

Required fields are shown with yellow backgrounds and asterisks.

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) *
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
			Rule		
Pilot	Extension of Time Period for Commission Action *	Date Expires *	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="text"/>	<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) *	Section 806(e)(2) *
<input type="checkbox"/>	<input type="checkbox"/>
	Section 3C(b)(2) *
	<input type="checkbox"/>

Exhibit 2 Sent As Paper Document	Exhibit 3 Sent As Paper Document
<input type="checkbox"/>	<input type="checkbox"/>

Description

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

Proposal to amend Rules 1000; 1014; 1020; 1082; 1087; Options 8, Sections 2 and 39; relocate Rule 1064 to Options 8, Section 30; and relocate other rules, update cross-references, and make various other technical amendments.

Contact Information

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

First Name * Angela	Last Name * Dunn
Title * Principal Associate General Counsel	
E-mail * Angela.Dunn@nasdaq.com	
Telephone * (215) 496-5692	Fax

Signature

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

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

(Title *)

Date 09/10/2019	Global Chief Legal and Policy Officer
By Edward S. Knight	
(Name *)	

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 *

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 Phlx Rule 1000, titled “Applicability, Definitions and References,” Rule 1014, titled “Obligations and Restrictions Applicable to Specialists and Registered Options Traders,” Rule 1020, titled “Registration and Functions of Options Specialists,” Rule 1082, titled “Firm Quotations,” Rule 1087, titled “Price Improvement XL (“PIXL”), Options 8, Section 2, titled “Definitions,” Section 11, titled “Specialist Appointment,” Section 39, titled “Options Minor Rule Violations and Order and Decorum Regulations” at E-16, titled “Communications and Equipment.” The Exchange also proposes to relocate Rule 1064, titled “Crossing Facilitation and Solicited Orders” to Options 8, Section 30. The Exchange also proposes to relocate other rules, update cross-references and make various other technical amendments.

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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 26, 2018. Exchange staff will advise the Board of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

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

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

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

a. Purpose

Phlx proposes to: (1) amend certain descriptions within Rule 1000, titled “Applicability, Definitions and References”; (2) amend Rule 1014, titled “Obligations and Restrictions Applicable to Specialists and Registered Options Traders” to amend the bid/ask differentials within current Rule 1014(c), relocate rule text within the rule and delete certain obsolete rule text; (3) amend Rule 1020, “Registration and Functions of Options Specialists” so that a Specialist is not required to be appointed to an option series; (4) relocate other rules, update cross references in various rules, and make other technical amendments. Each change will be described below.

Rule 1000

The Exchange proposes to amend Rule 1000, titled “Applicability, Definitions and References” in several ways. First, the Exchange proposes some technical amendments to Rule 1000 to format the rule consistently by placing a title prior to each

description where no title appears. This is a non-substantive change to make the rule consistent. The Exchange also proposes to update the name of The Options Clearing Corporation to add a “The” before the name. Second, the Exchange proposes to add a definition for “Public Customer” within the Rule 1000(b)(56) to provide, “Public Customer shall mean a person or entity that is not a broker or dealer in securities and is not a professional as defined within Phlx Rule 1000(b)(14).” With the addition of this definition, the Exchange proposes to amend the description of a Professional within Rule 1000(b)(14) to remove the following rule text, “A professional will be treated in the same manner as an off-floor broker-dealer for purposes of Rules 1014(g), 1033(e), 1064, Commentary .02 (except professional orders will be considered customer orders subject to facilitation), 1087 and 1098, as well as Options Floor Procedure Advices B-6 and F-5.” Because the Exchange will be separately utilizing the terms “Public Customer” and “Professional”³ throughout the Rulebook, the Exchange believes that the citations to other rules within the definition of “Professional” in Rule 1000(b)(14) are not necessary because each rule will distinguish whether it pertains to a Public Customer or a Professional. Today, the professional rule distinguishes where professional orders will be treated as an off-floor broker-dealer’s orders and other instances where professional orders will be considered customer orders. The Exchange proposes, similar to other Rulebooks,⁴ to make clear within the rule text whether the reference to customer is to a

³ The following rules add both the terms “Public Customer” and “Professional” in place of “customer” or “public customer”: Rule 1017, 1087, 1093 and Options 8, Section 28.

⁴ Nasdaq ISE, LLC (“ISE”), Nasdaq GEMX, LLC (“GEMX”) and Nasdaq MRX, LLC (“MRX”), Nasdaq BX, Inc. (“BX”) and NOM Rules separately define Professional and Priority Customer and Public Customer, respectively within

Professional, Public Customer or both. This proposal is technical in nature because it more specifically explains how the term “customer” or “public customer” is applied today. Where the terms “customer” or “public customer” are utilized the Exchange is proposing to replace those terms with more specific defined terms such as Public Customer, as that definition is proposed, or Professional, as that term is defined instead of citing applications of the term Professional in Rule 1000. The Exchange believes that a market participant reading a rule would benefit from the term “customer” or “public customer” being more specifically denoted within the actual rule text of each rule to make clear which type of participant applies today. The Exchange is not proposing to amend its rules or functionality with this change of terms, rather the Exchange is proposing to add defined terms within the rule text and eliminating the cross references within the Professional definition. Today, the term “customer” or “public customer” are not defined. The Exchange proposes the actual defined terms as they are utilized within the System.

As noted, the Exchange is adopting the term “Public Customer” at proposed Rule 1000(b)(56) and already has the term “professional” defined in the Rulebook. The Exchange is not amending any functionality, rather the Exchange is substantively retaining the same meaning as today for the term “customer” but substituting the proper

Options 1, Section 1(a)(36) and (39) (see definitions for Professional and Priority Customer).

defined term.⁵ The Exchange proposes to specifically amend the term “customer” in certain rules to the defined term “Public Customer.”⁶

The Exchange proposes to define “Registered Options Trader” or “ROT” within proposed Rule 1000(b)(57). The Exchange will continue to describe how a ROT is permitted to transact business within Rule 1014. Rule 1014 is described below in more detail. Since, the term ROT is utilized throughout the options Rules, it is being defined within Rule 1000 for ease of reference. Currently, Rule 1014(b) provides, “A ROT is a regular member or a foreign currency options participant of the Exchange located on the trading floor who has received permission from the Exchange to trade in options for his own account. For purposes of this Rule 1014, the term “ROT” shall include a Streaming Quote Trader, and a Remote Streaming Quote Trader, as defined below.” The Exchange proposes to provide that a Registered Options Trader “shall mean a Streaming Quote Trader or a Remote Streaming Quote Trader who enters quotations for his own account electronically into the System.” Phlx no longer has a separate “foreign currency options

⁵ The Exchange defined the term Public Customer and is now removing that definition. See Phlx Rules 1087, 1089 and 1093.

⁶ The Exchange proposes to capitalize the term “professional” in Rule 1000(b)(14) and 1093. The Exchange proposes to capitalize the term “public customer” in Rules 1000(b)(41), 1010, 1087, 1088 and Options 8, Sections 24, 28. relocated rule 30 and 34. The Exchange proposes to amend the term “customer” within Rule 1017, 1087 and Options 8, Section 22 to refer to “Public Customer” and “Professional.” The Exchange proposes to replace the term “non-broker-dealer customers” with the terms “Public Customer” and/or “Professional.” The current definition of Professional, which is proposed to be deleted, states that Professionals would be treated like broker-dealers for the rules cited. The Exchange proposes to capitalize the term “customer” within the term “Public Customer” within Rule 1098, Options 8, Sections 24, 28, 33 and 34. Further Rules 1087, 1089, 1093 define a Public Customer today. With the introduction of the defined term “Public Customer” within Phlx Rule 1000, these definitions, which are the same as the new defined term, are being deleted because the Phlx Rule 1000 definition will apply to the options rules.

participation.” Those participations were eliminated.⁷ Today, the Exchange has separately defined a “Floor Market Maker” within Options 8, Section 2(7) as a ROT who is neither an SQT or an RSQT so the reference to the floor is no longer necessary. This rule change also updates references to “non-SQT ROTs” to the “Floor Market Maker.”⁸ Finally, this definition of ROT is utilized throughout the Rules, not simply for Rule 1014, so it is better placed among the other definitions.

The Exchange proposes to define a Specialist within Rule 1000(b)(58). Phlx Rule 1020 provides for the registration and functions of option specialists, however the term is not defined for purposes of the Rulebook, The Exchange proposes to state that a Specialist is “...a member who is registered as an options Specialist pursuant to Rule 1020(a). A Specialist includes a Remote Specialist which is defined as a Specialist in one or more classes that does not have a physical presence on an Exchange’s trading floor and is approved by the Exchange pursuant to Rule 501.” Phlx Rule 1020(a)(ii) provides, “A Remote Specialist is an options specialist in one or more classes that does not have a physical presence on an Exchange floor and is approved by the Exchange pursuant to Rule 501.” The Exchange proposes to define a Specialist within Rule 1000 for ease of reference.

⁷ See Securities Exchange Act Release No. 63981 (February 25, 2011), 76 FR 12180 (March 4, 2011) (SR-Phlx-2011-13)(Approving Proposed Rule Change, as Modified by Amendment No. 1, Relating to Amendments to NASDAQ OMX PHLX LLC’s Limited Liability Company Agreement, By-Laws, Rules, Advices and Regulations).

⁸ See Securities Exchange Act Release No. 85740 (April 29, 2019), 86 FR 19136 (May 3, 2019) (SR-Phlx-2019-17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Relocate the Floor Trading Rules to Options 8). This rule change proposes to replace the term “non-SQT ROT” with “Floor Market Maker.” The Exchange is replacing that term in Phlx Rules 1087 and 1098. Options 8 contains all Floor related rules including definitions.

The Exchange proposes to relocate current Rule 1014(b)(ii)(A) which provides, “An SQT is an ROT who has received permission from the Exchange to generate and submit option quotations electronically in options to which such SQT is assigned. An SQT may only submit such quotations while such SQT is physically present on the floor of the Exchange. An SQT may only trade in a market making capacity in classes of options in which the SQT is assigned.” The Exchange proposes to relocate this description to proposed Rule 1000(b)(59) without amendment. The Exchange proposes to relocate current Rule 1014(b)(ii)(B) which provides, “An RSQT is an ROT that is a member affiliated with and RSQTO with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically in options to which such RSQT has been assigned. A qualified RSQT may function as a Remote Specialist upon Exchange approval.” The Exchange proposes to relocate this description to proposed Rule 1000(b)(60) and add the following reference to certain acronyms that are utilized in the Rulebook, “A Remote Streaming Quote Organization (“RSQTO”) or Remote Market Maker Organization (“RMO”) are Exchange member organizations that have qualified pursuant to Rule 507.” Today, Phlx Rule 507 provides that RSQTOs may also be referred to as Remote Market Maker Organizations (“RMOs”) and RSQTs may also be referred to as Remote Market Markers (“RMMs”). The Exchange proposes to add these terms to the definition for ease of reference in understanding the acronyms. The Exchange believes that relocating these definitions from Rule 1014 to Rule 1000 will bring greater transparency to the Rules. Also, adding a definition for a Specialist and describing an RSQTO and RMO within Rule 1000 will make it easier for market participants to understand the various registrations that exist on

Phlx. The Exchange also proposes to amend Rule 501(f) to add a reference to the definition for ease of reference as this rule discusses an RSQT.

The Exchange proposes to add a new term “Non-Public Customer” into the Rulebook. The Exchange proposes to define the term “Non-Public Customer” as a person or entity that is a broker or dealer in securities, or is a Professional.” This term is utilized within Phlx Rule 1089, “Electronic Execution Priority and Processing in the System.” The Exchange believes that defining this term will bring greater transparency to the term’s usage. Defining this term does not substantively amend the meaning of the term within Phlx Rule 1089 but further provides context to the current usage of the term.

The Exchange is deleting Rule 1000(e), which is reserved.

Rule 1014

The Exchange proposes to amend the title of Rule 1014 from “Obligations and Restrictions Applicable to Specialists and Registered Options Traders” to “Obligations of Market Makers.” The Exchange proposes to relocate text from Rule 1014 to Rule 1000 as described herein. The Exchange proposes to relocate descriptive terms of market participants in order to describe each type of market participant within the definition section of Rule 1000. The Exchange proposes to retain text within Rule 1014 which describes the manner in which a ROT or Specialist may transact options on the Exchange.

The Exchange proposes to add an “(i)” before the current text which provides, “Each ROT electing to engage in Exchange options transactions shall be assigned by the Exchange one or more classes of options, and Exchange options transactions initiated by such ROT on the Floor for any account in which he had an interest shall to the extent prescribed by the Exchange be in such assigned classes.” The Exchange proposes to

relocate Commentary .04 of Rule 1014 to the end of proposed Rule 1014(a)(i), without amendment.⁹ The Exchange proposes to relocate the second paragraph of Commentary .01 of Rule 1014 to proposed Rule 1014(a)(i)(A), without amendment. The Exchange proposes to modify the current paragraph at Rule 1014(b)(ii)(B) which provides,

Notwithstanding the provisions of sub-paragraph (b)(i) above, an RSQT may only submit such quotations electronically from off the floor of the Exchange. An RSQT shall not submit option quotations in eligible options to which such RSQT is assigned to the extent that the RSQT is also approved as a Remote Specialist in the same options. An RSQT may only trade in a market making capacity in classes of options in which he is assigned or approved as a Remote Specialist.

The Exchange proposes to remove the words “Notwithstanding the provisions of sub-paragraph (b)(i) above” and “such” as unnecessary terms that related to rule text that existed previously but is no longer part of the rule text.

The Exchange proposes to relocate rule text from Commentary .05 of Rule 1014 to proposed Rule 1014(a)(iii), without amendment. The Exchange proposes to relocate the rule text of Commentary .06 to Rule 1014 to proposed Rule 1014(a)(iv), without amendment. The Exchange proposes to relocate rule text from the first paragraph of Commentary .01 of Rule 1014 to proposed Rule 1014(a)(v). The Exchange notes that the word “similarly” was removed as unnecessary. As noted herein, the Exchange proposes to relocate the second paragraph of Commentary .01 of Rule 1014 to proposed Rule 1014(a)(i)(A), without amendment.

Bid/Ask Differential

The Exchange proposes to amend the title of Rule 1014(c) from “*In Classes of*

⁹ Commentary .04 to Rule 1014 provides, “The obligations of an ROT with respect to those classes of options to which he is assigned shall take precedence over his other ROT activities.”

Option Contracts to Which Assigned—Affirmative” to “Appointment.” The Exchange proposes to amend the current requirements for quoting which provides,

(1) Options on equities (including Exchange-Traded Fund Shares), and on index options may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. The \$5 bid/ask differentials only apply to electronic quotations and only following the opening rotation in each security (i.e., the bid/ask differentials specified in sub-paragraph (c)(i)(A)(1) above shall apply during opening rotation).

(2) Options on U.S. dollar-settled FCO may be quoted electronically with a difference not to exceed \$5.00 between the bid and offer regardless of the price of the bid. The bid/ask differentials set forth in this subparagraph (c)(i)(A)(2) (b) only apply to electronic quotations and only following the opening rotation in each security (i.e., the bid/ask differentials specified in sub-paragraph (c)(i)(A)(1) above shall apply during opening rotation).

The Exchange also proposes to amend current Options 8, Section 27, Quoting Obligations and Required Transactions, which provides at Section 27(c)(1)(A),

(A) Quote Spread Parameters (Bid/Ask Differentials)—

(i) Options on equities and index options bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2; no more than \$.40 where the prevailing bid is \$2 or more but less than \$5; no more than \$.50 where the prevailing bid is \$5 or more but less than \$10; no more than \$.80 where the prevailing bid is \$10 or more but less than \$20; and no more than \$1 where the prevailing bid is \$20 or more, provided that, in the case of equity options, the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.

(ii) Options on U.S. dollar-settled FCO. With respect to all U.S. dollar-settled FCO bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2.00; no more than \$.40 where the prevailing bid is \$2.00 or more but less than \$5.00; no more than \$.50 where the prevailing bid is \$5.00 or more but less than \$10.00; no more than \$.80 where the prevailing bid is \$10.00 or more but less than \$20.00; and no more than \$1.00 where the

prevailing bid is \$20.00 or more. The Exchange may establish differences other than the above for one or more series or classes of options.

The Exchange proposes to align the bid/ask requirements for in-the-money series for the trading floor with electronic bid/ask differentials for in-the-money series. Within Rule 1014(c), the Exchange proposes to capitalize “Opening Process” and remove rule text relating to rotations to make the rule text clear that the reference to differentials in Rule 1014(c) are intra-day differentials. Phlx has separate Valid Width Quote requirements for the Opening Process within Rule 1017.

Further, the Exchange proposes to align in-the-money¹⁰ bid/ask differentials for options on equities (including Exchange-Traded Fund Shares), index options and options on U.S. dollar-settled FCOs within Rule 1014(c) and Options 8, Section 27(c). The Exchange proposes within Rule 1014(c) to provide for in-the-money series, where the market for the underlying security is wider than the differentials currently set forth, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.¹¹ The Exchange is proposing a similar change to Options 8, Section 27(c)(1)(A)(ii) for U.S. dollar-settled FCOs. The Exchange proposes to align the language to make clear that options on equities applies to Exchange-Traded

¹⁰ The term “in-the-money” shall mean the following: for call options, all strike prices at or below the offer in the underlying security on the primary listing market; for put options, all strike prices at or above the bid in the underlying security on the primary listing market. This definition shall only apply for purposes of quoting obligations in Rules 1014 and 1017. See Rule 1000(b)(51).

¹¹ The Exchange is proposing to combine Rule 1014(c)(1) and (2) into one paragraph.

Fund Shares within Options 8, Section 27(c)(1)(A)(i). The Exchange believes that aligning the bid/ask differentials for all in-the-money options would cause the Exchange to have a single standard regardless of the product. Today, Options 8, Section 27(c)(1)(A)(i) provides, “the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment.” The Exchange is amending Options 8, Section 27(c)(1)(A)(i) to expand the provision to apply to equities (including Exchange-Traded Fund Shares) and index options. The Exchange also proposes to amend Options 8, Section 27(c)(1)(A)(ii), which applies to U.S. dollar-settled FCOs, similar to Rule 1014(c). Aligning the requirements for all in-the-money options across the Exchange will avoid confusion for Specialists and ROTs in submitting quotes on both the trading floor and electronically on Phlx. The Exchange is not amending bid/ask differentials for options which are not in-the-money.

The Exchange believes that amending the bid/ask differentials for in-the-money series for options on equities (including Exchange-Traded Fund Shares), index options and options on U.S. dollar-settled FCOs on the trading floor and electronically, to a spread which may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment, where the market for the underlying security is wider than the \$5 allowance already provided for within the rule, will allow Specialists and ROTs to obtain the same

flexibility in quoting as they experience on other options markets today.¹² A Specialist or ROT quoting an in-the-money options series can hedge its position by trading in the underlying security at the NBBO, which may be narrower than the quotation on the primary market.

The Exchange also proposes to note that it may establish differences other than the above for one or more series or classes of options. The Exchange proposes to add the following rule text to Rule 1014(c)(1), “The Exchange may establish differences other than the above for one or more series or classes of options.” The Exchange is proposing this amendment to align the in-the-money intra-day bid/ask differentials with the requirements for the trading floor.¹³ Today, the Exchange establishes differences as do

¹² See ISE, GEMX and MRX Options 2, Section 4. Options 2, Section 4 provides, “(4) To price options contracts fairly by, among other things, bidding and offering so as to create differences of no more than \$5 between the bid and offer following the opening rotation in an equity or index options contract. The Exchange may establish differences other than the above for one or more series or classes of options. (i) The bid/offer differentials stated in subparagraph (b)(4) of this Rule shall not apply to in-the-money options series where the underlying securities market is wider than the differentials set forth above. For these series, the bid/ask differential may be as wide as the spread between the national best bid and offer in the underlying security.”

¹³ Phlx Options 8, Section 27(c) which states, “Options on equities and index options bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2; no more than \$.40 where the prevailing bid is \$2 or more but less than \$5; no more than \$.50 where the prevailing bid is \$5 or more but less than \$10; no more than \$.80 where the prevailing bid is \$10 or more but less than \$20; and no more than \$1 where the prevailing bid is \$20 or more, provided that, in the case of equity options, the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.”

all options markets.¹⁴ The Exchange previously had rule text which allowed the difference.¹⁵ In relocating text to Options 8 as part of the floor relocation, which stated, “The Exchange may establish differences other than the above for one or more series or classes of options” the Exchange inadvertently did not amend the text for electronic markets. The floor rule text was part of the Rule 1014 initially before the relocation.

The Exchange also proposes to amend Rule 1014(d) to amend the title from “*In Classes of Option Contracts Other Than Those Which Appointed*” to “Classes of Options To Which Not Appointed.” The Exchange proposes to add the following sentence, “With respect to classes of options to which an ROT is not appointed, it should not engage in transactions for an account in which it has an interest that are disproportionate in relation to, or in derogation of, the performance of his obligations as specified in paragraph (c) above with respect to those classes of options to which it is appointed,” before the phrase “an ROT should not.” The Exchange believes that adding this sentence will provide more context to the information which follows. This rule text is similar to rule text within ISE Options 2, Section 5(d).

The Exchange proposes to amend some lettering within Rule 1014(d) and amend Rule 1014(d)(ii) from “Be conspicuous in the general market or in the market in a particular option” to “effect purchases or sales on the Exchange except in a reasonable and orderly manner” which is the same rule text within ISE Rules at Options 2, Section 5(d). The Exchange believes that the current rule text is ambiguous. The Exchange

¹⁴ See ISE and GEMX at Options 2, Section 5, Miami International Securities Exchange LLC Rule 503(e)(2), BOX Exchange LLC Rule 8040 and NYSE American LLC Rule 925NY(b)(5) and (c).

¹⁵ See note 8 above.

proposes to revise the requirements for market makers similar to other options markets.¹⁶

The Exchange proposes to delete Rule 1014(f) as the rule is unnecessary. Rule 1014(f)(1) provides that Rule 1014(d), which applies to classes of options in which a Specialist is not appointed in, shall not apply to “any transaction by a registered Specialist in an option in which he is so registered to contribute to the maintenance of a fair and orderly market in an option, or any purchase or sale to reverse any such transaction; or any transaction to offset a transaction made in error.” The Exchange notes that Rule 1014(d) does not govern options in which the Specialist is registered. The caveat does not need to be noted within the Rule. Specialists may transact options in classes in which they are appointed to contribute to the maintenance of a fair and orderly market in an option, or any purchase or sale to reverse any such transaction; or any transaction to offset a transaction made in error. Further, the Exchange proposes to delete Rule 1014(f)(ii) which provides, “...any transaction, other than a transaction for an account in which an ROT has an interest, made with the prior approval of an Options Exchange Official to permit a member to contribute to the maintenance of a fair and orderly market in an option, or any purchase or sale to reverse any such transaction”. The Exchange proposes to remove this exception because it is no longer necessary. The Exchange would not approve a market making transaction that is not done by a Specialist or ROT because these are the only two types of market participants that may act in a market making capacity on Phlx. No other market participant may submit quotes on Phlx or is subject to the requirements to contribute to the maintenance of a fair and orderly market as provided for in Rule 1014. This rule has been in existence for some time and

¹⁶ See ISE, GEMX and MRX Rules at Options 2, Section 5(d) and NOM and BX Chapter VII, Section 5(b).

the Exchange does not believe it has relevance.

The Exchange is deleting Rule 1014(g), which is currently reserved.

The Exchange proposes to delete Commentary .02¹⁷ of Rule 1014 which refers to a paragraph (c)(i)(B) which was deleted in a prior filing.¹⁸ The Exchange proposes to renumber Commentary .03¹⁹ of Rule 1014 as “.01.”

The Exchange proposes to renumber Commentary .07²⁰ to Rule 1014 as “.02.” The Exchange also proposes to revise the second sentence to state, “A Specialist shall also not charge a commission or fee for the handling, execution or processing of an order delivered through the Exchange's System, whether the Specialist is acting as principal or

¹⁷ Commentary .02 to Rule 1014 provides, “The Exchange has determined that the limitations of paragraph (c)(i)(B) of this Rule should not be carried over from one day to the next and, therefore, are not applicable to the opening of stock or Exchange-Traded Fund Share option contracts on the Exchange.”

¹⁸ See Securities Exchange Act Release No. 76441 (November 16, 2015), 80 FR 72773 (November 20, 2015) (SR-Phlx-2015-91).

¹⁹ Commentary .03 to Rule 1014 provides, “.03 The Exchange has determined for purposes of paragraph (c) of this Rule that, except for unusual circumstances, at least 50% of the trading activity in any quarter (measured in terms of contract volume) of an ROT (other than an RSQT) shall ordinarily be in classes of options to which he is assigned. Temporarily undertaking the obligations of paragraph (c) at the request of a member of the Exchange in non assigned classes of options shall not be deemed trading in non assigned option contracts.

The Exchange may, in computing the percentage specified herein, assign a weighting factor based upon relative inactivity to one or more classes or series of option contracts.”

²⁰ Commentary .07 to Rule 1014 provides, “A Specialist acting in the course of his lead market making function, as agent or principal, on the Exchange is prohibited from charging a commission or fee for the execution of an order. A specialist shall also not charge a commission or fee for the handling, execution or processing of an order delivered through the Exchange's automated trading system, Phlx XL II, whether the specialist is acting as principal or agent for the order.”

agent for the order.” The Exchange is capitalizing the proposed defined term “Specialist” and utilizing the defined term “System.”²¹

Commentary .08²² to Rule 1014 was superseded by the Phlx Rule 1017 which governs the Opening Process and provides for the price at which an option series may open. The rule text within Commentary .08 is no longer applicable and thus is proposed to be deleted.

Commentary .09 to Rule 1014 is obsolete and thus is proposed to be deleted. The Exchange notes that trading hours and ability to set them for foreign currency options are handled within Phlx Rule 101. Also, Phlx Rule 1014(e) no longer exists. Commentary .10 to Rule 1014 is being deleted because the Exchange requires ROTs to submit orders electronically similar to all other market participants. This rule text is not necessary. The deletion of these rules will bring greater clarity to the Rulebook.

Rule 1020

The Exchange proposes to amend Rule 1020 to provide that a Specialist is not required to be assigned to an options series. The Exchange permits one Specialist per options series. There is no limitation on the number of ROTs that may be assigned to an options series. The Exchange notes that if a Specialist cannot be acquired for an options series it may list the option series nonetheless for ROTs to quote and provide liquidity. The Exchange notes that a Specialist is not required to list an option series. Today, The

²¹ See Phlx Rule 1000(b)(45).

²² Commentary .08 to Rule 1014 provides, “The price of an opening transaction in an option series must be within an acceptable range (as determined by the Exchange and announced to Exchange members and member organizations on the Exchange's website) compared to the highest offer and the lowest bid (e.g., the upper boundary of the acceptable range may be 125% of the highest quote offer and the lower boundary may be 75% of the lowest quote bid).”

Nasdaq Options Market LLC (“NOM”) does not have such a Specialist and lists and trades option series.

Other Amendments

In addition to the amendments already noted herein, the Exchange proposes to relocate Rule 1064, “Crossing, Facilitation and Solicited Orders” into Options 8, Section 30. At the time the Exchange relocated rules it reserved Section 30 to relocate this floor rule at a later date. The Exchange now proposes to relocate this rule and update internal cross-references to other rules. This amendment is purely a technical relocation of the rule (and related cross-reference changes) and the rule is otherwise unchanged.

The Exchange proposes a technical amendment to Rule 1082, “Firm Quotations” to rename Risk Monitor Mechanism to its current name “Automated Quotation Adjustment” which rule is located within Rule 1099(c)(2). This is only a name change and therefore this amendment is non-substantive. Also, the Exchange proposes to update Rule 1087, “Price Improvement XL (“PIXL”)” to amend “TOPO Plus Orders” to simply “TOPO data feed” as provided for in Rule 1070(a)(1) and note the location of the description of the Specialized Quote Feed within Rule 1080(a)(i)(B). This is only a name change and therefore this amendment is non-substantive.

The Exchange proposes to amend Options 8, Section 2, “Definitions” to add a sentence to Rule 2(7) Floor Market Maker to provide, “A Floor Market Maker may provide a quote in open outcry.” Today, a Floor Market Maker is permitted to provide a quote in open outcry. This sentence merely makes clear that this type of market participant may submit quotes on the floor, similar to the electronic market. A Floor Market Maker is a ROT as noted within Options 8, Section 2(7), who is neither an SQT

or RST, so they may not stream quotes electronically, rather they submit quotes in open outcry on the trading floor.

The Exchange proposes to relocate the text of Rule 2(7), except for the current first sentence to Options 8, Section 11, “Specialist Appointment” and retitle that rule “Floor Market Maker and Specialist Appointment.” The Exchange proposes to renumber this rule and relocate the text from Options 8, Section 2(7) to proposed Section 11(b).

Finally, the Exchange proposes to correct cross-references to current rules within Rules 1000, 1082, 1087, 1098 and Options 8, Section 30 and also capitalize the word “floor” before “Broker” within Options 39, E-16 “Communications and Equipment.”

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,²³ in general, and furthers the objectives of Section 6(b)(5) of the Act,²⁴ 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.

Rule 1000

The Exchange’s proposal to amend Rule 1000, titled “Applicability, Definitions and References” to conform the formatting of the rule, update the name of The Options Clearing Corporation to add a “The” before the name, and relocate definitions from Rule 1014 to Rule 1000 are non-substantive amendments. The Exchange’s proposal to add a definition for “Public Customer” within the Rule 1000(b)(56), amend the description of a

²³ 15 U.S.C. 78f(b).

²⁴ 15 U.S.C. 78f(b)(5).

Professional within Rule 1000(b)(14), and add the terms “Public Customer” and “Professional”, where appropriate, throughout the Rulebook, is consistent with the Act because these amendments will bring greater transparency to the Rulebook. The Exchange desires to make clear where a customer order means a Public Customer order or both a Public Customer and a Professional order. By distinguishing the use of these terms, market participants will better understand Exchange Rules.

Relocating and amending the term “Registered Options Trader” within proposed Rule 1000(b)(57) is consistent with the Act because it will make the description of this market participant clear. Phlx no longer has a separate “foreign currency options participation.” Those participations were eliminated.²⁵ The Exchange has separately defined a “Floor Market Maker” within Options 8, Section 2(7) as an ROT who is neither an SQT or an RSQT so the reference to the floor is no longer necessary. Finally, this definition of ROT is utilized throughout the Rules, not simply for Rule 1014, so it is better placed among the other definitions. The proposed new description will bring greater clarity to the term “ROT”.

The Exchange’s proposal to add a sentence to the description of an RSQT, which is being relocated to proposed Rule 1000(b)(60), which provides, “A Remote Streaming Quote Organization (“RSQTO”) or Remote Market Maker Organization (“RMO”) are Exchange member organizations that have qualified pursuant to Rule 507” is consistent with the Act because the proposed definition will makes clear that the usage of the terms RSQTO and RMO in relation to an RSQT. Finally, the Exchange’s proposal to define a

²⁵ See note 7 above.

Specialist within Rule 1000 will make it easier for market participants to understand the various registrations that exist on Phlx which would all be available within Rule 1000.

Rule 1014

The Exchange's proposal to amend the title of Rule 1014 from "Obligations and Restrictions Applicable to Specialists and Registered Options Traders" to "Obligations of Market Makers," relocate text from Rule 1014 to Rule 1000, retitle certain sections within Rule 1014(c), renumber Rule 1014, and modify the current paragraph at Rule 1014(b)(ii)(B) are non-substantive amendments.

The Exchange's proposal to add the following sentence to Rule 1014(d) "With respect to classes of options to which an ROT is not appointed, it should not engage in transactions for an account in which it has an interest that are disproportionate in relation to, or in derogation of, the performance of his obligations as specified in paragraph (c) above with respect to those classes of options to which it is appointed," before the phrase "an ROT should not" is consistent with the Act. The Exchange believes that adding this sentence will provide more context to the information which follows. This rule text is similar to rule text within ISE Rules at Options 2, Section 5(d).

The Exchange's proposes to amend Rule 1014(d)(ii) from "Be conspicuous in the general market or in the market in a particular option" to "effect purchases or sales on the Exchange except in a reasonable and orderly manner" is consistent with the Act in that it protects investors and the public interest by providing a standard that is understandable. The Exchange notes that the quoting requirements within Rule 1081 require ROTs to be

quoting a certain amount of the trading day. The new rule text is clear and unambiguous. It is the same requirement for market makers on other options markets.²⁶

The Exchange's proposal to delete Rule 1014(f) is consistent with the Act because the provisions in this rule are no longer necessary. The rule text does not provide additional information to the current rule and additionally, the Exchange would not approve a market making transaction that is not done by a Specialist or ROT. This rule has been in existence for some time and the Exchange does not believe it has relevance. The Exchange's deletion of Commentary .02 of Rule 1014 is consistent with the Act because this rule text related to paragraph (c)(i)(B), which was deleted.²⁷

The Exchange's proposal to make minor amendments to Commentary .07 is consistent with the Act because the changes are not substantive. The Exchange's proposal to delete Commentary .08 is consistent with the Act as Phlx Rule 1017 governs the Opening Process and Specialists may not circumvent that process. The Exchange's proposal to delete Commentary .09 to Rule 1014 is consistent with the Act because the provision is redundant. Trading hours and ability to set them for foreign currency options are handled within Phlx Rule 101. Also, Phlx Rule 1014(e) no longer exists. The Exchange's proposal to delete Commentary .10 to Rule 1014 is consistent with the Act because the Exchange requires ROTs to submit orders electronically similar to all other market participants. This rule text is not necessary. The Exchange believes these

²⁶ See GEMX and MRX Rules at Options 2, Section 5(d) and NOM and BX Chapter VII, Section 5(b).

²⁷ See Securities Exchange Act Release No. 76441 (November 16, 2015), 80 FR 72773 (November 20, 2015) (SR-Phlx-2015-91).

proposed rule changes will bring greater transparency and clarity to the regulation of ROTs and Specialists on Phlx.

Bid/Ask Differential

The Exchange proposes to amend its bid/ask differential requirements within Rule 1014(c) and Options 8, Section 27 for in-the-money series for options on equities (including Exchange-Traded Fund Shares), index options and options on U.S. dollar-settled FCOs, to a quote spread allowance which may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment, provided the market for the underlying security is not wider than the differentials set forth above is consistent with the Act. The Exchange believes the proposed bid/offer differentials allow market makers greater flexibility with respect to their quoting obligations. Aligning the bid/ask differentials for all in-the-money options would cause the Exchange to have a single standard regardless of the product. Phlx believes that measuring the permissible width of a market maker's quote against the NBBO more accurately reflects the current trading environment where multiple trading venues contribute to the prevailing market price of a security underlying an options series traded on Phlx. Applying this standard only when the market for the underlying security is wider than the differentials set forth allows Specialists and ROTs to submit quotations that may be more reflective of the market for the security. Specialists and ROTs take into consideration market conditions, including trading and liquidity when quoting. Further, the Exchange also notes that Specialists and ROTs are consistently incentivized through allocation models, pricing, and rules enforcement of market maker obligations to submit quotes which reflect a quality market and are representative of the Specialist's or ROT's best quote.

With this proposal, Specialists and ROTs would obtain the same flexibility in quoting as they experience on other options markets today.²⁸ Aligning the requirements for all in-the-money options across the Exchange will avoid confusion for Specialists and ROTs in submitting quotes on both the trading floor and electronically on Phlx. The Exchange is not amending quote width allowances for options which are not in-the-money. Further, a Specialist or ROT quoting an in-the-money options series can hedge its position by trading in the underlying security at the NBBO, which may be narrower than the quotation on the primary market.

The Exchange also proposes to note that it may establish differences other than the above for one or more series or classes of options. The Exchange's proposal to amend its rule to permit intra-day discretion to conform to current practice is consistent with the Act because such discretion is necessary to permit the Exchange the ability to attract liquidity from Specialists and ROTs while also maintaining a fair and orderly market. Specialists and ROTs accept a certain amount of risk when quoting on the Exchange. The Exchange imposes quoting and other obligations on ROTs.²⁹ The Exchange notes that these risks which ROTs accept each trading day are calculated risks. The Exchange notes that it considers certain factors, which are likely unforeseen, in

²⁸ See ISE, GEMX and MRX Options 2, Section 4. Options 2, Section 4 provides, “(4) To price options contracts fairly by, among other things, bidding and offering so as to create differences of no more than \$5 between the bid and offer following the opening rotation in an equity or index options contract. The Exchange may establish differences other than the above for one or more series or classes of options. (i) The bid/offer differentials stated in subparagraph (b)(4) of this Rule shall not apply to in-the-money options series where the underlying securities market is wider than the differentials set forth above. For these series, the bid/ask differential may be as wide as the spread between the national best bid and offer in the underlying security.”

²⁹ See Phlx Rules 1017 and Rule 1081.

determining whether to grant relief either in individual options classes or for all option classes based upon specific criteria. Specifically, the Exchange considers, among other factors, the following: (i) pending corporate actions with undisclosed or uncertain terms; (ii) company or industry news with anticipated significant market impact; (iii) government news of a sensational nature. The Exchange believes that it is necessary to grant quote relief in certain circumstances where an ROT may not have enough information to maintain fair and orderly markets. The Exchange notes that other markets have similar discretion for intra-day quotes today.³⁰ The Exchange is proposing this amendment to align the in-the-money bid/ask differentials with the requirements for the Trading Floor. The Exchange believes that the in-the-money bid/ask requirements for electronic quoting should align with floor trading.

Rule 1020

The Exchange's proposal to amend Rule 1020 to provide that a Specialist is not required to be assigned to an options series is consistent with the Act because this provision will allow the Exchange to list options series without the need to assign a Specialist. Today, the Exchange permits one Specialist per options series. There is no limitation on the number of ROTs that may be assigned to an options series. The Exchange notes that if a Specialist cannot be acquired for an options series it proposes to list the option series nonetheless for ROTs to quote and provide liquidity. Today, NOM

³⁰ NOM does not require NOM Market Makers to quote during the opening, however if a NOM Market Maker decided to quote during the opening, the Market Maker would be permitted to submit a bid/ask differential with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. However, respecting in-the-money series where the market for the underlying security is wider than \$5, the bid/ask differential may be as wide as the spread between the national best bid and offer in the underlying security. See NOM Rules at Chapter VII, Section 6(d)(ii).

does not have such a Specialist and lists and trades option series. The Exchange believes that this provision will remove impediments to and perfect the mechanism of a free and open market and a national market system because it will permit Phlx to competitively list all options series for which it has rules.

Other Amendments

The Exchange's relocation of Rule 1064, "Crossing, Facilitation and Solicited Orders" into Options 8, Section 30 and retitling of that rule are non-substantive.

The Exchange's proposed technical amendments to Rule 1082, "Firm Quotations" to rename Risk Monitor Mechanism and its proposal to update Rule 1087, "Price Improvement XL ("PIXL")" to amend "TOPO Plus Orders" to simple and provide a citation are non-substantive rule changes.

The Exchange's proposal to amend Options 8, Section 2, "Definitions" to add a sentence to Rule 2(7) Floor Market Maker to provide, "A Floor Market Maker may provide a quote in open outcry" is consistent with the Act as this provision will further distinguish floor and electronic trading and bring greater clarity to the Rules.

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.

Rule 1000

The Exchange's proposal to amend Rule 1000, titled "Applicability, Definitions and References" to conform the formatting of the rule, update the name of The Options Clearing Corporation to add the "The" before the name, and relocate definitions from Rule 1014 to Rule 1000 are non-substantive amendments. The Exchange's proposal to

add a definition for “Public Customer” within the Rule 1000(b)(56), amend the description of a Professional within Rule 1000(b)(14), and add the terms “Public Customer” and “Professional”, where appropriate, throughout the Rulebook, does not impose an undue burden on competition because these definitions will bring greater transparency to the Rulebook. The Exchange is not amending any provision of the rules, rather the Exchange is making clear where a Public Customer order is intended and where the term Professional is intended to avoid confusion.

Amending the term “Registered Options Trader” within proposed Rule 1000(b)(57) does not impose an undue burden on competition because it will make the description of this market participant clear. Phlx no longer has a separate “foreign currency options participation.” Those participations were eliminated.³¹

The Exchange’s proposal to add a sentence to the description of an RSQT also does not impose an undue burden on competition because the proposed definition will make clear that the usage of the terms RSQTO and RMO in relation to an RSQT. Finally, the Exchange’s proposal to add a definition for a Specialist within Rule 1000 will make it easier for market participants to understand the various registrations that exist on Phlx which would all be available within Rule 1000.

Rule 1014

The Exchange’s proposal to amend titles, relocate text, renumber sections of Rule 1014 from “Obligations and Restrictions Applicable to Specialists and Registered Options Traders” to “Obligations of Market Makers,” relocate text from Rule 1014 to

³¹ See Securities Exchange Act Release No. 63981 (February 25, 2011), 76 FR 12180 (March 4, 2011) (SR-Phlx-2011-13).

Rule 1000, retitle certain sections within Rule 1014(c), renumber Rule 1014, and modify the current paragraph at Rule 1014(b)(ii)(B) are non-substantive amendments.

The Exchange's proposal to add the following sentence to Rule 1014(d) "With respect to classes of options to which an ROT is not appointed, it should not engage in transactions for an account in which it has an interest that are disproportionate in relation to, or in derogation of, the performance of his obligations as specified in paragraph (c) above with respect to those classes of options to which it is appointed," before the phrase "an ROT does not" does not impose an undue burden on competition. This rule will apply to all ROTs uniformly and does not apply to other market participants.

The Exchange's proposes to amend Rule 1014(d)(ii) from "Be conspicuous in the general market or in the market in a particular option" to "effect purchases or sales on the Exchange except in a reasonable and orderly manner" does not impose an undue burden on competition in that it protects investors and the public interest by providing a standard that is understandable. This rule will apply to all ROTs uniformly and does not apply to other market participants.

The Exchange's proposal to delete Rule 1014(f) does not impose an undue burden on competition because the provision is no longer necessary. The Exchange's deletion of Commentary .02 of Rule 1014 does not impose an undue burden on competition because this rule text related to paragraph (c)(i)(B), which was deleted.³²

The Exchange's proposal to amend Commentary .07 to Rule 1014 does not impose an undue burden on competition because the amendment is non-substantive. The Exchange's proposal to delete Commentary .08 to Rule 1014 does not impose an undue

³² See Securities Exchange Act Release No. 76441 (November 16, 2015), 80 FR 72773 (November 20, 2015) (SR-Phlx-2015-91).

burden on competition because all members are subject to the Opening Process described within Rule 1017 and the elimination of the rule text within Commentary .08 will remove confusion. The Exchange's proposal to delete Commentary .09 to Rule 1014 does not impose an undue burden on competition because the provision is redundant. Trading hours and ability to set them for foreign currency options are handled within Phlx Rule 101. Also, Phlx Rule 1014(e) no longer exists. The Exchange's proposal to delete Commentary .10 to Rule 1014 does not impose an undue burden on competition because the Exchange requires ROTs to submit orders electronically similar to all other market participants. This rule text is not necessary. The Exchange believes these proposed rule changes will bring greater transparency and clarity to the regulation of ROTs and Specialists on Phlx.

Bid/Ask Differential

The Exchange's proposal to amend the bid/ask differentials within Rule 1014(c), for in-the-money series, from \$5 for electronic quotations to be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment does not impose an undue burden on competition as this requirement applies to all ROTs and Specialists today and the proposal will align the in-the-money quoting requirements for ROTs and Specialists transacting business electronically and on the trading floor. Today, this is the requirement for in-the-money bid/ask differentials on the trading floor as well as on other markets.³³

The Exchange's proposal to amend its rule to permit intra-day discretion to

³³ See ISE, GEMX and MRX Options 2, Section 4.

conform to current practice because ROTs are the only market participants subject to quoting requirements and the proposal specifically considers the need for ROTs to have information to make informed decisions to make calculated risks in the marketplace so that they may provide liquidity while maintaining fair and orderly markets. The proposed amendments do not create an undue burden on inter-market competition because other options markets have the same intra-day requirements.³⁴

Rule 1020

The Exchange's proposal to amend Rule 1020 to provide that a Specialist is not required to be assigned to an options series does not impose an undue burden on competition because the Exchange will continue to send notices for each new options series requesting interested Specialists to express interest. In the event that it is unable to locate an interested Specialist, the Exchange proposes to list the option series nonetheless for ROTs to quote and provide liquidity. Today, the Exchange permits one Specialist per options series. There is no limitation on the number of ROTs that may be assigned to an options series. Today, NOM does not have such a Specialist and lists and trades option series.

Other Amendments

The Exchange's relocation of Rule 1064 and technical amendments to Rule 1082 and 1087 are non-substantive.

The Exchange's proposal to amend Options 8, Section 2, "Definitions" to add a sentence to Rule 2(7) Floor Market Maker does not impose an undue burden on

³⁴ See Miami International Securities Exchange LLC Rule 604(b)(4), Cboe Exchange, Inc. Rule 8.7(d), NYSE American LLC Rule 925NY(b)(4), NYSE Arca, Inc. 6.37-O(b)(4).

competition, rather this provision will further distinguish floor and electronic trading and bring greater clarity to the Rules.

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)³⁵ of the Act and Rule 19b-4(f)(6) thereunder³⁶ in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

The Exchange’s proposal to amend Rule 1000, titled “Applicability, Definitions and References” to conform the formatting of the rule, update the name of The Options Clearing Corporation to add a “The” before the name, and relocate definitions from Rule 1014 to Rule 1000 are non-substantive amendments. The Exchange’s proposal to add a definition for “Public Customer” within the Rule 1000(b)(56), amend the description of a Professional within Rule 1000(b)(14), and add the terms “Public Customer” and

³⁵ 15 U.S.C. 78s(b)(3)(A)(iii).

³⁶ 17 CFR 240.19b-4(f)(6).

“Professional”, where appropriate, throughout the Rulebook will bring greater clarity to Exchange Rules. Further these amendments do not significantly affect the protection of investors or the public interest because these amendments do not amend the manner in which these terms are currently applied. The Exchange’s proposal to add a sentence to the description of an RSQT, which is being relocated to proposed Rule 1000(b)(60) and add a definition for a Specialist within Rule 1000 will make it easier for market participants to understand the various registrations that exist on Phlx which would all be available within Rule 1000.

The Exchange’s proposal to amend the title of Rule 1014 from “Obligations and Restrictions Applicable to Specialists and Registered Options Traders” to “Obligations of Market Makers,” relocate text from Rule 1014 to Rule 1000, retitle certain sections within Rule 1014(c), renumber Rule 1014, and modify the current paragraph at Rule 1014(b)(ii)(B) are non-substantive amendments. The Exchange’s proposal to add the following sentence to Rule 1014(d) “With respect to classes of options to which an ROT is not appointed, it should not engage in transactions for an account in which it has an interest that are disproportionate in relation to, or in derogation of, the performance of his obligations as specified in paragraph (c) above with respect to those classes of options to which it is appointed,” before the phrase “an ROT will not” provides more context to the information which follows. This rule text is similar to rule text within ISE Rules at Options 2, Section 5(d). The Exchange’s proposal to amend Rule 1014(d)(ii) from “Be conspicuous in the general market or in the market in a particular option” to “effect purchases or sales on the Exchange except in a reasonable and orderly manner” does not significantly affect the protection of investors or the public interest in that it protects

investors and the public interest by providing a standard that is understandable. The Exchange notes that the quoting requirements within Rule 1081 require ROTs to be quoting a certain amount of the trading day. It is the same requirement for market makers on other options markets.³⁷

The Exchange's proposal to amend the bid/ask differentials within Rule 1014(c), for in-the-money series, from \$5 for electronic quotations to be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment does not significantly affect the protection of investors or the public interest because the proposal will align the in-the-money quoting requirements for ROTs and Specialists transacting business electronically and on the trading floor. Today, this is the requirement for in-the-money bid/ask differentials on the trading floor as well as on other markets.³⁸

The Exchange's proposal to amend its rule to permit intra-day discretion to conform to current practice does not significantly affect the protection of investors or the public interest because such discretion is necessary to permit the Exchange the ability to attract liquidity from ROTs while also maintaining a fair and orderly market. ROTs accept a certain amount of risk when quoting on the Exchange. The Exchange imposes quoting and other obligations on ROTs.³⁹ The Exchange notes that these risks, which ROTs accept each trading day, are calculated risks. The Exchange notes that it considers certain factors, which are likely unforeseen, in determining whether to grant relief either

³⁷ See GEMX and MRX Options 2, Section 5(d) and NOM and BX Chapter VII, Section 5(b).

³⁸ See ISE, GEMX and MRX Options 2, Section 4.

³⁹ See Phlx Rules 1017 and Rule 1081.

in individual options classes or for all option classes based upon specific criteria. The Exchange notes that other markets have similar discretion for intra-day quotes today.⁴⁰ The Exchange is proposing this amendment to align the in-the-money intra-day bid/ask differentials with the requirements for the Trading Floor

The Exchange's proposal to amend Rule 1020 to provide that a Specialist is not required to be assigned to an options series does not significantly affect the protection of investors because this provision will allow the Exchange to list options series without the need to assign a Specialist. Today, the Exchange permits one Specialist per options series. There is no limitation on the number of ROTs that may be assigned to an options series. The Exchange notes that if a Specialist cannot be acquired for an options series it proposes to list the option series nonetheless for ROTs to quote and provide liquidity. Today, NOM does not have such a Specialist and lists and trades option series.

The Exchange's proposal to add a definition for "Public Customer" within the Rule 1000(b)(56), amend the description of a Professional within Rule 1000(b)(14), and add the terms "Public Customer" and "Professional", where appropriate, throughout the Rulebook does not impose any significant burden on competition because these amendments do not amend the manner in which these terms are currently applied. The Exchange's proposal to add a sentence to the description of an RSQT, which is being relocated to proposed Rule 1000(b)(60) and add a definition for a Specialist within Rule 1000 will make it easier for market participants to understand the various registrations that exist on Phlx which would all be available within Rule 1000.

⁴⁰ See note 28 above.

The Exchange's proposal to amend Rule 1014(d)(ii) from "Be conspicuous in the general market or in the market in a particular option" to "effect purchases or sales on the Exchange except in a reasonable and orderly manner" does not impose any significant burden on competition because it will apply uniformly to all ROTs.

The Exchange's proposal to amend the bid/ask differentials within Rule 1014(c), for in-the-money series, from \$5 for electronic quotations to be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment does not impose any significant burden on competition as this requirement only applies to all ROTs and Specialists today and the proposal will align the requirements for ROTs and Specialists transacting business electronically and on the trading floor. The Exchange's proposal to amend its rule to permit intra-day discretion to conform to current practice does not impose any significant burden on competition or the public interest because such discretion is necessary to permit the Exchange the ability to attract liquidity from ROTs while also maintaining a fair and orderly market. ROTs accept a certain amount of risk when quoting on the Exchange. The Exchange imposes quoting and other obligations on ROTs.⁴¹

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.

⁴¹ See Phlx Rules 1017 and 1081.

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

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the operative delay to permit the Exchange to update its definitions and relocate rule text. The Exchange believes these proposals will bring greater clarity to its rules for the protection of investors and the general public. The Exchange's proposal to amend its electronic bid/ask differentials to conform to Floor Trading Floors will align its proposal with Phlx Floor Trading Rules as well as other markets.⁴² The Exchange requests the waiver so that it may immediately update the changes to descriptions for greater clarity, and conform the bid/ask differentials across the market to align requirements for ROTs and Specialists electronically and on the trading floor. Further, the Exchange's proposal to amend Rule 1020 will permit it to compete effectively with other markets by permitting it to list option series, if necessary, without a Specialist. The Exchange believes obtaining immediate effectiveness will protect investor and the general public from the greater transparency this amendment will bring to the Rulebook.

⁴² See Phlx Options 8, Section 27.

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

Proposals herein are similar to ISE, GEMX and MRX Rules at Options 2, Section 5(d) and NOM and BX Chapter VII, Section 5(b). Also, the proposal is similar to Phlx Options 8, Section 27.

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-2019-33)

September __, 2019

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Specialists and Registered Options Traders

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 September 10, 2019, 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 Phlx Rule 1000, titled “Applicability, Definitions and References,” Rule 1014, titled “Obligations and Restrictions Applicable to Specialists and Registered Options Traders,” Rule 1020, titled “Registration and Functions of Options Specialists,” Rule 1082, titled “Firm Quotations,” Rule 1087, titled “Price Improvement XL (“PIXL”), Options 8, Section 2, titled “Definitions,” Section 11, titled “Specialist Appointment,” Section 39, titled “Options Minor Rule Violations and Order and Decorum Regulations” at E-16, titled “Communications and Equipment.” The Exchange also proposes to relocate Rule 1064, titled “Crossing Facilitation and Solicited

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Orders” to Options 8, Section 30. The Exchange also proposes to relocate other rules, update cross-references and make various other technical amendments.

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

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

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

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

1. Purpose

Phlx proposes to: (1) amend certain descriptions within Rule 1000, titled “Applicability, Definitions and References”; (2) amend Rule 1014, titled “Obligations and Restrictions Applicable to Specialists and Registered Options Traders” to amend the bid/ask differentials within current Rule 1014(c), relocate rule text within the rule and delete certain obsolete rule text; (3) amend Rule 1020, “Registration and Functions of Options Specialists” so that a Specialist is not required to be appointed to an option series; (4) relocate other rules, update cross references in various rules, and make other technical amendments. Each change will be described below.

Rule 1000

The Exchange proposes to amend Rule 1000, titled “Applicability, Definitions and References” in several ways. First, the Exchange proposes some technical amendments to Rule 1000 to format the rule consistently by placing a title prior to each description where no title appears. This is a non-substantive change to make the rule consistent. The Exchange also proposes to update the name of The Options Clearing Corporation to add a “The” before the name. Second, the Exchange proposes to add a definition for “Public Customer” within the Rule 1000(b)(56) to provide, “Public Customer shall mean a person or entity that is not a broker or dealer in securities and is not a professional as defined within Phlx Rule 1000(b)(14).” With the addition of this definition, the Exchange proposes to amend the description of a Professional within Rule 1000(b)(14) to remove the following rule text, “A professional will be treated in the same manner as an off-floor broker-dealer for purposes of Rules 1014(g), 1033(e), 1064, Commentary .02 (except professional orders will be considered customer orders subject to facilitation), 1087 and 1098, as well as Options Floor Procedure Advices B-6 and F-5.” Because the Exchange will be separately utilizing the terms “Public Customer” and “Professional”³ throughout the Rulebook, the Exchange believes that the citations to other rules within the definition of “Professional” in Rule 1000(b)(14) are not necessary because each rule will distinguish whether it pertains to a Public Customer or a Professional. Today, the professional rule distinguishes where professional orders will be treated as an off-floor broker-dealer’s orders and other instances where professional

³ The following rules add both the terms “Public Customer” and “Professional” in place of “customer” or “public customer”: Rule 1017, 1087, 1093 and Options 8, Section 28.

orders will be considered customer orders. The Exchange proposes, similar to other Rulebooks,⁴ to make clear within the rule text whether the reference to customer is to a Professional, Public Customer or both. This proposal is technical in nature because it more specifically explains how the term “customer” or “public customer” is applied today. Where the terms “customer” or “public customer” are utilized the Exchange is proposing to replace those terms with more specific defined terms such as Public Customer, as that definition is proposed, or Professional, as that term is defined instead of citing applications of the term Professional in Rule 1000. The Exchange believes that a market participant reading a rule would benefit from the term “customer” or “public customer” being more specifically denoted within the actual rule text of each rule to make clear which type of participant applies today. The Exchange is not proposing to amend its rules or functionality with this change of terms, rather the Exchange is proposing to add defined terms within the rule text and eliminating the cross references within the Professional definition. Today, the term “customer” or “public customer” are not defined. The Exchange proposes the actual defined terms as they are utilized within the System.

As noted, the Exchange is adopting the term “Public Customer” at proposed Rule 1000(b)(56) and already has the term “professional” defined in the Rulebook. The Exchange is not amending any functionality, rather the Exchange is substantively retaining the same meaning as today for the term “customer” but substituting the proper

⁴ Nasdaq ISE, LLC (“ISE”), Nasdaq GEMX, LLC (“GEMX”) and Nasdaq MRX, LLC (“MRX”), Nasdaq BX, Inc. (“BX”) and NOM Rules separately define Professional and Priority Customer and Public Customer, respectively within Options 1, Section 1(a)(36) and (39) (see definitions for Professional and Priority Customer).

defined term.⁵ The Exchange proposes to specifically amend the term “customer” in certain rules to the defined term “Public Customer.”⁶

The Exchange proposes to define “Registered Options Trader” or “ROT” within proposed Rule 1000(b)(57). The Exchange will continue to describe how a ROT is permitted to transact business within Rule 1014. Rule 1014 is described below in more detail. Since, the term ROT is utilized throughout the options Rules, it is being defined within Rule 1000 for ease of reference. Currently, Rule 1014(b) provides, “A ROT is a regular member or a foreign currency options participant of the Exchange located on the trading floor who has received permission from the Exchange to trade in options for his own account. For purposes of this Rule 1014, the term “ROT” shall include a Streaming Quote Trader, and a Remote Streaming Quote Trader, as defined below.” The Exchange proposes to provide that a Registered Options Trader “shall mean a Streaming Quote Trader or a Remote Streaming Quote Trader who enters quotations for his own account electronically into the System.” Phlx no longer has a separate “foreign currency options

⁵ The Exchange defined the term Public Customer and is now removing that definition. See Phlx Rules 1087, 1089 and 1093.

⁶ The Exchange proposes to capitalize the term “professional” in Rule 1000(b)(14) and 1093. The Exchange proposes to capitalize the term “public customer” in Rules 1000(b)(41), 1010, 1087, 1088 and Options 8, Sections 24, 28. relocated rule 30 and 34. The Exchange proposes to amend the term “customer” within Rule 1017, 1087 and Options 8, Section 22 to refer to “Public Customer” and “Professional.” The Exchange proposes to replace the term “non-broker-dealer customers” with the terms “Public Customer” and/or “Professional.” The current definition of Professional, which is proposed to be deleted, states that Professionals would be treated like broker-dealers for the rules cited. The Exchange proposes to capitalize the term “customer” within the term “Public Customer” within Rule 1098, Options 8, Sections 24, 28, 33 and 34. Further Rules 1087, 1089, 1093 define a Public Customer today. With the introduction of the defined term “Public Customer” within Phlx Rule 1000, these definitions, which are the same as the new defined term, are being deleted because the Phlx Rule 1000 definition will apply to the options rules.

participation.” Those participations were eliminated.⁷ Today, the Exchange has separately defined a “Floor Market Maker” within Options 8, Section 2(7) as a ROT who is neither an SQT or an RSQT so the reference to the floor is no longer necessary. This rule change also updates references to “non-SQT ROTs” to the “Floor Market Maker.”⁸ Finally, this definition of ROT is utilized throughout the Rules, not simply for Rule 1014, so it is better placed among the other definitions.

The Exchange proposes to define a Specialist within Rule 1000(b)(58). Phlx Rule 1020 provides for the registration and functions of option specialists, however the term is not defined for purposes of the Rulebook, The Exchange proposes to state that a Specialist is “...a member who is registered as an options Specialist pursuant to Rule 1020(a). A Specialist includes a Remote Specialist which is defined as a Specialist in one or more classes that does not have a physical presence on an Exchange’s trading floor and is approved by the Exchange pursuant to Rule 501.” Phlx Rule 1020(a)(ii) provides, “A Remote Specialist is an options specialist in one or more classes that does not have a physical presence on an Exchange floor and is approved by the Exchange pursuant to Rule 501.” The Exchange proposes to define a Specialist within Rule 1000 for ease of reference.

⁷ See Securities Exchange Act Release No. 63981 (February 25, 2011), 76 FR 12180 (March 4, 2011) (SR-Phlx-2011-13)(Approving Proposed Rule Change, as Modified by Amendment No. 1, Relating to Amendments to NASDAQ OMX PHLX LLC’s Limited Liability Company Agreement, By-Laws, Rules, Advices and Regulations).

⁸ See Securities Exchange Act Release No. 85740 (April 29, 2019), 86 FR 19136 (May 3, 2019) (SR-Phlx-2019-17) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Relocate the Floor Trading Rules to Options 8). This rule change proposes to replace the term “non-SQT ROT” with “Floor Market Maker.” The Exchange is replacing that term in Phlx Rules 1087 and 1098. Options 8 contains all Floor related rules including definitions.

The Exchange proposes to relocate current Rule 1014(b)(ii)(A) which provides, “An SQT is an ROT who has received permission from the Exchange to generate and submit option quotations electronically in options to which such SQT is assigned. An SQT may only submit such quotations while such SQT is physically present on the floor of the Exchange. An SQT may only trade in a market making capacity in classes of options in which the SQT is assigned.” The Exchange proposes to relocate this description to proposed Rule 1000(b)(59) without amendment. The Exchange proposes to relocate current Rule 1014(b)(ii)(B) which provides, “An RSQT is an ROT that is a member affiliated with and RSQTO with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically in options to which such RSQT has been assigned. A qualified RSQT may function as a Remote Specialist upon Exchange approval.” The Exchange proposes to relocate this description to proposed Rule 1000(b)(60) and add the following reference to certain acronyms that are utilized in the Rulebook, “A Remote Streaming Quote Organization (“RSQTO”) or Remote Market Maker Organization (“RMO”) are Exchange member organizations that have qualified pursuant to Rule 507.” Today, Phlx Rule 507 provides that RSQTOs may also be referred to as Remote Market Maker Organizations (“RMOs”) and RSQTs may also be referred to as Remote Market Markers (“RMMs”). The Exchange proposes to add these terms to the definition for ease of reference in understanding the acronyms. The Exchange believes that relocating these definitions from Rule 1014 to Rule 1000 will bring greater transparency to the Rules. Also, adding a definition for a Specialist and describing an RSQTO and RMO within Rule 1000 will make it easier for market participants to understand the various registrations that exist on

Phlx. The Exchange also proposes to amend Rule 501(f) to add a reference to the definition for ease of reference as this rule discusses an RSQT.

The Exchange proposes to add a new term “Non-Public Customer” into the Rulebook. The Exchange proposes to define the term “Non-Public Customer” as a person or entity that is a broker or dealer in securities, or is a Professional.” This term is utilized within Phlx Rule 1089, “Electronic Execution Priority and Processing in the System.” The Exchange believes that defining this term will bring greater transparency to the term’s usage. Defining this term does not substantively amend the meaning of the term within Phlx Rule 1089 but further provides context to the current usage of the term.

The Exchange is deleting Rule 1000(e), which is reserved.

Rule 1014

The Exchange proposes to amend the title of Rule 1014 from “Obligations and Restrictions Applicable to Specialists and Registered Options Traders” to “Obligations of Market Makers.” The Exchange proposes to relocate text from Rule 1014 to Rule 1000 as described herein. The Exchange proposes to relocate descriptive terms of market participants in order to describe each type of market participant within the definition section of Rule 1000. The Exchange proposes to retain text within Rule 1014 which describes the manner in which a ROT or Specialist may transact options on the Exchange.

The Exchange proposes to add an “(i)” before the current text which provides, “Each ROT electing to engage in Exchange options transactions shall be assigned by the Exchange one or more classes of options, and Exchange options transactions initiated by such ROT on the Floor for any account in which he had an interest shall to the extent prescribed by the Exchange be in such assigned classes.” The Exchange proposes to

relocate Commentary .04 of Rule 1014 to the end of proposed Rule 1014(a)(i), without amendment.⁹ The Exchange proposes to relocate the second paragraph of Commentary .01 of Rule 1014 to proposed Rule 1014(a)(i)(A), without amendment. The Exchange proposes to modify the current paragraph at Rule 1014(b)(ii)(B) which provides,

Notwithstanding the provisions of sub-paragraph (b)(i) above, an RSQT may only submit such quotations electronically from off the floor of the Exchange. An RSQT shall not submit option quotations in eligible options to which such RSQT is assigned to the extent that the RSQT is also approved as a Remote Specialist in the same options. An RSQT may only trade in a market making capacity in classes of options in which he is assigned or approved as a Remote Specialist.

The Exchange proposes to remove the words “Notwithstanding the provisions of sub-paragraph (b)(i) above” and “such” as unnecessary terms that related to rule text that existed previously but is no longer part of the rule text.

The Exchange proposes to relocate rule text from Commentary .05 of Rule 1014 to proposed Rule 1014(a)(iii), without amendment. The Exchange proposes to relocate the rule text of Commentary .06 to Rule 1014 to proposed Rule 1014(a)(iv), without amendment. The Exchange proposes to relocate rule text from the first paragraph of Commentary .01 of Rule 1014 to proposed Rule 1014(a)(v). The Exchange notes that the word “similarly” was removed as unnecessary. As noted herein, the Exchange proposes to relocate the second paragraph of Commentary .01 of Rule 1014 to proposed Rule 1014(a)(i)(A), without amendment.

Bid/Ask Differential

The Exchange proposes to amend the title of Rule 1014(c) from “*In Classes of*

⁹ Commentary .04 to Rule 1014 provides, “The obligations of an ROT with respect to those classes of options to which he is assigned shall take precedence over his other ROT activities.”

Option Contracts to Which Assigned—Affirmative” to “Appointment.” The Exchange proposes to amend the current requirements for quoting which provides,

(1) Options on equities (including Exchange-Traded Fund Shares), and on index options may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. The \$5 bid/ask differentials only apply to electronic quotations and only following the opening rotation in each security (i.e., the bid/ask differentials specified in sub-paragraph (c)(i)(A)(1) above shall apply during opening rotation).

(2) Options on U.S. dollar-settled FCO may be quoted electronically with a difference not to exceed \$5.00 between the bid and offer regardless of the price of the bid. The bid/ask differentials set forth in this subparagraph (c)(i)(A)(2) (b) only apply to electronic quotations and only following the opening rotation in each security (i.e., the bid/ask differentials specified in sub-paragraph (c)(i)(A)(1) above shall apply during opening rotation).

The Exchange also proposes to amend current Options 8, Section 27, Quoting Obligations and Required Transactions, which provides at Section 27(c)(1)(A),

(A) Quote Spread Parameters (Bid/Ask Differentials)—

(i) Options on equities and index options bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2; no more than \$.40 where the prevailing bid is \$2 or more but less than \$5; no more than \$.50 where the prevailing bid is \$5 or more but less than \$10; no more than \$.80 where the prevailing bid is \$10 or more but less than \$20; and no more than \$1 where the prevailing bid is \$20 or more, provided that, in the case of equity options, the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.

(ii) Options on U.S. dollar-settled FCO. With respect to all U.S. dollar-settled FCO bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2.00; no more than \$.40 where the prevailing bid is \$2.00 or more but less than \$5.00; no more than \$.50 where the prevailing bid is \$5.00 or more but less than \$10.00; no more than \$.80 where the prevailing bid is \$10.00 or more but less than \$20.00; and no more than \$1.00 where the

prevailing bid is \$20.00 or more. The Exchange may establish differences other than the above for one or more series or classes of options.

The Exchange proposes to align the bid/ask requirements for in-the-money series for the trading floor with electronic bid/ask differentials for in-the-money series. Within Rule 1014(c), the Exchange proposes to capitalize “Opening Process” and remove rule text relating to rotations to make the rule text clear that the reference to differentials in Rule 1014(c) are intra-day differentials. Phlx has separate Valid Width Quote requirements for the Opening Process within Rule 1017.

Further, the Exchange proposes to align in-the-money¹⁰ bid/ask differentials for options on equities (including Exchange-Traded Fund Shares), index options and options on U.S. dollar-settled FCOs within Rule 1014(c) and Options 8, Section 27(c). The Exchange proposes within Rule 1014(c) to provide for in-the-money series, where the market for the underlying security is wider than the differentials currently set forth, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.¹¹ The Exchange is proposing a similar change to Options 8, Section 27(c)(1)(A)(ii) for U.S. dollar-settled FCOs. The Exchange proposes to align the language to make clear that options on equities applies to Exchange-Traded

¹⁰ The term “in-the-money” shall mean the following: for call options, all strike prices at or below the offer in the underlying security on the primary listing market; for put options, all strike prices at or above the bid in the underlying security on the primary listing market. This definition shall only apply for purposes of quoting obligations in Rules 1014 and 1017. See Rule 1000(b)(51).

¹¹ The Exchange is proposing to combine Rule 1014(c)(1) and (2) into one paragraph.

Fund Shares within Options 8, Section 27(c)(1)(A)(i). The Exchange believes that aligning the bid/ask differentials for all in-the-money options would cause the Exchange to have a single standard regardless of the product. Today, Options 8, Section 27(c)(1)(A)(i) provides, “the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment.” The Exchange is amending Options 8, Section 27(c)(1)(A)(i) to expand the provision to apply to equities (including Exchange-Traded Fund Shares) and index options. The Exchange also proposes to amend Options 8, Section 27(c)(1)(A)(ii), which applies to U.S. dollar-settled FCOs, similar to Rule 1014(c). Aligning the requirements for all in-the-money options across the Exchange will avoid confusion for Specialists and ROTs in submitting quotes on both the trading floor and electronically on Phlx. The Exchange is not amending bid/ask differentials for options which are not in-the-money.

The Exchange believes that amending the bid/ask differentials for in-the-money series for options on equities (including Exchange-Traded Fund Shares), index options and options on U.S. dollar-settled FCOs on the trading floor and electronically, to a spread which may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment, where the market for the underlying security is wider than the \$5 allowance already provided for within the rule, will allow Specialists and ROTs to obtain the same

flexibility in quoting as they experience on other options markets today.¹² A Specialist or ROT quoting an in-the-money options series can hedge its position by trading in the underlying security at the NBBO, which may be narrower than the quotation on the primary market.

The Exchange also proposes to note that it may establish differences other than the above for one or more series or classes of options. The Exchange proposes to add the following rule text to Rule 1014(c)(1), “The Exchange may establish differences other than the above for one or more series or classes of options.” The Exchange is proposing this amendment to align the in-the-money intra-day bid/ask differentials with the requirements for the trading floor.¹³ Today, the Exchange establishes differences as do

¹² See ISE, GEMX and MRX Options 2, Section 4. Options 2, Section 4 provides, “(4) To price options contracts fairly by, among other things, bidding and offering so as to create differences of no more than \$5 between the bid and offer following the opening rotation in an equity or index options contract. The Exchange may establish differences other than the above for one or more series or classes of options. (i) The bid/offer differentials stated in subparagraph (b)(4) of this Rule shall not apply to in-the-money options series where the underlying securities market is wider than the differentials set forth above. For these series, the bid/ask differential may be as wide as the spread between the national best bid and offer in the underlying security.”

¹³ Phlx Options 8, Section 27(c) which states, “Options on equities and index options bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2; no more than \$.40 where the prevailing bid is \$2 or more but less than \$5; no more than \$.50 where the prevailing bid is \$5 or more but less than \$10; no more than \$.80 where the prevailing bid is \$10 or more but less than \$20; and no more than \$1 where the prevailing bid is \$20 or more, provided that, in the case of equity options, the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.”

all options markets.¹⁴ The Exchange previously had rule text which allowed the difference.¹⁵ In relocating text to Options 8 as part of the floor relocation, which stated, “The Exchange may establish differences other than the above for one or more series or classes of options” the Exchange inadvertently did not amend the text for electronic markets. The floor rule text was part of the Rule 1014 initially before the relocation.

The Exchange also proposes to amend Rule 1014(d) to amend the title from “*In Classes of Option Contracts Other Than Those Which Appointed*” to “Classes of Options To Which Not Appointed.” The Exchange proposes to add the following sentence, “With respect to classes of options to which an ROT is not appointed, it should not engage in transactions for an account in which it has an interest that are disproportionate in relation to, or in derogation of, the performance of his obligations as specified in paragraph (c) above with respect to those classes of options to which it is appointed,” before the phrase “an ROT should not.” The Exchange believes that adding this sentence will provide more context to the information which follows. This rule text is similar to rule text within ISE Options 2, Section 5(d).

The Exchange proposes to amend some lettering within Rule 1014(d) and amend Rule 1014(d)(ii) from “Be conspicuous in the general market or in the market in a particular option” to “effect purchases or sales on the Exchange except in a reasonable and orderly manner” which is the same rule text within ISE Rules at Options 2, Section 5(d). The Exchange believes that the current rule text is ambiguous. The Exchange

¹⁴ See ISE and GEMX at Options 2, Section 5, Miami International Securities Exchange LLC Rule 503(e)(2), BOX Exchange LLC Rule 8040 and NYSE American LLC Rule 925NY(b)(5) and (c).

¹⁵ See note 8 above.

proposes to revise the requirements for market makers similar to other options markets.¹⁶

The Exchange proposes to delete Rule 1014(f) as the rule is unnecessary. Rule 1014(f)(1) provides that Rule 1014(d), which applies to classes of options in which a Specialist is not appointed in, shall not apply to “any transaction by a registered Specialist in an option in which he is so registered to contribute to the maintenance of a fair and orderly market in an option, or any purchase or sale to reverse any such transaction; or any transaction to offset a transaction made in error.” The Exchange notes that Rule 1014(d) does not govern options in which the Specialist is registered. The caveat does not need to be noted within the Rule. Specialists may transact options in classes in which they are appointed to contribute to the maintenance of a fair and orderly market in an option, or any purchase or sale to reverse any such transaction; or any transaction to offset a transaction made in error. Further, the Exchange proposes to delete Rule 1014(f)(ii) which provides, “...any transaction, other than a transaction for an account in which an ROT has an interest, made with the prior approval of an Options Exchange Official to permit a member to contribute to the maintenance of a fair and orderly market in an option, or any purchase or sale to reverse any such transaction”. The Exchange proposes to remove this exception because it is no longer necessary. The Exchange would not approve a market making transaction that is not done by a Specialist or ROT because these are the only two types of market participants that may act in a market making capacity on Phlx. No other market participant may submit quotes on Phlx or is subject to the requirements to contribute to the maintenance of a fair and orderly market as provided for in Rule 1014. This rule has been in existence for some time and

¹⁶ See ISE, GEMX and MRX Rules at Options 2, Section 5(d) and NOM and BX Chapter VII, Section 5(b).

the Exchange does not believe it has relevance.

The Exchange is deleting Rule 1014(g), which is currently reserved.

The Exchange proposes to delete Commentary .02¹⁷ of Rule 1014 which refers to a paragraph (c)(i)(B) which was deleted in a prior filing.¹⁸ The Exchange proposes to renumber Commentary .03¹⁹ of Rule 1014 as “.01.”

The Exchange proposes to renumber Commentary .07²⁰ to Rule 1014 as “.02.” The Exchange also proposes to revise the second sentence to state, “A Specialist shall also not charge a commission or fee for the handling, execution or processing of an order delivered through the Exchange's System, whether the Specialist is acting as principal or

¹⁷ Commentary .02 to Rule 1014 provides, “The Exchange has determined that the limitations of paragraph (c)(i)(B) of this Rule should not be carried over from one day to the next and, therefore, are not applicable to the opening of stock or Exchange-Traded Fund Share option contracts on the Exchange.”

¹⁸ See Securities Exchange Act Release No. 76441 (November 16, 2015), 80 FR 72773 (November 20, 2015) (SR-Phlx-2015-91).

¹⁹ Commentary .03 to Rule 1014 provides, “.03 The Exchange has determined for purposes of paragraph (c) of this Rule that, except for unusual circumstances, at least 50% of the trading activity in any quarter (measured in terms of contract volume) of an ROT (other than an RSQT) shall ordinarily be in classes of options to which he is assigned. Temporarily undertaking the obligations of paragraph (c) at the request of a member of the Exchange in non assigned classes of options shall not be deemed trading in non assigned option contracts.

The Exchange may, in computing the percentage specified herein, assign a weighting factor based upon relative inactivity to one or more classes or series of option contracts.”

²⁰ Commentary .07 to Rule 1014 provides, “A Specialist acting in the course of his lead market making function, as agent or principal, on the Exchange is prohibited from charging a commission or fee for the execution of an order. A specialist shall also not charge a commission or fee for the handling, execution or processing of an order delivered through the Exchange's automated trading system, Phlx XL II, whether the specialist is acting as principal or agent for the order.”

agent for the order.” The Exchange is capitalizing the proposed defined term “Specialist” and utilizing the defined term “System.”²¹

Commentary .08²² to Rule 1014 was superseded by the Phlx Rule 1017 which governs the Opening Process and provides for the price at which an option series may open. The rule text within Commentary .08 is no longer applicable and thus is proposed to be deleted.

Commentary .09 to Rule 1014 is obsolete and thus is proposed to be deleted. The Exchange notes that trading hours and ability to set them for foreign currency options are handled within Phlx Rule 101. Also, Phlx Rule 1014(e) no longer exists. Commentary .10 to Rule 1014 is being deleted because the Exchange requires ROTs to submit orders electronically similar to all other market participants. This rule text is not necessary. The deletion of these rules will bring greater clarity to the Rulebook.

Rule 1020

The Exchange proposes to amend Rule 1020 to provide that a Specialist is not required to be assigned to an options series. The Exchange permits one Specialist per options series. There is no limitation on the number of ROTs that may be assigned to an options series. The Exchange notes that if a Specialist cannot be acquired for an options series it may list the option series nonetheless for ROTs to quote and provide liquidity. The Exchange notes that a Specialist is not required to list an option series. Today, The

²¹ See Phlx Rule 1000(b)(45).

²² Commentary .08 to Rule 1014 provides, “The price of an opening transaction in an option series must be within an acceptable range (as determined by the Exchange and announced to Exchange members and member organizations on the Exchange's website) compared to the highest offer and the lowest bid (e.g., the upper boundary of the acceptable range may be 125% of the highest quote offer and the lower boundary may be 75% of the lowest quote bid).”

Nasdaq Options Market LLC (“NOM”) does not have such a Specialist and lists and trades option series.

Other Amendments

In addition to the amendments already noted herein, the Exchange proposes to relocate Rule 1064, “Crossing, Facilitation and Solicited Orders” into Options 8, Section 30. At the time the Exchange relocated rules it reserved Section 30 to relocate this floor rule at a later date. The Exchange now proposes to relocate this rule and update internal cross-references to other rules. This amendment is purely a technical relocation of the rule (and related cross-reference changes) and the rule is otherwise unchanged.

The Exchange proposes a technical amendment to Rule 1082, “Firm Quotations” to rename Risk Monitor Mechanism to its current name “Automated Quotation Adjustment” which rule is located within Rule 1099(c)(2). This is only a name change and therefore this amendment is non-substantive. Also, the Exchange proposes to update Rule 1087, “Price Improvement XL (“PIXL”)” to amend “TOPO Plus Orders” to simply “TOPO data feed” as provided for in Rule 1070(a)(1) and note the location of the description of the Specialized Quote Feed within Rule 1080(a)(i)(B). This is only a name change and therefore this amendment is non-substantive.

The Exchange proposes to amend Options 8, Section 2, “Definitions” to add a sentence to Rule 2(7) Floor Market Maker to provide, “A Floor Market Maker may provide a quote in open outcry.” Today, a Floor Market Maker is permitted to provide a quote in open outcry. This sentence merely makes clear that this type of market participant may submit quotes on the floor, similar to the electronic market. A Floor Market Maker is a ROT as noted within Options 8, Section 2(7), who is neither an SQT

or RST, so they may not stream quotes electronically, rather they submit quotes in open outcry on the trading floor.

The Exchange proposes to relocate the text of Rule 2(7), except for the current first sentence to Options 8, Section 11, “Specialist Appointment” and retitle that rule “Floor Market Maker and Specialist Appointment.” The Exchange proposes to renumber this rule and relocate the text from Options 8, Section 2(7) to proposed Section 11(b).

Finally, the Exchange proposes to correct cross-references to current rules within Rules 1000, 1082, 1087, 1098 and Options 8, Section 30 and also capitalize the word “floor” before “Broker” within Options 39, E-16 “Communications and Equipment.”

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,²³ in general, and furthers the objectives of Section 6(b)(5) of the Act,²⁴ 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.

Rule 1000

The Exchange’s proposal to amend Rule 1000, titled “Applicability, Definitions and References” to conform the formatting of the rule, update the name of The Options Clearing Corporation to add a “The” before the name, and relocate definitions from Rule 1014 to Rule 1000 are non-substantive amendments. The Exchange’s proposal to add a definition for “Public Customer” within the Rule 1000(b)(56), amend the description of a

²³ 15 U.S.C. 78f(b).

²⁴ 15 U.S.C. 78f(b)(5).

Professional within Rule 1000(b)(14), and add the terms “Public Customer” and “Professional”, where appropriate, throughout the Rulebook, is consistent with the Act because these amendments will bring greater transparency to the Rulebook. The Exchange desires to make clear where a customer order means a Public Customer order or both a Public Customer and a Professional order. By distinguishing the use of these terms, market participants will better understand Exchange Rules.

Relocating and amending the term “Registered Options Trader” within proposed Rule 1000(b)(57) is consistent with the Act because it will make the description of this market participant clear. Phlx no longer has a separate “foreign currency options participation.” Those participations were eliminated.²⁵ The Exchange has separately defined a “Floor Market Maker” within Options 8, Section 2(7) as an ROT who is neither an SQT or an RSQT so the reference to the floor is no longer necessary. Finally, this definition of ROT is utilized throughout the Rules, not simply for Rule 1014, so it is better placed among the other definitions. The proposed new description will bring greater clarity to the term “ROT”.

The Exchange’s proposal to add a sentence to the description of an RSQT, which is being relocated to proposed Rule 1000(b)(60), which provides, “A Remote Streaming Quote Organization (“RSQTO”) or Remote Market Maker Organization (“RMO”) are Exchange member organizations that have qualified pursuant to Rule 507” is consistent with the Act because the proposed definition will makes clear that the usage of the terms RSQTO and RMO in relation to an RSQT. Finally, the Exchange’s proposal to define a

²⁵ See note 7 above.

Specialist within Rule 1000 will make it easier for market participants to understand the various registrations that exist on Phlx which would all be available within Rule 1000.

Rule 1014

The Exchange's proposal to amend the title of Rule 1014 from "Obligations and Restrictions Applicable to Specialists and Registered Options Traders" to "Obligations of Market Makers," relocate text from Rule 1014 to Rule 1000, retitle certain sections within Rule 1014(c), renumber Rule 1014, and modify the current paragraph at Rule 1014(b)(ii)(B) are non-substantive amendments.

The Exchange's proposal to add the following sentence to Rule 1014(d) "With respect to classes of options to which an ROT is not appointed, it should not engage in transactions for an account in which it has an interest that are disproportionate in relation to, or in derogation of, the performance of his obligations as specified in paragraph (c) above with respect to those classes of options to which it is appointed," before the phrase "an ROT should not" is consistent with the Act. The Exchange believes that adding this sentence will provide more context to the information which follows. This rule text is similar to rule text within ISE Rules at Options 2, Section 5(d).

The Exchange's proposes to amend Rule 1014(d)(ii) from "Be conspicuous in the general market or in the market in a particular option" to "effect purchases or sales on the Exchange except in a reasonable and orderly manner" is consistent with the Act in that it protects investors and the public interest by providing a standard that is understandable. The Exchange notes that the quoting requirements within Rule 1081 require ROTs to be

quoting a certain amount of the trading day. The new rule text is clear and unambiguous. It is the same requirement for market makers on other options markets.²⁶

The Exchange's proposal to delete Rule 1014(f) is consistent with the Act because the provisions in this rule are no longer necessary. The rule text does not provide additional information to the current rule and additionally, the Exchange would not approve a market making transaction that is not done by a Specialist or ROT. This rule has been in existence for some time and the Exchange does not believe it has relevance. The Exchange's deletion of Commentary .02 of Rule 1014 is consistent with the Act because this rule text related to paragraph (c)(i)(B), which was deleted.²⁷

The Exchange's proposal to make minor amendments to Commentary .07 is consistent with the Act because the changes are not substantive. The Exchange's proposal to delete Commentary .08 is consistent with the Act as Phlx Rule 1017 governs the Opening Process and Specialists may not circumvent that process. The Exchange's proposal to delete Commentary .09 to Rule 1014 is consistent with the Act because the provision is redundant. Trading hours and ability to set them for foreign currency options are handled within Phlx Rule 101. Also, Phlx Rule 1014(e) no longer exists. The Exchange's proposal to delete Commentary .10 to Rule 1014 is consistent with the Act because the Exchange requires ROTs to submit orders electronically similar to all other market participants. This rule text is not necessary. The Exchange believes these

²⁶ See GEMX and MRX Rules at Options 2, Section 5(d) and NOM and BX Chapter VII, Section 5(b).

²⁷ See Securities Exchange Act Release No. 76441 (November 16, 2015), 80 FR 72773 (November 20, 2015) (SR-Phlx-2015-91).

proposed rule changes will bring greater transparency and clarity to the regulation of ROTs and Specialists on Phlx.

Bid/Ask Differential

The Exchange proposes to amend its bid/ask differential requirements within Rule 1014(c) and Options 8, Section 27 for in-the-money series for options on equities (including Exchange-Traded Fund Shares), index options and options on U.S. dollar-settled FCOs, to a quote spread allowance which may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment, provided the market for the underlying security is not wider than the differentials set forth above is consistent with the Act. The Exchange believes the proposed bid/offer differentials allow market makers greater flexibility with respect to their quoting obligations. Aligning the bid/ask differentials for all in-the-money options would cause the Exchange to have a single standard regardless of the product. Phlx believes that measuring the permissible width of a market maker's quote against the NBBO more accurately reflects the current trading environment where multiple trading venues contribute to the prevailing market price of a security underlying an options series traded on Phlx. Applying this standard only when the market for the underlying security is wider than the differentials set forth allows Specialists and ROTs to submit quotations that may be more reflective of the market for the security. Specialists and ROTs take into consideration market conditions, including trading and liquidity when quoting. Further, the Exchange also notes that Specialists and ROTs are consistently incentivized through allocation models, pricing, and rules enforcement of market maker obligations to submit quotes which reflect a quality market and are representative of the Specialist's or ROT's best quote.

With this proposal, Specialists and ROTs would obtain the same flexibility in quoting as they experience on other options markets today.²⁸ Aligning the requirements for all in-the-money options across the Exchange will avoid confusion for Specialists and ROTs in submitting quotes on both the trading floor and electronically on Phlx. The Exchange is not amending quote width allowances for options which are not in-the-money. Further, a Specialist or ROT quoting an in-the-money options series can hedge its position by trading in the underlying security at the NBBO, which may be narrower than the quotation on the primary market.

The Exchange also proposes to note that it may establish differences other than the above for one or more series or classes of options. The Exchange's proposal to amend its rule to permit intra-day discretion to conform to current practice is consistent with the Act because such discretion is necessary to permit the Exchange the ability to attract liquidity from Specialists and ROTs while also maintaining a fair and orderly market. Specialists and ROTs accept a certain amount of risk when quoting on the Exchange. The Exchange imposes quoting and other obligations on ROTs.²⁹ The Exchange notes that these risks which ROTs accept each trading day are calculated risks. The Exchange notes that it considers certain factors, which are likely unforeseen, in

²⁸ See ISE, GEMX and MRX Options 2, Section 4. Options 2, Section 4 provides, "(4) To price options contracts fairly by, among other things, bidding and offering so as to create differences of no more than \$5 between the bid and offer following the opening rotation in an equity or index options contract. The Exchange may establish differences other than the above for one or more series or classes of options. (i) The bid/offer differentials stated in subparagraph (b)(4) of this Rule shall not apply to in-the-money options series where the underlying securities market is wider than the differentials set forth above. For these series, the bid/ask differential may be as wide as the spread between the national best bid and offer in the underlying security."

²⁹ See Phlx Rules 1017 and Rule 1081.

determining whether to grant relief either in individual options classes or for all option classes based upon specific criteria. Specifically, the Exchange considers, among other factors, the following: (i) pending corporate actions with undisclosed or uncertain terms; (ii) company or industry news with anticipated significant market impact; (iii) government news of a sensational nature. The Exchange believes that it is necessary to grant quote relief in certain circumstances where an ROT may not have enough information to maintain fair and orderly markets. The Exchange notes that other markets have similar discretion for intra-day quotes today.³⁰ The Exchange is proposing this amendment to align the in-the-money bid/ask differentials with the requirements for the Trading Floor. The Exchange believes that the in-the-money bid/ask requirements for electronic quoting should align with floor trading.

Rule 1020

The Exchange's proposal to amend Rule 1020 to provide that a Specialist is not required to be assigned to an options series is consistent with the Act because this provision will allow the Exchange to list options series without the need to assign a Specialist. Today, the Exchange permits one Specialist per options series. There is no limitation on the number of ROTs that may be assigned to an options series. The Exchange notes that if a Specialist cannot be acquired for an options series it proposes to list the option series nonetheless for ROTs to quote and provide liquidity. Today, NOM

³⁰ NOM does not require NOM Market Makers to quote during the opening, however if a NOM Market Maker decided to quote during the opening, the Market Maker would be permitted to submit a bid/ask differential with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. However, respecting in-the-money series where the market for the underlying security is wider than \$5, the bid/ask differential may be as wide as the spread between the national best bid and offer in the underlying security. See NOM Rules at Chapter VII, Section 6(d)(ii).

does not have such a Specialist and lists and trades option series. The Exchange believes that this provision will remove impediments to and perfect the mechanism of a free and open market and a national market system because it will permit Phlx to competitively list all options series for which it has rules.

Other Amendments

The Exchange's relocation of Rule 1064, "Crossing, Facilitation and Solicited Orders" into Options 8, Section 30 and retitling of that rule are non-substantive.

The Exchange's proposed technical amendments to Rule 1082, "Firm Quotations" to rename Risk Monitor Mechanism and its proposal to update Rule 1087, "Price Improvement XL ("PIXL")" to amend "TOPO Plus Orders" to simple and provide a citation are non-substantive rule changes.

The Exchange's proposal to amend Options 8, Section 2, "Definitions" to add a sentence to Rule 2(7) Floor Market Maker to provide, "A Floor Market Maker may provide a quote in open outcry" is consistent with the Act as this provision will further distinguish floor and electronic trading and bring greater clarity to the Rules.

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.

Rule 1000

The Exchange's proposal to amend Rule 1000, titled "Applicability, Definitions and References" to conform the formatting of the rule, update the name of The Options Clearing Corporation to add the "The" before the name, and relocate definitions from Rule 1014 to Rule 1000 are non-substantive amendments. The Exchange's proposal to

add a definition for “Public Customer” within the Rule 1000(b)(56), amend the description of a Professional within Rule 1000(b)(14), and add the terms “Public Customer” and “Professional”, where appropriate, throughout the Rulebook, does not impose an undue burden on competition because these definitions will bring greater transparency to the Rulebook. The Exchange is not amending any provision of the rules, rather the Exchange is making clear where a Public Customer order is intended and where the term Professional is intended to avoid confusion.

Amending the term “Registered Options Trader” within proposed Rule 1000(b)(57) does not impose an undue burden on competition because it will make the description of this market participant clear. Phlx no longer has a separate “foreign currency options participation.” Those participations were eliminated.³¹

The Exchange’s proposal to add a sentence to the description of an RSQT also does not impose an undue burden on competition because the proposed definition will make clear that the usage of the terms RSQTO and RMO in relation to an RSQT. Finally, the Exchange’s proposal to add a definition for a Specialist within Rule 1000 will make it easier for market participants to understand the various registrations that exist on Phlx which would all be available within Rule 1000.

Rule 1014

The Exchange’s proposal to amend titles, relocate text, renumber sections of Rule 1014 from “Obligations and Restrictions Applicable to Specialists and Registered Options Traders” to “Obligations of Market Makers,” relocate text from Rule 1014 to

³¹ See Securities Exchange Act Release No. 63981 (February 25, 2011), 76 FR 12180 (March 4, 2011) (SR-Phlx-2011-13).

Rule 1000, retitle certain sections within Rule 1014(c), renumber Rule 1014, and modify the current paragraph at Rule 1014(b)(ii)(B) are non-substantive amendments.

The Exchange's proposal to add the following sentence to Rule 1014(d) "With respect to classes of options to which an ROT is not appointed, it should not engage in transactions for an account in which it has an interest that are disproportionate in relation to, or in derogation of, the performance of his obligations as specified in paragraph (c) above with respect to those classes of options to which it is appointed," before the phrase "an ROT does not" does not impose an undue burden on competition. This rule will apply to all ROTs uniformly and does not apply to other market participants.

The Exchange's proposes to amend Rule 1014(d)(ii) from "Be conspicuous in the general market or in the market in a particular option" to "effect purchases or sales on the Exchange except in a reasonable and orderly manner" does not impose an undue burden on competition in that it protects investors and the public interest by providing a standard that is understandable. This rule will apply to all ROTs uniformly and does not apply to other market participants.

The Exchange's proposal to delete Rule 1014(f) does not impose an undue burden on competition because the provision is no longer necessary. The Exchange's deletion of Commentary .02 of Rule 1014 does not impose an undue burden on competition because this rule text related to paragraph (c)(i)(B), which was deleted.³²

The Exchange's proposal to amend Commentary .07 to Rule 1014 does not impose an undue burden on competition because the amendment is non-substantive. The Exchange's proposal to delete Commentary .08 to Rule 1014 does not impose an undue

³² See Securities Exchange Act Release No. 76441 (November 16, 2015), 80 FR 72773 (November 20, 2015) (SR-Phlx-2015-91).

burden on competition because all members are subject to the Opening Process described within Rule 1017 and the elimination of the rule text within Commentary .08 will remove confusion. The Exchange's proposal to delete Commentary .09 to Rule 1014 does not impose an undue burden on competition because the provision is redundant. Trading hours and ability to set them for foreign currency options are handled within Phlx Rule 101. Also, Phlx Rule 1014(e) no longer exists. The Exchange's proposal to delete Commentary .10 to Rule 1014 does not impose an undue burden on competition because the Exchange requires ROTs to submit orders electronically similar to all other market participants. This rule text is not necessary. The Exchange believes these proposed rule changes will bring greater transparency and clarity to the regulation of ROTs and Specialists on Phlx.

Bid/Ask Differential

The Exchange's proposal to amend the bid/ask differentials within Rule 1014(c), for in-the-money series, from \$5 for electronic quotations to be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment does not impose an undue burden on competition as this requirement applies to all ROTs and Specialists today and the proposal will align the in-the-money quoting requirements for ROTs and Specialists transacting business electronically and on the trading floor. Today, this is the requirement for in-the-money bid/ask differentials on the trading floor as well as on other markets.³³

The Exchange's proposal to amend its rule to permit intra-day discretion to

³³ See ISE, GEMX and MRX Options 2, Section 4.

conform to current practice because ROTs are the only market participants subject to quoting requirements and the proposal specifically considers the need for ROTs to have information to make informed decisions to make calculated risks in the marketplace so that they may provide liquidity while maintaining fair and orderly markets. The proposed amendments do not create an undue burden on inter-market competition because other options markets have the same intra-day requirements.³⁴

Rule 1020

The Exchange's proposal to amend Rule 1020 to provide that a Specialist is not required to be assigned to an options series does not impose an undue burden on competition because the Exchange will continue to send notices for each new options series requesting interested Specialists to express interest. In the event that it is unable to locate an interested Specialist, the Exchange proposes to list the option series nonetheless for ROTs to quote and provide liquidity. Today, the Exchange permits one Specialist per options series. There is no limitation on the number of ROTs that may be assigned to an options series. Today, NOM does not have such a Specialist and lists and trades option series.

Other Amendments

The Exchange's relocation of Rule 1064 and technical amendments to Rule 1082 and 1087 are non-substantive.

The Exchange's proposal to amend Options 8, Section 2, "Definitions" to add a sentence to Rule 2(7) Floor Market Maker does not impose an undue burden on

³⁴ See Miami International Securities Exchange LLC Rule 604(b)(4), Cboe Exchange, Inc. Rule 8.7(d), NYSE American LLC Rule 925NY(b)(4), NYSE Arca, Inc. 6.37-O(b)(4).

competition, rather this provision will further distinguish floor and electronic trading and bring greater clarity to the Rules.

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 Act³⁵ and subparagraph (f)(6) of Rule 19b-4 thereunder.³⁶

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.

³⁵ 15 U.S.C. 78s(b)(3)(A)(iii).

³⁶ 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.

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-2019-33 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-2019-33. 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-2019-33 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.³⁷

Eduardo A. Aleman
Assistant Secretary

³⁷ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

New text is underlined; deleted text is in brackets.

Nasdaq PHLX Rules

* * * * *

Rule 501. Specialist Appointment

* * * * *

(f) A Remote Streaming Quote Trader (“RSQT”), as defined in Rule 1000(b)(60), may submit an application as described above to be approved in one or more classes as a Remote Specialist as defined in Rule 1020(a)(ii).

(i) A Remote Specialist does not need to meet the assistant specialist staffing requirement pursuant to paragraph (d) of this rule.

* * * * *

Rule 1000. Applicability, Definitions and References

(a) **Applicability.** The Rules in this Part shall be applicable to the trading on the Exchange in option contracts issued by the Options Clearing Corporation, the terms and conditions of such contracts, the exercise and settlement thereof, the handling of orders, and the conduct of accounts and other matters relating to options trading. Except to the extent that specific Rules in this Part govern or unless the context otherwise requires, the provisions of the By-Laws and of all other Rules and Policies of the Board of Directors shall be applicable to the trading on the Exchange of option contracts.

(b) **Definitions.** The following terms as used in the Rules shall, unless the context otherwise indicates, have the meanings herein specified:

1. The Options Clearing Corporation—The term “The Options Clearing Corporation” means [t]The Options Clearing Corporation, a subsidiary of the Participating Exchanges.

2. – 13. No change.

14. Professional. The term "professional" means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). [A professional will be treated in the same manner as an off-floor broker-dealer for purposes of Rules 1014(g), 1033(e), 1064, Commentary .02 (except professional orders will be considered customer orders subject to facilitation), 1087 and 1098, as well as Options Floor Procedure Advices B-6 and F-5.] Member organizations must indicate whether orders are for [p]Professionals.

15. -33. No change.

34. American Option or American Style Option. The term "American Option" or "American Style Option" means an option contract that may be exercised at any time from its commencement until its expiration.

35. European Option or European Style Option. The term "European Option" or "European Style Option" means an option contract that can be exercised only on the day it expires.

36. Stock Index Group, Broad Stock Index Group and Industry Stock Index Group. The terms "stock index group", "broad stock index group" and "industry stock index group" in respect of stock index warrants shall have the same meaning as in respect of stock index options.

37. Stock Index Warrant. The term "stock index warrant" means a warrant on a stock index group listed pursuant to Exchange Rule 803(e).

38. Reserved.

39. Currency Index Group. The term "currency index group" means a group of currencies each of whose inclusion and relative representation in the group is determined by its inclusion and relative representation in a currency index.

40. Reserved.

41. Foreign Broker-Dealer. The term "foreign broker-dealer" means any person or entity that is registered, authorized or licensed, or required to be by a foreign governmental agency or foreign regulatory organization to perform the function of a broker or a dealer in securities, or both. The terms "broker" or "dealer" mean the same as set out in Sections 3(a)(4) and 3(a)(5) of the Securities Exchange Act of 1934, as amended, provided that a broker or dealer may be a bank. For purposes of Rules 1014, [1033]Options 8, Section 34 and 1080, the term broker-dealer includes foreign broker-dealers, which are not [p]Public [c]Customers.

42. Exchange-Traded Fund Share.[—]For purposes of these Rules, the term Exchange-Traded Fund Share shall have the meaning assigned to it in Rule 1009, Commentary .06.

43. Quarterly Options Series.[—]The term "Quarterly Options Series" means a series in an options class that is approved for listing and trading on the Exchange in which the series is opened for trading on any business day and expires at the close of business on the last business day of a calendar quarter.

44. Short Term Option Series.[—]Short Term Option Series is a series in an option class that is approved for listing and trading on the Exchange in which the series is opened for trading on any Monday, Tuesday, Wednesday, Thursday or Friday that is a business day

and that expires on the Monday, Wednesday or Friday of the next business week, or, in the case of a series that is listed on a Friday and expires on a Monday, is listed one business week and one business day prior to that expiration. If a Tuesday, Wednesday, Thursday or Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Tuesday, Wednesday, Thursday or Friday, respectively. For a series listed pursuant to this section for Monday expiration, if a Monday is not a business day, the series shall expire on the first business day immediately following that Monday.

45. System. The term "System" shall mean the automated system for order execution and trade reporting owned and operated by the Exchange which comprises:

(A) –(C) No change.

(46) System Securities. The term "System Securities" shall mean all options that are currently trading on the System. All other options shall be "Non System Securities."

(47) Order. The term "Order" shall mean a single order submitted to the System by a member that is eligible to submit such orders.

(48) System Book Feed. The term "System Book Feed" shall mean a data feed for System securities.

* * * * *

(50) Off-Floor Broker-Dealer Order. The term "Off-Floor Broker-Dealer Order" shall mean an order delivered from off the floor of the Exchange by or on behalf of a broker-dealer for the proprietary account(s) of such broker-dealer, including an order for a market maker located on an exchange or trading floor other than the Exchange's trading floor delivered electronically for the proprietary account(s) of such market maker.

(51) Account Number. An "account number" shall mean a number assigned to a member organization. Member organizations may have more than one account number.

(5[1]2) In-the-Money. The term "in-the-money" shall mean the following: for call options, all strike prices at or below the offer in the underlying security on the primary listing market; for put options, all strike prices at or above the bid in the underlying security on the primary listing market. This definition shall only apply for purposes of quoting obligations in Rules 1014 and 1017.

(5[2]3) Badge. A "badge" shall mean an account number, which may contain letters and/or numbers, assigned to Specialists and Registered Options Traders. A Specialist or Registered Options Trader account may be associated with multiple badges.

(5[2]4) Out-of-the-Money. The term "out-of-the-money" shall mean the following: for call options, all strike prices above the offer in the underlying security on the primary

listing market; for put options, all strike prices below the bid in the underlying security on the primary listing market. This definition shall only apply for purposes of quoting obligations in Rules 1014 and 1017.

(5[3]5) Mnemonic. A “mnemonic” shall mean an acronym comprised of letters and/or numbers assigned to member organizations. A member organization account may be associated with multiple mnemonics.

(56) Public Customer. Public Customer shall mean a person or entity that is not a broker or dealer in securities and is not a Professional as defined within Phlx Rule 1000(b)(14).

(57) Registered Options Trader or “ROT”. A “Registered Options Trader” shall mean a Streaming Quote Trader or a Remote Streaming Quote Trader who enters quotations for his own account electronically into the System.

(58) Specialist. A “Specialist” shall mean a member who is registered as an options Specialist pursuant to Rule 1020(a). A Specialist includes a Remote Specialist which is defined as a Specialist in one or more classes that does not have a physical presence on an Exchange’s trading floor and is approved by the Exchange pursuant to Rule 501.

(59) Streaming Quote Trader or SQT. A Streaming Quote Trader or “SQT” is an Registered Options Trader who has received permission from the Exchange to generate and submit option quotations electronically in options to which such SQT is assigned. An SQT may only submit such quotations while such SQT is physically present on the trading floor of the Exchange. An SQT may only submit quotes in classes of options in which the SQT is assigned.

(60) Remote Streaming Quote Trader or RSQT. A “Remote Streaming Quote Trader” or “RSQT” is an Registered Options Trader that is a member affiliated with an Remote Streaming Quote Trader Organization with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically in options to which such RSQT has been assigned. A qualified RSQT may function as a Remote Specialist upon Exchange approval. An RSQT is also known as a Remote Market Maker (“RMM”) pursuant to Rule 501. A Remote Streaming Quote Organization (“RSQTO”) or Remote Market Maker Organization (“RMO”) are Exchange member organizations that have qualified pursuant to Rule 507.

(61) Non-Public Customer. The term “Non-Public Customer” means a person or entity that is a broker or dealer in securities, or is a Professional.

(c) **References.** Exchange Contracts as defined in Rule 58 include option contracts purchased or sold in Exchange options transactions.

(d) **Local Time.** All times are stated in these Rules in terms of the local time in effect in New York City.

[(e) Reserved.]

* * * * *

Rule 1010. Withdrawal of Approval of Underlying Securities or Options

(a) Whenever the Exchange determines that an underlying security previously approved for Exchange option transactions does not meet the then current requirements for continuance of such approval or for any other reason should no longer be approved, the Exchange shall not open for trading any additional series of options of the class covering that underlying security and may therefore prohibit any opening purchase transactions in series of options of that class previously opened (except that (i) opening transactions by Market Makers executed to accommodate closing transactions of other market participants and (ii) opening transactions by member organizations to facilitate the closing transactions of [p]Public [c]Customers executed as crosses pursuant to and in accordance with Options 8, Section 30(b) may be permitted), to the extent it shall deem such action necessary or appropriate; provided, however, that where exceptional circumstances have caused an underlying security not to comply with the Exchange's current approval maintenance requirements, regarding number of publicly held shares of publicly held principal amount, number of shareholders, trading volume or market price the Exchange may, in the interest of maintaining a fair and orderly market or for the protection of investors, determine to continue to open additional series of option contracts of the class covering that underlying security. When all option contracts in respect of any underlying security that is no longer approved have expired, the Exchange may make application to the Securities and Exchange Commission to strike from trading and listing all such option contracts.

* * * * *

Rule 1014. Obligations of Market Makers[and Restrictions Applicable to Specialists and Registered Options Traders]

(a) *General.* Transactions of a Specialist and a Registered Options Trader (ROT) should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and those members should not enter into transactions or make bids or offers that are inconsistent with such a course of dealings.

[(b) *ROT.* (i) An ROT is a regular member or a foreign currency options participant of the Exchange located on the trading floor who has received permission from the Exchange to trade in options for his own account. For purposes of this Rule 1014, the term "ROT" shall include a Streaming Quote Trader, and a Remote Streaming Quote Trader, as defined below.]

(i) Each ROT electing to engage in Exchange options transactions shall be assigned by the Exchange one or more classes of options, and Exchange options transactions initiated by such ROT on the Floor for any account in which he had

an interest shall to the extent prescribed by the Exchange be in such assigned classes. The obligations of an ROT with respect to those classes of options to which he is assigned shall take precedence over his other ROT activities.

(A) The off-floor orders for which an ROT receives specialist margin treatment shall be subject to the obligations of Rule 1014(a) and, in general, be effected for the purpose of hedging, reducing risk of, or rebalancing positions of the ROT. An ROT is responsible for evidencing compliance with these provisions. The Exchange may exempt one or more classes of options.

[(ii) (A) *Streaming Quote Trader ("SQT")*]. An SQT is an ROT who has received permission from the Exchange to generate and submit option quotations electronically in options to which such SQT is assigned. An SQT may only submit such quotations while such SQT is physically present on the floor of the Exchange. An SQT may only trade in a market making capacity in classes of options in which the SQT is assigned.

(B) *Remote Streaming Quote Trader ("RSQT")*. An RSQT is an ROT that is a member affiliated with and RSQTO with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically in options to which such RSQT has been assigned. A qualified RSQT may function as a Remote Specialist upon Exchange approval.]

(ii) [Notwithstanding the provisions of sub-paragraph (b)(i) above, a] An RSQT may only submit [such] quotations electronically from off the floor of the Exchange. An RSQT shall not submit option quotations in eligible options to which such RSQT is assigned to the extent that the RSQT is also approved as a Remote Specialist in the same options. An RSQT may only trade in a market making capacity in classes of options in which he is assigned or approved as a Remote Specialist.

(iii) The Exchange shall assign SQTs and RSQTs in accordance with Rule 507 and allocate one or more options to Remote Specialists in accordance with Rule 501. An SQT or RSQT may be assigned to and a Remote Specialist may be allocated (and thus submit quotes electronically in) any option for which they are approved by the Exchange.

(iv) An RSQT shall be required to maintain information barriers that are reasonably designed to prevent the misuse of material, non-public information with any affiliates that may conduct a brokerage business in options assigned to the RSQT or act as a specialist or market maker in any security underlying options assigned to the RSQT, and otherwise comply with the requirements of Rule 1020 regarding restrictions on the flow of privileged information between the affiliate and the specialist organization.

(v) An RSQT electing to engage in Exchange options transactions is designated as a specialist on the Exchange for all purposes under the Securities Exchange Act of 1934 and the rules and regulations thereunder with respect to options transactions initiated and effected by him in his capacity as an ROT.

(c) *[In Classes of Option Contracts to Which Assigned—Affirmative Obligations]* **Appointment.** Without limiting the foregoing, a Specialist and an ROT is expected to perform the following activities in the course of maintaining a fair and orderly market[:]. The following bid/ask differentials only apply to electronic quotations following the Opening Process.

(1) Options on equities (including Exchange-Traded Fund Shares), [and on] index options and options on U.S. dollar-settled FCOs may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid, provided that the foregoing bid/ask differentials shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. [The \$5 bid/ask differentials only apply to electronic quotations and only following the opening rotation in each security (i.e., the bid/ask differentials specified in sub-paragraph (c)(i)(A)(1) above shall apply during opening rotation)]. For such series, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.

[(2) Options on U.S. dollar-settled FCO may be quoted electronically with a difference not to exceed \$5.00 between the bid and offer regardless of the price of the bid. The bid/ask differentials set forth in this subparagraph (c)(i)(A)(2) (b) only apply to electronic quotations and only following the opening rotation in each security (i.e., the bid/ask differentials specified in sub-paragraph (c)(i)(A)(1) above shall apply during opening rotation).]

(d) *[In Classes of Option Contracts Other Than Those Which Appointed.* Furthermore, a] **Classes of Options To Which Not Appointed.** With respect to classes of options to which an ROT is not appointed, it should not engage in transactions for an account in which it has an interest that are disproportionate in relation to, or in derogation of, the performance of his obligations as specified in paragraph (c) above with respect to those classes of options to which it is appointed, [A]an ROT should not[:]

([i]1) Individually or as a group, intentionally or unintentionally, dominate the market in option contracts of a particular class; or

([ii]2) [Be conspicuous in the general market or in the market in a particular option] Effect purchases or sales on the Exchange except in a reasonable and orderly manner.

(e) Reserved.

[(f) The provisions of the foregoing paragraphs (d) and (e) of this Rule shall not apply to:

- (i) any transaction by a registered specialist in an option in which he is so registered; or
- (ii) any transaction, other than a transaction for an account in which an ROT has an interest, made with the prior approval of an Options Exchange Official to permit a member to contribute to the maintenance of a fair and orderly market in an option, or any purchase or sale to reverse any such transaction; or
- (iii) any transaction to offset a transaction made in error.

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

(i) – (vi) Reserved.

(vii) Reserved.]

••• *Commentary:* -----

[.01 Similarly, an RSQT electing to engage in Exchange options transactions is designated as a specialist on the Exchange for all purposes under the Securities Exchange Act of 1934 and the rules and regulations thereunder with respect to options transactions initiated and effected by him in his capacity as an ROT.

The off-floor orders for which an ROT receives specialist margin treatment shall be subject to the obligations of Rule 1014(a) and, in general, be effected for the purpose of hedging, reducing risk of, or rebalancing positions of the ROT. An ROT is responsible for evidencing compliance with these provisions. The Exchange may exempt one or more classes of options from this calculation.

.02 The Exchange has determined that the limitations of paragraph (c)(i)(B) of this Rule should not be carried over from one day to the next and, therefore, are not applicable to the opening of stock or Exchange-Traded Fund Share option contracts on the Exchange.]

.0[3]1 The Exchange has determined for purposes of paragraph (c) of this Rule that, except for unusual circumstances, at least 50% of the trading activity in any quarter (measured in terms of

contract volume) of an ROT (other than an RSQT) shall ordinarily be in classes of options to which he is assigned. Temporarily undertaking the obligations of paragraph (c) at the request of a member of the Exchange in non assigned classes of options shall not be deemed trading in non assigned option contracts.

The Exchange may, in computing the percentage specified herein, assign a weighting factor based upon relative inactivity to one or more classes or series of option contracts.

[.04 The obligations of an ROT with respect to those classes of options to which he is assigned shall take precedence over his other ROT activities.

.05 The Exchange shall assign SQTs and RSQTs in accordance with Rule 507 and allocate one or more options to Remote Specialists in accordance with Rule 501. An SQT or RSQT may be assigned to and a Remote Specialist may be allocated (and thus submit quotes electronically in) any option for which they are approved by the Exchange.

.06 An RSQT shall be required to maintain information barriers that are reasonably designed to prevent the misuse of material, non-public information with any affiliates that may conduct a brokerage business in options assigned to the RSQT or act as a specialist or market maker in any security underlying options assigned to the RSQT, and otherwise comply with the requirements of Rule 1020 regarding restrictions on the flow of privileged information between the affiliate and the specialist organization.]

.0[7]2 A [s]Specialist acting in the course of his specializing function, as agent or principal, on the Exchange is prohibited from charging a commission or fee for the execution of an order. A [s]Specialist shall also not charge a commission or fee for the handling, execution or processing of an order delivered through the Exchange's [automated trading system, Phlx XL II]System, whether the [s]Specialist is acting as principal or agent for the order.

[.08 The price of an opening transaction in an option series must be within an acceptable range (as determined by the Exchange and announced to Exchange members and member organizations on the Exchange's website) compared to the highest offer and the lowest bid (e.g., the upper boundary of the acceptable range may

be 125% of the highest quote offer and the lower boundary may be 75% of the lowest quote bid).

.09 The trading hours for foreign currency options are constituted by various trading sessions as defined by the Board of Directors. Each trading session is considered separate and distinct from each other for the purposes of the prohibition contained in Rule 1014 paragraph (e).

.10 An ROT who wishes to place a limit order on the limit order book must submit such a limit order electronically.

-----]

* * * * *

Rule 1017. Openings In Options

* * * * *

(j) The system will calculate an Opening Quote Range ("OQR") for a particular option series that will be utilized in the Price Discovery Mechanism described below, if the Exchange has not opened subject to any of the provisions above.

* * * * *

(7) If the Exchange determines that non-routable interest can execute the maximum number of contracts against Exchange interest, after routable interest has been determined by the system to satisfy the away market, then the Potential Opening Price is the price at which the maximum number of contracts can execute, excluding the interest which will be routed to an away market, which may be executed on the Exchange as described in paragraph (h) above. The system will consider routable Public Customer and Professional interest in price/time priority to satisfy the away market.

(k) Price Discovery Mechanism. If the Exchange has not opened pursuant to paragraphs (f) or (i) above, after the OQR calculation in paragraph (j), the Exchange will conduct the following Price Discovery Mechanism.

* * * * *

(6) The system will execute orders at the Opening Price that have contingencies (such as, without limitation, all-or-none) and non-routable orders, such as a "Do Not Route" or "DNR" Orders, to the extent possible. The system will only route non-contingency Public [c]Customer and Professional orders.

* * * * *

Rule 1020. Registration and Functions of Options Specialists

(a) A Specialist is not required to be assigned to an options series.

(i) Notwithstanding the foregoing, [N]no member shall act as an options specialist (to include a Remote Specialist as defined in Rule 1020(a)(ii)) in any option unless such member is registered as an options specialist in such option by the Exchange pursuant to Rule 501 and such registration may be revoked or suspended at any time by the Exchange.

* * * * *

[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) In accordance with his responsibilities for due diligence, pursuant to Rule 155, an Options Floor Broker shall request bids and offers for such options series and make all persons in the trading crowd aware of his request.
- (ii) After providing an opportunity for such bids and offers to be made, he must bid and offer at prices differing by the minimum increment and must improve the market by bidding above the highest bid or offering below the lowest offer.
- (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 Based Management System ("FBMS"), except for where there is a provisional execution using the Snapshot feature of FBMS (as described in Rule 1069); bids and offers can be withdrawn pursuant to Rule 1000(g).
- (iv) A Floor Broker crossing a public customer order with an order that is not a public customer order, when providing for a reasonable opportunity for the trading crowd to participate in the transaction, shall disclose the public customer order that is subject to crossing prior to the execution of the order.

(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 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) The Floor Broker shall request markets for the execution of all options components of the order. After providing an opportunity for such markets to be made, the Floor Broker shall announce that he holds an order subject to facilitation and shall bid (or offer) in between the market for each options component and disclose all terms and conditions of the order including all securities which are components of the order.
- (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 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) If a member appears in the trading crowd in response to a solicitation, other trading crowd participants must be given a reasonable opportunity to respond to the order which prompted the solicitation before the solicited member may respond to the order. Prior to a bid (or offer) being made on behalf of any such order the solicitor or his representative must identify the solicited party to the trading crowd and give all information to the trading crowd which was given to the solicited member.

(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) announce to the trading crowd the same terms of the originating order that have been disclosed to the solicited party;
- (B) bid at the price he/she is prepared to buy from the solicited party or offer at the solicited price he/she is prepared to sell to the solicited party; and

(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 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 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) 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.

(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, 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 (there shall be no aggregation of multiple orders to satisfy the size parameter);

(B) such member or member organization shall create an electronic record that it is engaging in a tied hedge transaction in a form and manner prescribed by the Exchange;

(C) such hedging position is:

- (1) comprised of a position designated as eligible for a tied hedge transaction as determined by the Exchange and may include the same underlying stock applicable to the option order, a security future overlying the same stock applicable to the option order or, in reference to an index, ETF or HOLDR option, a related instrument. A "related instrument" means, in reference to an index option, securities comprising ten percent or more of the component securities in the index or a futures contract on any economically equivalent index applicable to the option order. A "related instrument" means, in reference to an ETF or HOLDR option, a futures contract on any economically equivalent index applicable to the ETF or HOLDR underlying the option order;
 - (2) brought without undue delay to the trading crowd and announced concurrently with the option order;
 - (3) offered to the trading crowd in its entirety; and
 - (4) offered, at the execution price received by the member or member organization introducing the option, to any in-crowd market participant who has established parity or priority for the related options;
- (D) the hedging position does not exceed the option order on a delta basis;
- (E) all tied hedge transactions (regardless of whether the option order is a simple or complex order) are treated the same as complex orders for purposes of the Exchange's open outcry allocation and reporting procedures. Tied hedge transactions are subject to the existing NBBO trade-through requirements for options and stock, as applicable, and may qualify for various exceptions; however, when the option order is a simple order the execution of the option leg of a tied hedge transaction does not qualify it for any NBBO trade-through exception for a Complex Trade;
- (F) in-crowd market participants that participate in the option transaction must also participate in the hedging position and may not prevent the option transaction from occurring by giving a competing bid or offer for one component of such order; and
- (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. A combination option and hedging position offered in reliance on this provision shall be referred to as a "tied hedge" order.

(H) if at the time a tied hedge transaction is executed, market conditions in any non-Phlx market(s) prevent the execution of the non-options leg(s) at the price(s) agreed upon, the trade representing the options leg(s) of the tied hedge transaction may be cancelled at the request of any member that is a party to the trade.

(I) All such orders are not deemed executed until entered into and executed by the Options Floor 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 public customer Orders are at the same price on the Exchange's limit order book and (ii) the price is at or between the better of the PBBO and the NBBO.

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

(b) Floor Qualified Contingent Cross Orders will be automatically cancelled if they cannot be executed.

(c) Floor Qualified Contingent Cross Orders may only be entered in the regular trading increments applicable to the options class under Rule 1034.

(2) Options Floor Brokers shall not enter Floor Qualified Contingent Cross Orders for their own account, the account of an associated person, or an account with respect to which it or an associated person thereof exercises investment discretion. Options Floor Brokers must maintain books and records demonstrating that each Floor Qualified Contingent Cross Order was not entered for a prohibited account. Any Floor Qualified Contingent Cross Order that does not have a corresponding record required by this subsection shall be deemed to have been entered for a prohibited account in violation of this Rule.

(3) The term "qualified contingent trade" shall have the same meaning set forth in Rule 1088(a)(3).

••• *Commentary:* -----

.01 A violation of this Rule may be considered conduct inconsistent with just and equitable principles of trade.

.02 Firm Participation Guarantees. (i) Notwithstanding the provisions of paragraphs (a) and (b) of this Rule, when a Floor Broker holds an equity, index or U.S. dollar-settled foreign currency option order of the eligible order size or greater ("original order"), the Floor Broker is entitled to cross a certain percentage of the original order with other orders that he is holding or in the case of a public customer order, with a facilitation order of the originating firm (i.e., the firm from which the original customer order originated).

- (ii) The Exchange may determine, on an option by option basis, the eligible size for an order that may be transacted pursuant to this Commentary, however, the eligible order size may not be less than 50 contracts. Orders for less than 50 contracts may be crossed pursuant to this Rule but are not subject to subsection (iii) below pertaining to participation guarantees. In accordance with his responsibilities for due diligence, a Floor Broker representing an order of the eligible order size or greater which he wishes to cross shall request bids and offers for such option series and make all persons in the trading crowd aware of his request. In determining whether an order satisfies the eligible order size requirement, any multi-part or spread order must contain one leg alone which is for the eligible order size or greater. If the same member organization is the originating firm and also the specialist for the particular class of options to which the order relates, then the specialist is not entitled to any Enhanced Specialist Participation with respect to the particular cross transaction.
- (iii) The percentage of the order which a Floor Broker is entitled to cross in equity, index and U.S dollar settled foreign currency options, after all public customer orders that were (1) on the limit order book and then (2) represented in the trading crowd at the time the market was established have been satisfied, is 40% of the remaining contracts in the order if the order is traded at or between the best bid or offer given by the crowd in response to the Floor Broker's initial request for a market.
- (iv) When crossing an order pursuant to this Commentary, a Floor Broker must disclose on its order ticket for any order which is subject to crossing, all of the terms of such order, including any contingency involving, and all related transactions in, either options or, in the case of equity or index options, underlying or related securities. The Floor Broker, in the case of equity or index options, must disclose all securities that are components of the customer order which is subject to crossing before requesting bids and offers for the execution of all components of the order.
- (v) 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.

- (vi) If a trade pursuant to this Commentary occurs when the specialist is on parity with one or more controlled accounts, then the Enhanced Specialist Participation which is established pursuant to Exchange Rule 1014(g)(ii) shall apply only to the number of contracts remaining after the following orders have been satisfied: those public customer orders which trade ahead of the cross transaction, and any portion of an order being crossed against the original order being represented by the Floor Broker.
- (A) The specialist shall not be entitled to receive the Enhanced Specialist Participation in equity, index and U.S dollar settled foreign currency options after customer orders have been executed for orders crossed pursuant to this paragraph (vi) unless the Floor Broker has chosen to cross less than its 40% entitlement, in which case the Enhanced Specialist Participation will be a percentage that combined with the percentage the firm crossed is no more than 40% of the original order.

If the trade occurs at a price other than the specialist's disseminated bid or offer, the specialist is entitled to no guaranteed participation.

- (vii) The members of the trading crowd who established the market will have priority over all other orders that were not represented in the trading crowd at the time that the market was established (but not over customer orders on the book) and will maintain priority over such orders except for orders that improve upon the market. A Floor Broker who is holding a customer order and either a facilitation or solicited order and who makes a request for a market will be deemed to be representing both the customer order and either the facilitation order or solicited order, so that the customer order and the facilitation order or solicited order will also have priority over all other orders that were not being represented in the trading crowd at the time the market was established.
- (viii) Nothing in this paragraph is intended to prohibit a Floor Broker or a specialist from trading more than their percentage entitlements if the other members of the trading crowd do not choose to trade the remaining portion of the order.
- (ix) A Floor Broker may not cross an order that he is holding with an order from a Registered Options Trader that is then in the trading crowd.
- (x) Spread, straddle, combination or hedge orders, as defined in Exchange Rule 1066, on opposite sides of the market may be crossed, provided that the Floor Broker holding such orders proceeds in the manner described in paragraphs (a) or (b) of this Rule as appropriate. Members may not prevent a spread, straddle, stock-option, or combination cross from being completed by giving a competing

bid or offer for one component of such order. In determining whether an order satisfies the eligible order size requirement, any multi-part or spread order must contain one leg which, standing alone, is for the eligible order size or greater.

.03 Stop orders which have not been elected are not protected orders and are thus not considered for the acceptance or execution of Floor QCC Orders. All-or-None Orders are not protected orders and are thus not considered for the acceptance or execution of Floor QCC Orders, except that an incoming Floor QCC Order with a size greater than or equal to the size of a resting public customer All-or-None Order would cause the QCC Order to be automatically cancelled provided the QCC price locks or crosses the All-or-None Order.

-----]

Rule 1082. Firm Quotations

(a) Definitions.

- (i) The term "disseminated price" shall mean the bid (or offer) price for an options series that is made available by the Exchange and displayed by a quotation vendor on a terminal or other display device.
- (ii) The term "disseminated size" shall mean with respect to the disseminated price for any quoted options series:
 - (A) Except as provided in sub-paragraph (a)(ii)(C)(3) below, at least the sum of the size associated with limit orders, specialists' quotations, SQTs' quotations, and RSQTs' (as defined in Rule [1014(b)(ii)(B)]1000(b)(60)) quotations.
 - (B)

(1) If an SQT or RSQT's (other than a Directed SQT or RSQT) quotation size in a particular series in a Streaming Quote Option is exhausted or removed by the [Risk Monitor Mechanism]Automated Quotation Adjustments pursuant to Rule 1099(c)(2), such SQT or RSQT's quotation shall be deleted from the Exchange's disseminated quotation until the time the SQT or RSQT revises his/her quotation.

* * * * *

Rule 1087. Price Improvement XL ("PIXL")

A member may electronically submit for execution an order it represents as agent on behalf of a [p]Public [c]Customer, broker-dealer, or any other entity ("PIXL Order")

against principal interest or against any other order (except as provided in sub-paragraph (a)(6) below) it represents as agent (an "Initiating Order") provided it submits the PIXL Order for electronic execution into the PIXL Auction ("Auction") pursuant to this Rule. The contract size specified in Rule 1087 as applicable to PIXL Orders shall apply to Mini Options. [For purposes of this Rule, a public customer order does not include a professional order.]

* * * * *

- (2) if the PIXL Order (except if it is a Complex Order) is for the account of a [p]Public [c]Customer and such order is for 50 option contracts or more, or if the difference between the NBBO is greater than \$0.01, the Initiating Member must stop the entire PIXL Order (except if it is a Complex Order) at a price that is equal to or better than the NBBO and the internal market BBO (the "Reference BBO") on the opposite side of the market from the PIXL Order, provided that such price must be at least one minimum price improvement increment (as determined by the Exchange but not smaller than one cent) better than any limit order on the limit order book on the same side of the market as the PIXL Order.
- (3) If the PIXL Order (except if it is a Complex Order) is for the account of a broker dealer or any other person or entity that is not a [p]Public [c]Customer and such order is for 50 option contracts or more, or if the difference between the NBBO is greater than \$0.01, the Initiating Member must stop the entire PIXL Order (except if it is a Complex Order) at a price that is the better of: (A) the Reference BBO price improved by at least one minimum price improvement increment on the same side of the market as the PIXL Order, or (B) the PIXL Order's limit price (if the order is a limit order), provided in either case that such price is at or better than the NBBO and the Reference BBO.

* * * * *

If any of the above criteria are not met, the PIXL Order will be rejected. Pursuant to Rule 1087(f), the Exchange will allow a [p]Public [c]Customer-to-[p]Public [c]Customer PIXL Order to trade on either the bid or offer, if the NBBO is \$0.01 wide, provided (1) the execution price is equal to or within the NBBO, (2) there is no resting Public [c]Customer at the execution price, and (3) \$0.01 is the Minimum Price Variation (MPV) of the option. The Exchange will continue to reject a PIXL Order to buy (sell) if the NBBO is only \$0.01 wide and the Agency order is stopped on the bid (offer) if there is a resting order on the bid (offer).

(b) Auction Process. Only one Auction may be conducted at a time in the same series or same strategy, otherwise the orders will be rejected. Once commenced, an Auction may not be cancelled and shall proceed as follows:

* * * * *

When starting an Auction, the Initiating Member may submit the Initiating Order with a designation of "surrender" to the other PIXL participants ("Surrender") which will result in the Initiating Member forfeiting the priority and trade allocation privileges which he is otherwise entitled to as per paragraph (b)(5)(B)(i). If Surrender is specified the Initiating Order will only trade if there is not enough interest available to fully execute the PIXL Order at prices which are equal to or improve upon the stop price. The Surrender function will never result in more than the maximum allowable allocation percentage to the Initiating Member than that which the Initiating Member would have otherwise received in accordance with the allocation procedures set forth in this Rule. Surrender will not be applied if both the Initiating Order and PIXL Order are [p]Public [c]Customer orders. Surrender information will not be available to other market participants and may not be modified.

* * * * *

When starting a PIXL Complex Order Auction, the Initiating Member may submit the Initiating Order with a designation of "surrender" to the other PIXL participants ("Surrender") which will result in the Initiating Member forfeiting the priority and trade allocation privileges which he is otherwise entitled to as per paragraph (b)(5)(B)(iv). If Surrender is specified the Initiating Order will only trade if there is not enough interest available to fully execute the PIXL Order at prices which are equal to or improve upon the stop price. The Surrender function will never result in more than the maximum allowable allocation percentage to the Initiating Member than that which the Initiating Member would have otherwise received in accordance with the allocation procedures set forth in this Rule. Surrender will not be applied if both the Initiating Order and PIXL Complex Order are [p]Public [c]Customer orders. Surrender information will not be available to other market participants and may not be modified.

(C) When the Exchange receives a PIXL Order for Auction processing, a PAN detailing the side and size and option series of the PIXL Order will be sent over the Exchange's [TOPO Plus Orders]TOPO data feed pursuant to Rule 1070(a)(1) and Specialized Quote Feed pursuant to Rule 1080(a)(i)(B).

* * * * *

(A) Public [c]Customer orders shall have priority at each price level. [For purposes of this Rule, a public customer order does not include a professional order.]

- (B) After [p]Public [c]Customer interest at a particular price level has been satisfied, remaining contracts will be allocated among all Exchange quotes, orders and PAN responses as follows:
- (i) If the Initiating Member selected the single stop price option of the PIXL Auction (except if it is a Complex Order), PIXL executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after [p]Public [c]Customer interest is satisfied being allocated to the Initiating Member at the stop price. However, if only one other participant matches the stop price, then the Initiating Member may be allocated up to 50% of the contracts executed at such price. Remaining contracts shall be allocated pursuant to the algorithm set forth in [Exchange Rules 1014(g)(vii)(B)(1)(b) and (d)]Rule 1089(a)(1) among remaining quotes, orders and PAN responses at the stop price. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Member. The allocation will account for Surrender, if applicable.
 - (ii) If the Initiating Member selected the auto-match option of the PIXL Auction (except if it is a Complex Order), the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point until a price point is reached where the balance of the order can be fully executed, except that the Initiating Member shall be entitled to receive up to 40% (if there are multiple competing quotes, orders or PAN responses) or 50% (if there is only one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the stop price is the final price) after [p]Public [c]Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in [Exchange Rules 1014(g)(vii)(B)(1)(b) and (d)]Rule 1089(a)(1). Any remaining contracts shall be allocated to the Initiating Member.

* * * * *

b. next, to quotes, orders and PAN responses at prices at the Initiating Member's NWT price and better than the Initiating Member's stop price, beginning with the NWT price. The Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point, except that the Initiating Member shall be entitled to receive up to 40% (if there are multiple competing quotes, orders or PAN responses) or 50% (if there is only one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the final price is the stop price) after [p]Public [c]Customer interest has been satisfied but before remaining interest. In the case of an Initiating Order with a NWT price at the market, the Initiating Member shall be allocated an equal number of

contracts as the aggregate size of all other quotes, orders and PAN responses at all price points, except that the Initiating Member shall be entitled to receive up to 40% (if there are multiple competing quotes, orders or PAN responses) or 50% (if there is only one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the final price is the stop price) after [p]Public [c]Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in [Exchange Rules 1014(g)(vii)(B)(1)(b) and (d)]Rule 1089(a)(1). Any remaining contracts shall be allocated to the Initiating Member.

(iv) In the case of a Complex Order PIXL, if the Initiating Member selected the single stop price option of the PIXL Auction, PIXL executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after [p]Public [c]Customer complex interest is satisfied being allocated to the Initiating Member at the stop price. If only one other participant matches the stop price, then the Initiating Member may be allocated up to 50% of the contracts executed at such price. Complex Orders on the PHLX Complex Order Book, PAN responses, and quotes and orders which comprise the cPBBO at the end of the Auction will be considered for allocation against the Complex PIXL order. Such interest will be allocated at a given price in the following order: a) to [p]Public [c]Customer Complex Orders and PAN responses in time priority; b) to SQT, RSQT, and [non-SQT ROT]Floor Market Maker Complex Orders and PAN responses on a size pro-rata basis; c) to non-market maker off-floor broker-dealer Complex Orders and PAN responses on a size pro-rata basis, and d) to quotes and orders which comprise the cPBBO at the end of the Auction with [p]Public [c]Customer interest being satisfied first in time priority, then to SQT, RSQT, and [non-SQT ROT]Floor Market Maker interest satisfied on a size pro-rata basis, and lastly to non-market maker off-floor broker-dealers on a size pro-rata basis. If the final price point is equal to the stop price, the Initiating Member will be allocated 40% (or 50% if matching only one other participant) after [p]Public [c]Customer Complex Orders and PAN responses have been satisfied, thereafter the allocation will continue as stipulated in b) through d) of this sub-paragraph. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Member. The allocation will account for Surrender, if applicable.

(v) In the case of a Complex Order PIXL, if the Initiating Member selected the "stop and NWT" option of the PIXL Auction, contracts shall be allocated as follows:

a. No change.

b. Next, to Complex Orders and PAN responses, as well as to quotes and orders which comprise the cPBBO at the end of the Auction, at the Initiating Member's NWT price and at prices better than or equal to the Initiating Member's stop price, beginning with the NWT price. The Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other interest at each price point, except that the Initiating Member shall be entitled to receive up to 40% (or 50% if matching only one other participant) of the contracts remaining, after [p]Public [c]Customer Complex Orders and PAN responses have been satisfied, at the final price point (including situations where the final price is the stop price). In the case of an Initiating Order with a NWT price at the market, the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other interest at all price points, except that the Initiating Member shall be entitled to receive up to 40% (or 50% if matching only one other participant) of the contracts remaining, after [p]Public [c]Customer Complex Orders and PAN responses have been satisfied, at the final price point (including situations where the final price is the stop price). If there is other interest at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in (b)(5)(B)(iv)a through d) of this rule. Any remaining contracts shall be allocated to the Initiating Member.

* * * * *

(f) In lieu of the procedures in paragraphs (a) - (b) above, an Initiating Member may enter a PIXL Order for the account of a [p]Public [c]Customer paired with an order for the account of a [p]Public [c]Customer and such paired orders will be automatically executed without a PIXL Auction, provided there is not currently an Auction in progress in the same series or same strategy, in which case the orders will be rejected. The execution price for such a PIXL Order (except if it is a Complex Order) must be expressed in the quoting increment applicable to the affected series. Such an execution may not trade through the better of the NBBO or Reference BBO or at the same price as any resting Public [c]Customer order. The execution price for such a Complex Order PIXL may be in .01 increments and may not trade at a price equal to or through the cPBBO or at the same price as a resting Public [c]Customer Complex Order.

* * * * *

Rule 1088. Qualified Contingent Cross Order

(a) No change.

(1) Qualified Contingent Cross Orders are immediately executed upon entry into the System by an Order Entry Firm provided that (i) no [p]Public [c]Customer orders are at the same price on the Exchange's limit order book and (ii) the price is at or between the better of the PBBO and the NBBO.

* * * * *

•• Commentary: -----

.01 Stop orders which have not been elected are not protected orders and are thus not considered for the acceptance or execution of QCC Orders. All-or-None Orders are not protected orders and are thus not considered for the acceptance or execution of QCC Orders, except that an incoming QCC Order with a size greater than or equal to the size of a resting [p]Public [c]Customer All-or-None Order would cause the QCC Order to be automatically cancelled provided the QCC price locks or crosses the All-or-None Order.

Rule 1089. Electronic Execution Priority and Processing in the System

* * * * *

(A) **Public Customer Priority:** the highest bid and lowest offer shall have priority except that Public Customer orders shall have priority over non-Public Customer interest at the same price, provided the Public Customer order is an executable order. If there are two or more Public Customer orders for the same options series at the same price, priority shall be afforded to such Public Customer orders in the sequence in which they are received by the System. [For purposes of this rule a Public Customer shall be defined as a person or entity that is not a broker or dealer in securities. Professionals are separately defined at Phlx Rule 1000(b)(14) and not included in the definition of a Public Customer.]

* * * * *

Rule 1093. Away Markets and Order Routing

(a) Phlx offers two routing strategies, FIND and SRCH. Each of these routing strategies will be explained in more detail below. An order may in the alternative be marked Do Not Route or "DNR". The Exchange notes that for purposes of this rule the System will route FIND and SRCH Orders with no other contingencies. Immediate or Cancel ("IOC") Orders will be cancelled immediately if not executed, and will not be routed. The System checks the Order Book for available contracts for potential execution against the FIND or SRCH orders. After the System checks the Order Book for available contracts, orders are sent to other available market centers for potential execution. When checking the Order Book, the System will seek to execute at the price at which it would send the order to an away market. For purposes of this rule, the Phlx's best bid or offer or "PBBO" does not include All-or-None Orders or stop orders which have not been triggered and the "internal PBBO" shall refer to the actual better price of an order resting on Phlx's Order Book, which is not displayed, but available for execution, excluding Allor- None Orders. For purposes of this rule, a Route Timer shall not exceed one second and shall begin at the time orders are accepted into the System, and the System will consider whether an order can be routed at the conclusion of each Route Timer. Finally, for purposes of this rule, "exposure" or "exposing" an order shall mean a notification sent to participants with

the price, size, and side of interest that is available for execution. An order exposure alert is sent if the order size is modified. Exposure notifications will be sent to participants in accordance with the routing procedures described in Rule 1093(a)(iii) below except if an incoming order is joining an already established PBBO price when the ABBO is locked or crossed with the PBBO, in which case such order will join the established PBBO price and no exposure notification will be sent. For purposes of this rule Phlx's opening process is governed by Rule 1017 and includes an opening after a trading halt ("Opening Process"). [For purposes of this rule, the term "Public Customer" means a person or entity that is not a broker or dealer in securities and is not a professional as defined within Rule 1000(b)(14).]

* * * * *

(1) With respect to an Opening Process, only a Public Customer and [p]Professional FIND Order on the Order Book, whether it is received prior to the opening or it is a GTC FIND Order from a prior day, may be routed at the conclusion of an Opening Process. Non-Public Customer and non-[p]Professional FIND Orders are not eligible for routing at the conclusion of an Opening Process. At the end of an Opening Process, any FIND Order that is priced through the Opening Price, pursuant to Phlx Rule 1017(a)(iii), will be cancelled, and any FIND Order that is at or inferior to the Opening Price will be executed pursuant to Rule 1017(k). Such FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process.

* * * * *

(6) If, at the end of the Route Timer pursuant to subparagraph (5) above, the FIND Order is still marketable with the ABBO, the FIND Order will route to an away market up to a size equal to the lesser of either (1) an away market's size or (2) the remaining size of the FIND Order. If the FIND Order still has remaining size after routing, it will (i) trade at the next PBBO price or better, subject to the order's limit price, and, if contracts still remain unexecuted, the remaining size will be routed to away markets disseminating the same price as the PBBO, or (ii) be entered into the Order Book and posted either at its limit price or re-priced one MPV away if the order would otherwise lock or cross the ABBO. If size still remains, the FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process. The remaining size of a non-Public Customer and non-[p]Professional FIND Order will be cancelled upon an intra-day trading halt.

* * * * *

(8) If, at the end of the Route Timer pursuant to subparagraph (7) above, the ABBO is still the best price and is marketable with the FIND Order, the order will route to the away market(s) whose disseminated price(s) is better than the PBBO, up to a size equal to the lesser of either: (1) the away markets' size, or (2) the remaining size of the FIND Order. If the FIND Order still has remaining size after such routing, it will (i) trade at the PBBO price or better, subject to the order's limit price, and, if contracts still remain

unexecuted, the remaining size will be routed to away markets disseminating the same price as the PBBO, or (ii) be entered into the Order Book and posted either at its limit price or re-priced one MPV away if the order would otherwise lock or cross the ABBO. If size remains, the FIND Order will not be eligible for routing until the next time the option series is subject to a new Opening Process. The remaining size of a non-Public Customer and non-[p]Professional FIND Order will be cancelled upon an intra-day trading halt.

* * * * *

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 ROT]Floor Market Makers, specialists and non-Phlx market makers on another exchange; [non-broker-dealer customers]Public Customers, Professionals, Firms and non-market-maker off-floor broker-dealers; and Floor Brokers using the Options Floor Based Management System. The term "Phlx market maker" means SQTs, RSQTs, specialists and [non-SQT ROTs]Floor Market Maker. The term "Phlx electronic market maker" means SQTs, RSQTs and specialists.

(viii) – (ix) No change.

(x) Firm. The term "Firm" means a broker-dealer trading for its own (proprietary) account that is: a member of The Options Clearing Corporation ("OCC") or maintains a Joint Back Office ("JBO") arrangement with an OCC member. Unless otherwise specified, Firms are included in the category of non-market-maker off-floor broker-dealer.

(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) [Non-broker-dealer customers]Public Customers and Professionals and non-market-maker off-floor broker-dealers may enter the Complex Orders listed in paragraph (a) above as Day, Good Til Cancelled ("GTC") or Immediate or Cancel ("IOC").

(ii) SQTs, RSQTs, [non-SQT ROTs]Floor Market Makers, specialists and non-Phlx market makers on another exchange may enter the Complex Orders listed in paragraph (a) above as IOC only. In addition, for Complex Orders consisting of more than two options components or where the underlying security is a component, SQTs, RSQTs, non-SQT ROTs, specialists and non-Phlx market makers on another exchange may enter the Complex Orders listed in paragraph (a) above as Day orders; once the Exchange has fully rolled out its enhanced Complex Order System,

which will be announced in an Options Trader Alert, Day orders will also become available for Complex Orders consisting of two options components.

(iii) Floor Brokers using the Options Floor 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]Public Customers, Professionals and non-market-maker off-floor broker-dealers, and as IOC only on behalf of SQTs, RSQTs, [non-SQT ROTs]Floor Market Makers, [s]Specialists, non- Phlx market makers on another exchange and Firms.

(iv) No change.

(v) Complex Orders may be submitted as:

All-or-none orders - to be executed in its entirety or not at all. These orders can only be submitted for [non-broker-dealer customers]Public Customers.

Cancel-replacement orders - require the immediate cancellation of a previously received order prior to the replacement of a new order with new terms and conditions. If the previously placed order is already filled partially or in its entirety the replacement order is automatically canceled or reduced by such number.

Limit orders - to be executed at a specified price or better.

Market orders - to be executed at the best price available at the time of execution.

(c)(i) and (ii) No change.

(iii) Spread Priority. (A) Complex Orders consisting of a conforming ratio may be executed at a total credit or debit price without giving priority to individual bids or offers established in the marketplace that are not better than the bids or offers comprising such total credit or debit, provided that if any of the bids or offers established in the marketplace consist of a [non-broker-dealer customer]Public Customer order, at least one option leg is executed at a better price than the established bid or offer for that option contract by the minimum trading increment and no option leg is executed at a price outside of the established bid or offer for that option contract.

(B) Where a Complex Order in a conforming ratio consists of the underlying security (stock or ETF) and one options leg, such options leg has priority over bids or offers established in the marketplace, except over bids or offers established by [non-broker-dealer customer]Public Customer orders. However, where a Complex Order in a conforming ratio consists of the underlying stock or ETF and more than one options leg, the options legs have priority over bids and offers established in the marketplace, including [non-broker-dealer

customer]Public Customer orders, if at least one options leg improves the existing market for that option.

(C) and (D) No change.

(d) Complex Order Opening Process ("COOP").

(i) No change.

(ii) Once trading in each option component of a Complex Order Strategy has opened or reopened following a trading halt for a certain configurable time not to exceed 60 seconds (and none of the conditions described in paragraph (c)(ii) above exist), the System will initiate the COOP for that Complex Order Strategy, provided that a COOP will only be conducted for any Complex Order Strategy that has a Complex Order received before the opening of that Complex Order Strategy, unless that Complex Order Strategy is already open as a result of another electronic auction process or another electronic auction involving the same Complex Order Strategy is in progress. Following a trading halt, a COOP will be conducted for any Complex Order Strategy that has a Complex Order present or had previously opened prior to the trading halt. The COOP will be conducted in two phases, the "COOP Timer" (as defined below) and the "COOP Evaluation" (as defined below).

(A) and (B) No change.

(C) COOP Evaluation. Upon expiration of the COOP Timer, the System will conduct a COOP Evaluation to determine, for a Complex Order Strategy, the price at which the maximum number of contracts can trade, taking into account Complex Orders marked all-or-none (which will be executed if possible) unless the maximum number of contracts can only trade without including all-or-none orders. The Exchange will open the Complex Order Strategy at that price, executing marketable trading interest, in the following order: first, to [nonbroker-dealer customers]Public Customers in time priority; next to Phlx electronic market makers on a pro rata basis; and then to all other participants on a pro rata basis. The imbalance of Complex Orders that are unexecutable at that price are placed on the CBOOK.

(1) No change.

(2) Trade is possible. If at the end of the COOP Timer the System determines that there are market or marketable limit Complex Orders or COOP Sweeps, Complex Orders or COOP Sweeps that are equal to or improve the cPBBO, and/or Complex Orders or COOP Sweeps that cross within the cPBBO in the System, the System will do the following: if such interest crosses and does not match in size, the execution price is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding), provided, however, that if there is more than one price at which the interest may execute,

the execution price when the larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment. If the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment. Executable bids/offers include any interest which could be executed at the net price without trading through residual interest or the cPBBO or without trading at the cPBBO where there is [non-broker-dealer customer] Public Customer interest at the best bid or offer for any leg, consistent with Rule 1098(c)(iii).

If there is any remaining interest and there is no component that consists of the underlying security and provided that the order is not marked all-or-none, such interest may "leg" whereby each options component may trade at the PBBO with existing quotes and/or limit orders on the limit order book for the individual components of the Complex Order; provided that remaining interest may execute against any eligible Complex Orders received before legging occurs. If the remaining interest has a component that consists of the underlying security, such Complex Order will be placed on the CBOOK (as defined below).

(3) No change,

(e) Process for Complex Order Live Auction ("COLA"). Complex Orders on the Complex Order Book ("CBOOK," as defined below) may be subject to an automated auction process.

(i) For purposes of paragraph (e):

(A) No change.

(B) (1) A "COLA-eligible order" means a Complex Order that is not for a market maker, as specified in Rule 1098(b)(ii) or for a Firm, as defined in Rule 1098(a)(x). If the System identifies the existence of a COLA-eligible order, such COLA-eligible order will initiate a COLA, during which participants may bid and offer against the COLA-eligible order pursuant to this rule. COLA-eligible orders will be executed without consideration of any prices that might be available on other exchanges trading the same options contracts.

(2) No change.

(ii) – (v) No change.

(vi) Allocation and Priority. As stated above, COLA-eligible orders, COLA Sweeps, and responsive Complex Orders will trade first based on the best price or prices available at the end of the COLA Timer.

(A) (1) and (2) No change.

(3) A [non-broker-dealer customer]Public Customer Complex Order will have priority over specialists, SQTs and RSQTs and off-floor broker-dealers bidding for and/or offering any options component(s) of the Complex Order Strategy at the same price, but not over [non-broker-dealer customer]Public Customer orders representing any options component(s) of the Complex Order Strategy at the same price.

(B) If multiple Complex Orders and COLA Sweeps are eligible for execution against the COLA-eligible order at the same price, the trade will be allocated among participants submitting electronic Complex Orders and COLA Sweeps as set forth below. Executions in the COLA will comply with the requirements of Exchange Rule 1098(c)(iii) above.

(1) First, to Public [c]Customer marketable Complex Orders on the CBOOK (as defined below) in the order in which they were received;

(2) Second, to COLA Sweeps and SQTs, RSQTs, and [non-SQT ROTs]Floor Market Makers who have submitted Complex Orders that are marketable against the COLA-eligible order, on a size pro-rata basis; and

(3) No change.

(C) Notwithstanding the foregoing, if the specialist submits a COLA Sweep during the COLA Timer and such COLA Sweep is for the same price as other COLA Sweeps that are eligible for execution against the COLA-eligible order, after Public [c]Customer marketable Complex Orders have been executed against the COLA-eligible order, the specialist shall be entitled to receive the greater of:

(1) the proportion of the aggregate size associated with such specialist's COLA Sweep, SQT and RSQT COLA Sweeps, and [non-SQT ROT]Floor Market Maker Complex Orders on the CBOOK; or

(2) the Enhanced Specialist Participation as described in [Rule 1014(g)(ii)]Options 8, Section 25.

(3) The [s]Specialist is not entitled to receive an allocation that would exceed the size of the specialist's COLA Sweep.

(D) No change.

- (vii) No change.
- (viii) Complex Orders resting on the CBOOK, and incoming electronic Complex Orders and COLA Sweeps that are received prior to the expiration of the COLA Timer, (collectively, for purposes of this rule, "incoming Complex Orders") representing the same Complex Order Strategy as a COLA-eligible order will impact the original COLA as follows:
- (A) No change.
- (B) Incoming Complex Orders on the same side of the market as the COLA-eligible order. Incoming Complex Orders that were received during the COLA Timer for the same Complex Order Strategy as the COLA-eligible order that are on the same side of the market will join the COLA. The original COLA-eligible order has priority at all price points (i.e., multiple COLA Sweep Prices) over the incoming Complex Order(s), regardless of the price of the incoming Complex Order. The incoming Complex Order shall not be eligible for execution against interest on the opposite side of the market from the COLA-eligible order until the COLA-eligible order is executed to the fullest extent possible. If the incoming Complex Order is not executed in its entirety, the System will not initiate a new COLA. Any remaining contracts, other than COLA Sweeps, will be placed on the CBOOK, subject to other instructions.
- (C) Incoming Complex Orders on the opposite side of the market from the COLA-eligible order.
- (1) Incoming [customer (non-broker-dealer customer)]Public Customer, Professional and non-market-maker off-floor broker-dealer (other than Firms)) Complex Orders that are received during the COLA Timer on the opposite side of the market from the COLA-eligible order with a price equal to or better than the best priced Complex Order or COLA Sweep will be executed against the COLA eligible order (which will be executed to the fullest extent possible first as described in sub-paragraph (B) above) or other Complex Orders or COLA Sweeps as follows:
- (a) If such incoming [customer] Complex Order is a limit order at the same price as the best priced Complex Order or COLA Sweep, the incoming Complex Order will be executed at such price.
- (b) If such incoming Complex Order is a limit order that improved the best priced Complex Order or COLA Sweep, the incoming [customer] Complex Order will be executed at the mid-point of the best priced Complex Order or COLA Sweep and the limit order price, rounded, if necessary, to the closest minimum trading increment to the benefit of the COLA-eligible order.

- (c) If such incoming [customer] Complex Order is a market order or a limit order that crosses the cPBBO, the incoming Complex Order will be executed at the mid-point of the cPBBO on the same side of the market as the COLA-eligible order and the best priced Complex Order or COLA Sweep, rounded, if necessary, to the closest minimum trading increment to the benefit of the COLA-eligible order.
- (d) If multiple [customer] Complex Orders are received on the opposite side of the market from the COLA-eligible order, [non-broker-dealer customer]Public Customer orders at the same price will be executed in the order in which they were received, whereas non-market-maker off-floor broker-dealer orders will be executed on a pro-rata basis at each price level.
- (e) No change.
- (2) No change.
- (3) Incoming Complex Orders that were received during the COLA Timer on the opposite side of the market from the COLA-eligible order with a price inferior to any other COLA Sweep or Complex Order will be executed against the COLA-eligible order after all interest at the better price(s) has/have been executed. After the initial COLA-eligible order has been executed to the fullest extent possible, incoming Complex Orders remaining unexecuted shall be eligible to trade with other Complex Orders and COLA Sweeps at their entered price. If, after the COLA-eligible order has been executed, there exist Complex Orders and/or COLA Sweeps on the opposite side of the market from the COLA-eligible order which cross the price of other Complex Orders or COLA Sweeps on the same side of the market from the COLA-eligible order, and if such interest crosses and does not match in size, the execution price is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding), provided, however, that if there is more than one price at which the interest may execute, the execution price when the larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment. If the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment. Executable bids/offers include any interest which could be executed without trading through residual Complex interest or the cPBBO, or without trading at the cPBBO where there is [nonbroker-dealer customer]Public Customer interest.

If there is any remaining interest and there is no component that consists of the underlying security and provided that the order is not marked all-or-none, such interest may "leg" whereby each options component may trade at the PBBO with existing quotes and/or limit orders on the limit order book for the

individual components of the Complex Order; provided that remaining interest may execute against any eligible Complex Orders received before legging occurs. If the remaining interest has a component that consists of the underlying security, such Complex Order will be placed on the CBOOK.

The System will treat any unexecuted remaining contracts in the incoming Complex Order as a new Complex Order, and will not initiate a new COLA. Such unexecuted remaining contracts, other than COLA Sweeps, will be placed on the CBOOK, subject to other instructions.

(ix) No change.

(f) Complex Limit Order Book ("CBOOK")

(i) and (ii) No change.

(iii) No change.

(A) No change.

(B) An incoming marketable Complex Order that does not trigger a COLA Timer will execute in the following order:

(1) No change.

(2) Second, against [non-broker-dealer customer]Public Customer Complex Orders and nonmarket maker broker-dealer Complex Orders resting in the CBOOK in price priority and, at the same price, against (i) non-broker-dealer customer Complex Orders in the order in which they were received; (ii) SQTs, RSQTs, [non-SQT ROTs]Floor Market Makers, [s]Specialists and non-Phlx market makers on another exchange on a size pro rata basis; and (iii) non-market-maker, broker-dealer and Professional Complex Orders on a size pro rata basis, provided that any execution pursuant to this paragraph (f)(iii)(B)(2) complies with the requirements of subparagraph (c)(iii) above.

(3) A [non-broker-dealer customer]Public Customer Complex Order will have priority over [s]Specialists, SQTs and RSQTs, Professionals and off-floor broker-dealers bidding for and/or offering any options component(s) of the Complex Order Strategy at the same price, but not over [non-broker-dealer customer]Public Customer orders representing any options component(s) of the Complex Order Strategy at the same price.

* * * * *

General Equity and Options Rules

* * * * *

Options Rules

* * * * *

Options 8 Floor Trading

General Provisions

* * * * *

Section 2. Definitions

* * * * *

(7) **Floor Market Maker.** The term “Floor Market Maker” is an ROT who is neither an SQT or an RSQT. A Floor Market Maker may provide a quote in open outcry. [A Floor Market Maker shall notify the Exchange of each option, on an issue-by-issue basis, in which such Floor Market Maker intends to be assigned to make markets. Such notification shall be in writing on a form prescribed by the Exchange (“Floor Market Maker Assignment Form”). Any change to such ROT Assignment Form shall be made in writing by the Floor Market Maker prior to the end of the trading session in which such change is to take place. Receipt of the properly completed ROT Assignment Form by a duly qualified Floor Market Maker applicant constitutes acceptance by the Exchange of such Floor Market Maker’s assignment in, or termination of assignment in (as indicated on the ROT Assignment Form), the options listed on such ROT Assignment Form. All such assignments shall not be effective, and shall be terminated, in the event that such Floor Market Maker applicant fails to qualify as an ROT on the Exchange.]

* * * * *

Section 11. Floor Market Maker and Specialist Appointment

(a) In addition to the requirements specified in Rule 501 related to the appointment of a Specialist, each Specialist unit must consist of at least the following staff for each Trading Floor Specialist post: (1) one head Specialist; and (2) one assistant Specialist that must be associated with the Specialist unit. The Exchange, in its discretion, may require a unit to obtain additional staff depending upon the number of assigned options classes and associated order flow.

([b]1) An options Specialist currently operating from the Exchange’s Trading Floor or a Remote Streaming Quote Trader (“RSQT”), as defined in Rule 1014, may submit an application as described in Rule 501 to be approved in one or more classes as a Remote Specialist as defined in Rule 1020(a)(ii).

([1]2) In making a determination regarding the application of an options Specialist currently operating from the Exchange’s Trading Floor that requests authorization to operate as a Remote Specialist, the Exchange will evaluate whether the change is in the best interest of the Exchange and may consider

information that it believes will be of assistance to it. Factors to be considered may include, but are not limited to, any one or more of the following: performance, operational capacity of the Exchange or options Specialist, efficiency, number and experience of personnel of the options Specialist who will be performing functions related to the trading of the applicable securities, number of securities involved, number of ROTs and SQTs affected and trading volume of the securities.

(b) A Floor Market Maker shall notify the Exchange of each option, on an issue-by-issue basis, in which such Floor Market Maker intends to be assigned to make markets. Such notification shall be in writing on a form prescribed by the Exchange (“Floor Market Maker Assignment Form”). Any change to such Floor Market Maker Assignment Form shall be made in writing by the Floor Market Maker prior to the end of the next business day in which such change is to take place. Receipt of the properly completed Floor Market Maker Assignment Form by a duly qualified Floor Market Maker applicant constitutes acceptance by the Exchange of such Floor Market Maker’s assignment in, or termination of assignment in (as indicated on the Floor Market Maker Assignment Form), the options listed on such Floor Market Maker Assignment Form. All such assignments shall not be effective, and shall be terminated, in the event that such Floor Market Maker applicant fails to qualify as a Floor Market Maker on the Exchange.

* * * * *

Section 22. Execution of Options Transactions on the Trading Floor

(a) Options transactions on the Exchange’s Trading Floor shall be executed in one of the following ways:

(1) No change.

(2) through the Options Floor Based Management System. Members authorized to operate on the floor are not permitted to execute orders in the Exchange's options trading crowd, except as follows:

(A) – (D) No change.

(E) As set forth in Options 8, Section 29(e)(v), members may use the Snapshot feature of the Options Floor Based Management System to provisionally execute orders in the options trading crowd.

(i) Surveillance staff must approve all executions submitted under this Options 8, Section 22(a)(3)(A)-(D) to validate that each abides by applicable priority and trade through rules. Under subsection (a)(3)(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 Public [c]Customer order or, where multiple Public [c]Customers’ orders are involved, for the Public [c]Customer order that is earliest in time. If no Public [c]Customer order

is involved, rounding of prices is available to the non-Public [c]Customer order that is earliest in time.

* * * * *

Section 24. Bids And Offers—Premium

* * * * *

(e) *Synthetic Option Orders*. When a member holding a synthetic option order, as defined in Options 8, Section 32, and bidding or offering on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions at or within the bids and offers established in the marketplace, then the order may be executed as a synthetic option order at the total credit or debit with one other member, provided that the option leg is executed at a better price than the established bid or offer for that option contract, in accordance with Options 8, Section 25. Synthetic option orders in open outcry, in which the option component is for a size of 100 contracts or more, have priority over bids (offers) of crowd participants who are bidding (offering) only for the option component of the synthetic option order, but not over bids (offers) of [p]Public [c]Customers on the limit order book, and not over crowd participants that are willing to participate in the synthetic option order at the net debit or credit price.

* * * * *

(i) *Spread Type Priority*. Through FBMS, Spread Type Orders consisting of a conforming ratio may be executed at a total credit or debit price with priority over individual bids or offers established in the marketplace (including Public [c]Customers) that are not better than the bids or offers comprising such total credit or debit, provided that at least one option leg is executed at a better price than the established bid or offer for that option contract and no option leg is executed at a price outside of the established bid or offer for that option contract.

* * * * *

Section 27. Quoting Obligations and Required Transactions

(a) and (b) No change.

(c) *In Classes of Option Contracts to Which Assigned—Affirmative Obligations*. With respect to classes of option contracts to which his assignment extends, a Specialist and an ROT, whenever the ROT (except an RSQT) enters the trading crowd in other than a floor brokerage capacity or is called upon by an Options Exchange Official or a Floor Broker, to make a market, are expected to engage, to a reasonable degree under the existing circumstances, in dealing for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class. Without limiting the foregoing, a Specialist and an ROT is expected to perform the following activities in the course of maintaining a fair and orderly market:

(1) Options on Equities (including Exchange-Traded Fund Shares), Index Options, and U.S. dollar-settled Foreign Currency Options.

(A) Quote Spread Parameters (Bid/Ask Differentials) —

- (i) Options on equities (including Exchange-Traded Fund Shares) and index options bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2; no more than \$.40 where the prevailing bid is \$2 or more but less than \$5; no more than \$.50 where the prevailing bid is \$5 or more but less than \$10; no more than \$.80 where the prevailing bid is \$10 or more but less than \$20; and no more than \$1 where the prevailing bid is \$20 or more, provided that, [in the case of equity options,] the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.
- (ii) Options on U.S. dollar-settled FCO. With respect to all U.S. dollar-settled FCO bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2.00; no more than \$.40 where the prevailing bid is \$2.00 or more but less than \$5.00; no more than \$.50 where the prevailing bid is \$5.00 or more but less than \$10.00; no more than \$.80 where the prevailing bid is \$10.00 or more but less than \$20.00; and no more than \$1.00 where the prevailing bid is \$20.00 or more, provided that the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.

* * * * *

Section 28. Responsibilities of Floor Brokers

* * * * *

(e)(1) *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 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 Based Management System ("FBMS") (as described in Rule 1080(a)(i)(C)). 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., Public [c]Customer, firm, broker-dealer, [p]Professional) 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 Option 8, Section 32; (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 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 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 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.

* * * * *

(h) Floor Brokers must make reasonable efforts to ascertain whether each order entrusted to them is for the account of a Public [c]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 Based Management System when it has been determined that the order is for an account of a broker/dealer.

(i) 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) Public [c]Customer orders at the top of the Exchange book; and (4) the best bid and offer of all-or-none orders.

* * * * *

Section 30. [Reserved] 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:

(1) In accordance with his responsibilities for due diligence, pursuant to Options 8, Section 18, an Options Floor Broker shall request bids and offers for such options series and make all persons in the trading crowd aware of his request.

(2) After providing an opportunity for such bids and offers to be made, he must bid and offer at prices differing by the minimum increment and must improve the market by bidding above the highest bid or offering below the lowest offer.

(3) 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 Based Management System ("FBMS"), except for where there is a provisional execution using the Snapshot feature of FBMS (as described in Options 8, Section 28(i); bids and offers can be withdrawn pursuant to Options 8, Section 22(c) or (d).

(4) A Floor Broker crossing a Public Customer order with an order that is not a Public Customer order, when providing for a reasonable opportunity for the trading crowd to participate in the transaction, shall disclose the Public Customer order that is subject to crossing prior to the execution of the order.

(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:

(1) The Floor Broker or his employees must enter the appropriate notation onto the Options Floor 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.

(2) The Floor Broker shall request markets for the execution of all options components of the order. After providing an opportunity for such markets to be made, the Floor Broker shall announce that he holds an order subject to facilitation and shall bid (or offer) in between the market for each options component and disclose all terms and conditions of the order including all securities which are components of the order.

(3) 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 Public 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 Based Management System ("FBMS"); bids and offers can be withdrawn pursuant to Options 8, Section 22(c) or (d).

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.

(1) If a member appears in the trading crowd in response to a solicitation, other trading crowd participants must be given a reasonable opportunity to respond to the order which prompted the solicitation before the solicited member may respond to the order. Prior to a bid (or offer) being made on behalf of any such order the solicitor or his representative must identify the solicited party to the trading crowd and give all information to the trading crowd which was given to the solicited member.

(2) 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) announce to the trading crowd the same terms of the originating order that have been disclosed to the solicited party;

(B) bid at the price he/she is prepared to buy from the solicited party or offer at the solicited price he/she is prepared to sell to the solicited party; and

(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 Based Management System ("FBMS"); bids and offers can be withdrawn pursuant to Options 8, Section 22(c) or (d).

(3) The Floor Broker or his employees must note on the Options Floor 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:

(1) 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

(2) 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.

(3) Furthermore, paragraph (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, 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 (there shall be no aggregation of multiple orders to satisfy the size parameter);

(B) such member or member organization shall create an electronic record that it is engaging in a tied hedge transaction in a form and manner prescribed by the Exchange;

(C) such hedging position is:

(i) comprised of a position designated as eligible for a tied hedge transaction as determined by the Exchange and may include the same underlying stock applicable to the option order, a security future overlying the same stock applicable to the option order or, in reference to an index, ETF or HOLDR option, a related instrument. A "related instrument" means, in reference to an index option, securities comprising ten percent or more of the component securities in the index or a futures contract on any economically equivalent index applicable to the option order. A "related instrument" means, in reference to an ETF or HOLDR option, a futures contract on any economically equivalent index applicable to the ETF or HOLDR underlying the option order;

(ii) brought without undue delay to the trading crowd and announced concurrently with the option order;

(iii) offered to the trading crowd in its entirety; and

(iv) offered, at the execution price received by the member or member organization introducing the option, to any in-crowd market participant who has established parity or priority for the related options;

(D) the hedging position does not exceed the option order on a delta basis;

(E) all tied hedge transactions (regardless of whether the option order is a simple or complex order) are treated the same as complex orders for purposes of the Exchange's open outcry allocation and reporting procedures. Tied hedge transactions are subject to the existing NBBO trade-through requirements for options and stock, as applicable, and may qualify for various exceptions; however, when the option order is a simple order the execution of the option leg of a tied hedge transaction does not qualify it for any NBBO trade-through exception for a Complex Trade;

(F) in-crowd market participants that participate in the option transaction must also participate in the hedging position and may not prevent the option transaction from occurring by giving a competing bid or offer for one component of such order; and

(G) prior to entering tied hedge orders on behalf of Public Customers, the member or member organization must deliver to the Public Customer a written notification informing the Public 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. A combination option and hedging position offered in reliance on this provision shall be referred to as a "tied hedge" order.

(H) if at the time a tied hedge transaction is executed, market conditions in any non- Phlx market(s) prevent the execution of the non-options leg(s) at the price(s) agreed upon, the trade representing the options leg(s) of the tied hedge transaction may be cancelled at the request of any member that is a party to the trade.

(I) All such orders are not deemed executed until entered into and executed by the Options Floor Based Management System ("FBMS"); bids and offers can be withdrawn pursuant to Options 8, Section 22(c) or (d).

(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 Public Customer Orders are at the same price on the Exchange's limit order book and (ii) the price is at or between the better of the PBBO and the NBBO.

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

(b) Floor Qualified Contingent Cross Orders will be automatically cancelled if they cannot be executed.

(c) Floor Qualified Contingent Cross Orders may only be entered in the regular trading increments applicable to the options class under Rule 1034.

(2) Options Floor Brokers shall not enter Floor Qualified Contingent Cross Orders for their own account, the account of an associated person, or an account with respect to which it or an associated person thereof exercises investment discretion. Options Floor Brokers must maintain books and records demonstrating that each Floor Qualified Contingent Cross Order was not entered for a prohibited account. Any Floor Qualified Contingent Cross Order that does not have a corresponding record required by this subsection shall be deemed to have been entered for a prohibited account in violation of this Rule.

(3) The term "qualified contingent trade" shall have the same meaning set forth in Rule 1088(a)(3).

••• *Commentary:* -----

.01 A violation of this Rule may be considered conduct inconsistent with just and equitable principles of trade.

.02 Firm Participation Guarantees. (i) Notwithstanding the provisions of paragraphs (a) and (b) of this Rule, when a Floor Broker holds an equity, index or U.S. dollar-settled foreign currency option order of the eligible order size or greater ("original order"), the Floor Broker is entitled to cross a certain percentage of the original order with other orders that he is holding or in the case of a Public Customer order, with a facilitation order of the originating firm (i.e., the firm from which the original Public Customer order originated).

(ii) The Exchange may determine, on an option by option basis, the eligible size for an order that may be transacted pursuant to this Commentary, however, the eligible order size may not be less than 50 contracts. Orders for less than 50 contracts may be crossed pursuant to this Rule but are not subject to subsection (iii) below pertaining to participation guarantees. In accordance with his responsibilities for due diligence, a Floor Broker representing an order of the eligible order size or greater which he wishes to cross shall request bids and

offers for such option series and make all persons in the trading crowd aware of his request. In determining whether an order satisfies the eligible order size requirement, any multi-part or spread order must contain one leg alone which is for the eligible order size or greater. If the same member organization is the originating firm and also the Specialist for the particular class of options to which the order relates, then the Specialist is not entitled to any Enhanced Specialist Participation with respect to the particular cross transaction.

(iii) The percentage of the order which a Floor Broker is entitled to cross in equity, index and U.S dollar settled foreign currency options, after all Public Customer orders that were (1) on the limit order book and then (2) represented in the trading crowd at the time the market was established have been satisfied, is 40% of the remaining contracts in the order if the order is traded at or between the best bid or offer given by the crowd in response to the Floor Broker's initial request for a market.

(iv) When crossing an order pursuant to this Commentary, a Floor Broker must disclose on its order ticket for any order which is subject to crossing, all of the terms of such order, including any contingency involving, and all related transactions in, either options or, in the case of equity or index options, underlying or related securities. The Floor Broker, in the case of equity or index options, must disclose all securities that are components of the Public Customer order which is subject to crossing before requesting bids and offers for the execution of all components of the order.

(v) 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.

(vi) If a trade pursuant to this Commentary occurs when the Specialist is on parity with one or more controlled accounts, then the Enhanced Specialist Participation which is established pursuant to Options 8, Section 25(b) shall apply only to the number of contracts remaining after the following orders have been satisfied: those Public Customer orders which trade ahead of the cross transaction, and any portion of an order being crossed against the original order being represented by the Floor Broker.

(A) The Specialist shall not be entitled to receive the Enhanced Specialist Participation in equity, index and U.S dollar settled foreign currency options after Public Customer orders have been executed for orders crossed pursuant to this paragraph (vi) unless the Floor Broker has chosen to cross less than its 40% entitlement, in which case the Enhanced Specialist Participation will be a

percentage that combined with the percentage the firm crossed is no more than 40% of the original order.

If the trade occurs at a price other than the Specialist's disseminated bid or offer, the Specialist is entitled to no guaranteed participation.

(vii) The members of the trading crowd who established the market will have priority over all other orders that were not represented in the trading crowd at the time that the market was established (but not over Public Customer orders on the book) and will maintain priority over such orders except for orders that improve upon the market. A Floor Broker who is holding a Public Customer order and either a facilitation or solicited order and who makes a request for a market will be deemed to be representing both the Public Customer order and either the facilitation order or solicited order, so that the Public Customer order and the facilitation order or solicited order will also have priority over all other orders that were not being represented in the trading crowd at the time the market was established.

(viii) Nothing in this paragraph is intended to prohibit a Floor Broker or a Specialist from trading more than their percentage entitlements if the other members of the trading crowd do not choose to trade the remaining portion of the order.

(ix) A Floor Broker may not cross an order that he is holding with an order from a Registered Options Trader that is then in the trading crowd.

(x) Spread, straddle, combination or hedge orders, as defined in Options 8, Section 32, on opposite sides of the market may be crossed, provided that the Floor Broker holding such orders proceeds in the manner described in paragraphs (a) or (b) of this Rule as appropriate. Members may not prevent a spread, straddle, stock-option, or combination cross from being completed by giving a competing bid or offer for one component of such order. In determining whether an order satisfies the eligible order size requirement, any multi-part or spread order must contain one leg which, standing alone, is for the eligible order size or greater.

.03 Stop orders which have not been elected are not protected orders and are thus not considered for the acceptance or execution of Floor QCC Orders. All-or-None Orders are not protected orders and are thus not considered for the acceptance or execution of Floor QCC Orders, except that an incoming Floor QCC Order with a size greater than or equal to the size of a resting Public Customer All-or-None Order would cause the QCC Order to be automatically cancelled provided the QCC price locks or crosses the All-or-None Order.

* * * * *

Section 33. Accommodation Transactions

(a) A "cabinet order" is a closing limit order at a price of \$1 per option contract for the account of a Public [c]Customer, firm, Specialist or ROT. An opening order is not a "cabinet order" but may in certain cases be matched with a cabinet order pursuant to subsection (a)(iii) below. Only Floor Brokers may represent cabinet orders. Cabinet trading shall be available for each series of options open for trading on the Exchange under the following terms and conditions:

* * * * *

Section 34. FLEX Index, Equity and Currency Options

(c) **Procedure for Quoting and Trading FLEX Options.** FLEX options will not be continuously quoted and series are not pre-established. The Exchange's electronic quoting and trading system will not be available for FLEX options. The variable terms of FLEX options shall be established through the process described in this Rule. All transactions must be in compliance with Section 11(a) of the Securities Exchange Act of 1934 and the rules promulgated thereunder, which may include yielding priority to Public [c]Customer orders.

* * * * *

(5) **BBO Improvement Interval.** In the case of FLEX equity options only and notwithstanding paragraph (c)(4), whenever the Requesting Member has indicated an intention to cross or act as principal on the trade and has matched or improved the BBO during the BBO Improvement Interval, the Requesting Member will be permitted to execute the contra side of the trade that is the subject of the RFQs, to the extent of at least 40% of the trade, provided the order is a [p]Public [c]Customer order or an order respecting the Requesting Member's firm proprietary account. Notwithstanding the foregoing, all market participants may effect crossing transactions.

* * * * *

Section 39. Option Minor Rule Violations and Order and Decorum Regulations

* * * * *

E-16 Communications and Equipment

* * * * *

(5) Clerks.

(a) Floor Broker clerks are subject to the same terms and conditions on telephone use as Floor Brokers.

(b) Stock Execution clerks are subject to the same terms and conditions on telephone use as [f]Floor Brokers.

* * * * *