and by-laws to establish settlement prices in certain circumstances. Proposed new Rule 1101A(f) clarifies an issue relating to the level of indexes underlying A.M.-settled index options at expiration.

Proposed Rules 1101A(e)(I) and (g)

Exchange Rule 1101A(e) currently states that the current index value at the expiration of an A.M.-settled index option shall be determined, for all purposes under Exchange rules and OCC rules, on the last day of trading in the underlying securities prior to expiration, by reference to the reported level of such index as derived from first

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<sup>4</sup> Three of the Exchange's affiliated options exchanges, Nasdaq ISE, LLC ("ISE"), The Nasdaq Stock Market LLC ("Nasdaq") and Nasdaq BX, Inc. ("BX"), will also be proposing rule changes relating to the manner of determining an underlying index component security's price for purposes of calculating the current index value at expiration of an index option under these circumstances. See SR-NASDAQ-2018-081, SR-BX-2018-049, and SR-ISE-2018-88. The Exchange desires its rules to be aligned with those of the affiliated exchanges.

reported sale (opening) prices of the underlying securities on such day, except that in the event that the primary market for an underlying security is open for trading on that day, but that particular security does not open for trading on that day, the price of that security, for the purposes of calculating the current index value at expiration, shall be the last reported sale price of the security. The Exchange now proposes to add new Rule 1101A(g) to deal expressly with cases where the entire primary market for an underlying component security is not open on that day. Rule 1101A(g) would apply to both A.M.-settled and P.M.-settled index options.<sup>5</sup>

Proposed Rule 1101A(g) would add an exception and would state that when the primary market for a security underlying the current index value of an index option does not open for trading on a given day which is an expiration day, for the purposes of calculating the settlement price at expiration, the last reported sale price of the security from the previous trading day shall be used. Proposed new Rule 1101A(g) would permit market participants the certainty of knowing the settlement value on the day on which the primary market fails to open. Additionally, the provision would eliminate the potential difficulties that could arise if the reporting authority for the index were unwilling or unable to calculate the settlement value using prices for the relevant security(ies) on the next day that its primary market is open for trading.<sup>6</sup>

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<sup>5</sup> P.M.-settled options are settled based upon the closing index value for the day on which the index options contract is exercised in accordance with OCC rules or, if such day is not a business day, for the most recent business day. See Phlx Rule 1101A(d).

<sup>6</sup> The index calculator for the NDX, MNX and BKK indexes, which are products traded on Nasdaq affiliated exchanges, uses the previous day's closing price if components of the index do not open.

The new rule would also state that this procedure shall not be used if the current index value at expiration is fixed in accordance with OCC rules and by-laws. This language recognizes that OCC is authorized under its rules and by-laws to take certain actions relating to settlement in the event of the unavailability or inaccuracy of the current underlying interest value.<sup>7</sup> The proposed language makes clear that Rule 1101A(g) would not apply in the event that OCC exercises its authority to determine settlement prices. Rather, the proposed new language would apply only when a primary market does not open and OCC elects not to exercise its authority to intervene and take action to establish a settlement price. The Exchange would otherwise defer to OCC. A cross-reference to Rule 1101A(g) would be added to Rule 1101A(e) by adding new Rule 1101A(e)(I).

Proposed Rule 1101A(e)(I) is based upon Chapter XIV, Section 11(a)(5)(i) of the Nasdaq Rulebook.

Proposed Rule 1101A(f)

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<sup>7</sup> See OCC By-Laws Article XVII, Section 4(a), which provides in relevant part that if OCC shall determine that the primary market for one or more index components did not open or remain open for trading (or that any such components did not open or remain open for trading on such market(s)) on a trading day at or before the time when the current index value for that trading day would ordinarily be determined, or that a current index value or other value or price to be used as, or to determine, the exercise settlement amount (a “required value”) for a trading day is otherwise unreported, inaccurate, unreliable, unavailable or inappropriate for purposes of calculating the exercise settlement amount, then, in addition to any other actions that OCC may be entitled to take under OCC’s bylaws and rules, the OCC is empowered to take any or all of a range of permitted actions with respect to any series of options on such index, including fixing the exercise settlement amount. Proposed Rule 1101A(g) would apply to both A.M.-settled and P.M.-settled index options.

Separately, the Exchange proposes to adopt new Rule 1101A(f), Index Level, intended to alert investors to the fact that the exercise settlement value of an index option that is derived from opening prices of the constituent securities (an “A.M.-settled index option”) may not be reported for several hours following the opening of trading in those securities. A number of updated index levels may be reported at and after the opening before the exercise settlement value is reported, and there could be a substantial divergence between those reported index levels and the reported exercise settlement value. The proposed new rule would provide that the reported level of the underlying index that is calculated by the reporting authority for purposes of determining the current index value at the expiration of an A.M.-settled index option may differ from the level of the index that is separately calculated and reported by the reporting authority and that reflects trading activity subsequent to the opening of trading in any of the underlying securities. Proposed new Rule 1101A(f) is based upon Chapter XIV, Section 11(d) of the Nasdaq rulebook.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>8</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>9</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.

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<sup>8</sup> 15 U.S.C. 78f(b).

<sup>9</sup> 15 U.S.C. 78f(b)(5).

As noted above, proposed Rules 1101A(e)(I) and (g) would establish clearly the procedure for determination of an index component security's price in the event that the primary market for the security fails to open. By adopting the proposed rule, the Exchange would provide certainty to the market regarding the procedure it would follow in the absence of action by OCC. Additionally, it would provide market participants with the certainty of knowing the settlement value on the day on which the primary market fails to open.

It would also acknowledge clearly, however, that OCC may, under its rules and by-laws, establish settlement prices for expiring index options that may differ from the settlement prices that would otherwise be provided for in Exchange rules, thereby protecting investors and the public interest by reducing potential for confusion in that regard.

Likewise, proposed Rule 1101A(f) states clearly that the reported level of the underlying index that is calculated by the reporting authority for purposes of determining the current index value at the expiration of an A.M.-settled index option may differ from the level of the index that is separately calculated and reported by the reporting authority and that reflects trading activity subsequent to the opening of trading in any of the underlying securities, again protecting investors and the public interest by reducing potential for confusion arising from the fact that the exercise settlement value of an index option derived from opening prices of constituent securities may diverge from reported index levels.

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. On the contrary, the Exchange believes that the proposed amendment will benefit investors, market participants, and the marketplace in general by setting forth clearly the manner in which index option settlement values will be determined if the primary market for a security underlying the current index value of an index option does not open for trading, and by stating that the Exchange will defer to OCC in the determination of settlement prices when and if OCC exercises its authority under its own settlement price procedures in accordance with its rules and by-laws. The proposal also provides clarity regarding the calculation of the index level, as distinct from the exercise settlement value, on the last day of trading in the underlying component securities of an A.M.-settled index option.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

Not Applicable.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)<sup>10</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>11</sup> in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the

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<sup>10</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>11</sup> 17 CFR 240.19b-4(f)(6).

Commission may designate if consistent with the protection of investors and the public interest. The proposed rule change does not significantly affect the protection of investors or the public interest, nor does not impose any significant burden on competition. Rather, it eliminates potential confusion on the part of the investing public regarding determination of settlement prices for index options when the primary market for a component security fails to open on expiration day, including in instances where OCC exercises its authority under its own rules and by-laws regarding settlement. In those instances where OCC declines to exercise its authority, the proposal would provide market participants with the certainty of knowing the settlement value on the day on which the primary market fails to open, and would eliminate the potential difficulties that could arise if the reporting authority for the index were unwilling or unable to calculate the settlement value using prices for the relevant security(ies) on the next day that its primary market is open for trading. Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

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

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the 30-day operative delay period for “non-controversial” proposals contained in Rule 19b-4(f)(6)(iii) and make the proposed rule change effective and operative upon filing. Such a waiver will permit the Exchange to immediately amend Rule 1101A, thereby eliminating any potential confusion on the part of the investing public regarding determination of settlement prices for index options, including in instances where OCC exercises its authority under its own rules and by-laws regarding settlement, and also immediately informing the market that the reported level of the underlying index that is calculated by the reporting authority for purposes of determining the current index value at the expiration of an A.M.-settled index option may differ from the level of the index that is separately calculated and reported by the reporting authority and that reflects trading activity subsequent to the opening of trading in any of the underlying securities. The added clarity should benefit all users of the Exchange’s index option market.

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

Proposed Rule 1101A(e)(I) is based upon Chapter XIV, Section 11(a)(5)(i) of the Nasdaq Rulebook. Proposed Rule 1101A(f) is based upon Chapter XIV, Section 11(d) of the Nasdaq rulebook.

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-2018-63)

October \_\_, 2018

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Exchange Rule 1101A, Terms of Option Contracts

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 October 23, 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 Exchange Rule 1101A, Terms of Option Contracts.

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

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

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

received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of the proposed rule change is to adopt new Exchange Rules 1101A(e)(I), 1101A(f) and 1101A(g). Proposed Rules 1101A(e)(I) and 1101A(g) would establish the manner of determining an underlying index component security's price for purposes of calculating the current index value at expiration of an overlying index option when (i) the primary market for that security does not open for trading on a given day, and (ii) the Options Clearing Corporation ("OCC") does not exercise its authority to establish the index option settlement value.<sup>3</sup> They also acknowledge OCC's authority under its own rules and by-laws to establish settlement prices in certain circumstances. Proposed new Rule 1101A(f) clarifies an issue relating to the level of indexes underlying A.M.-settled index options at expiration.

Proposed Rules 1101A(e)(I) and (g)

Exchange Rule 1101A(e) currently states that the current index value at the expiration of an A.M.-settled index option shall be determined, for all purposes under Exchange rules and OCC rules, on the last day of trading in the underlying securities

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<sup>3</sup> Three of the Exchange's affiliated options exchanges, Nasdaq ISE, LLC ("ISE"), The Nasdaq Stock Market LLC ("Nasdaq") and Nasdaq BX, Inc. ("BX"), will also be proposing rule changes relating to the manner of determining an underlying index component security's price for purposes of calculating the current index value at expiration of an index option under these circumstances. See SR-NASDAQ-2018-081, SR-BX-2018-049, and SR-ISE-2018-88. The Exchange desires its rules to be aligned with those of the affiliated exchanges.

prior to expiration, by reference to the reported level of such index as derived from first reported sale (opening) prices of the underlying securities on such day, except that in the event that the primary market for an underlying security is open for trading on that day, but that particular security does not open for trading on that day, the price of that security, for the purposes of calculating the current index value at expiration, shall be the last reported sale price of the security. The Exchange now proposes to add new Rule 1101A(g) to deal expressly with cases where the entire primary market for an underlying component security is not open on that day. Rule 1101A(g) would apply to both A.M.-settled and P.M.-settled index options.<sup>4</sup>

Proposed Rule 1101A(g) would add an exception and would state that when the primary market for a security underlying the current index value of an index option does not open for trading on a given day which is an expiration day, for the purposes of calculating the settlement price at expiration, the last reported sale price of the security from the previous trading day shall be used. Proposed new Rule 1101A(g) would permit market participants the certainty of knowing the settlement value on the day on which the primary market fails to open. Additionally, the provision would eliminate the potential difficulties that could arise if the reporting authority for the index were unwilling or unable to calculate the settlement value using prices for the relevant security(ies) on the next day that its primary market is open for trading.<sup>5</sup>

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<sup>4</sup> P.M.-settled options are settled based upon the closing index value for the day on which the index options contract is exercised in accordance with OCC rules or, if such day is not a business day, for the most recent business day. See Phlx Rule 1101A(d).

<sup>5</sup> The index calculator for the NDX, MNX and BKK indexes, which are products traded on Nasdaq affiliated exchanges, uses the previous day's closing price if components of the index do not open.

The new rule would also state that this procedure shall not be used if the current index value at expiration is fixed in accordance with OCC rules and by-laws. This language recognizes that OCC is authorized under its rules and by-laws to take certain actions relating to settlement in the event of the unavailability or inaccuracy of the current underlying interest value.<sup>6</sup> The proposed language makes clear that Rule 1101A(g) would not apply in the event that OCC exercises its authority to determine settlement prices. Rather, the proposed new language would apply only when a primary market does not open and OCC elects not to exercise its authority to intervene and take action to establish a settlement price. The Exchange would otherwise defer to OCC. A cross-reference to Rule 1101A(g) would be added to Rule 1101A(e) by adding new Rule 1101A(e)(I).

Proposed Rule 1101A(e)(I) is based upon Chapter XIV, Section 11(a)(5)(i) of the Nasdaq Rulebook.

#### Proposed Rule 1101A(f)

Separately, the Exchange proposes to adopt new Rule 1101A(f), Index Level, intended to alert investors to the fact that the exercise settlement value of an index option

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<sup>6</sup> See OCC By-Laws Article XVII, Section 4(a), which provides in relevant part that if OCC shall determine that the primary market for one or more index components did not open or remain open for trading (or that any such components did not open or remain open for trading on such market(s)) on a trading day at or before the time when the current index value for that trading day would ordinarily be determined, or that a current index value or other value or price to be used as, or to determine, the exercise settlement amount (a “required value”) for a trading day is otherwise unreported, inaccurate, unreliable, unavailable or inappropriate for purposes of calculating the exercise settlement amount, then, in addition to any other actions that OCC may be entitled to take under OCC’s bylaws and rules, the, OCC is empowered to take any or all of a range of permitted actions with respect to any series of options on such index, including fixing the exercise settlement amount. Proposed Rule 1101A(g) would apply to both A.M.-settled and P.M.-settled index options.

that is derived from opening prices of the constituent securities (an “A.M.-settled index option”) may not be reported for several hours following the opening of trading in those securities. A number of updated index levels may be reported at and after the opening before the exercise settlement value is reported, and there could be a substantial divergence between those reported index levels and the reported exercise settlement value. The proposed new rule would provide that the reported level of the underlying index that is calculated by the reporting authority for purposes of determining the current index value at the expiration of an A.M.-settled index option may differ from the level of the index that is separately calculated and reported by the reporting authority and that reflects trading activity subsequent to the opening of trading in any of the underlying securities. Proposed new Rule 1101A(f) is based upon Chapter XIV, Section 11(d) of the Nasdaq rulebook.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>7</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>8</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.

As noted above, proposed Rules 1101A(e)(I) and (g) would establish clearly the procedure for determination of an index component security’s price in the event that the primary market for the security fails to open. By adopting the proposed rule, the

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<sup>7</sup> 15 U.S.C. 78f(b).

<sup>8</sup> 15 U.S.C. 78f(b)(5).

Exchange would provide certainty to the market regarding the procedure it would follow in the absence of action by OCC. Additionally, it would provide market participants with the certainty of knowing the settlement value on the day on which the primary market fails to open.

It would also acknowledge clearly, however, that OCC may, under its rules and by-laws, establish settlement prices for expiring index options that may differ from the settlement prices that would otherwise be provided for in Exchange rules, thereby protecting investors and the public interest by reducing potential for confusion in that regard.

Likewise, proposed Rule 1101A(f) states clearly that the reported level of the underlying index that is calculated by the reporting authority for purposes of determining the current index value at the expiration of an A.M.-settled index option may differ from the level of the index that is separately calculated and reported by the reporting authority and that reflects trading activity subsequent to the opening of trading in any of the underlying securities, again protecting investors and the public interest by reducing potential for confusion arising from the fact that the exercise settlement value of an index option derived from opening prices of constituent securities may diverge from reported index levels.

**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. On the contrary, the Exchange believes that the proposed amendment will benefit investors, market participants, and the marketplace in general by setting forth clearly the manner in which index option settlement values will be determined if the primary market

for a security underlying the current index value of an index option does not open for trading, and by stating that the Exchange will defer to OCC in the determination of settlement prices when and if OCC exercises its authority under its own settlement price procedures in accordance with its rules and by-laws. The proposal also provides clarity regarding the calculation of the index level, as distinct from the exercise settlement value, on the last day of trading in the underlying component securities of an A.M.-settled index option.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>9</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>10</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the

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<sup>9</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>10</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

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

##### 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-2018-63 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-2018-63. 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-2018-63 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>11</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>11</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

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

**Nasdaq PHLX Rules**

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**Rule 1101A. Terms of Option Contracts**

(a) – (d) No change.

(e) A.M.-Settled Index Options. The last day of trading for A.M.-settled index options shall be the business day preceding the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, the business day preceding the last day of trading in the underlying securities prior to the expiration date. The current index value at the expiration of an A.M.-settled index option shall be determined, for all purposes under these Rules and the Rules of the Options Clearing Corporation, on the last day of trading in the underlying securities prior to expiration, by reference to the reported level of such index as derived from first reported sale (opening) prices of the underlying securities on such day, except that:

(I) In the event that the primary market for an underlying security does not open for trading on that day, the price of that security shall be determined, for the purposes of calculating the current index value at expiration, as set forth in Rule 1101A(g), unless the current index value at expiration is fixed in accordance with the Rules and By-Laws of the Options Clearing Corporation; and

(II) in the event that the primary market for an underlying security is open for trading on that day, but that particular security does not open for trading on that day, the price of that security, for the purposes of calculating the current index value at expiration, shall be the last reported sale price of the security. The following A.M.-settled index options are approved for trading on the Exchange:

\* \* \* \* \*

(f) Index Level. The reported level of the underlying index that is calculated by the reporting authority for purposes of determining the current index value at the expiration of an A.M.-settled index option may differ from the level of the index that is separately calculated and reported by the reporting authority and that reflects trading activity subsequent to the opening of trading in any of the underlying securities.

(g) Pricing When Primary Market Does Not Open. When the primary market for a security underlying the current index value of an index option does not open for trading on a given day, which is an expiration day, for the purposes of calculating the settlement price at expiration, the last reported sale price of the security from the previous trading

day shall be used. This procedure shall not be used if the current index value at expiration is fixed in accordance with the Rules and By-Laws of the Options Clearing Corporation.

••• *Commentary:* -----

No change.

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