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

File No.* SR - 2016 - * 72

Amendment No. (req. for Amendments *)

Filing by   NASDAQ PHLX LLC

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

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

Rule

Pilot ☐	Extension of Time Period for Commission Action * ☐	Date Expires *	19b-4(f)(1) ☐ 19b-4(f)(2) ☐ 19b-4(f)(3) ☐	19b-4(f)(4) ☐ 19b-4(f)(5) ☐ 19b-4(f)(6) ☑

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

Section 806(e)(1) * ☐

Section 806(e)(2) * ☐

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

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ▣

Exhibit 3 Sent As Paper Document ▣

Description

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

Proposal to amend Phlx Rule 1019 to adopt functionality designed to assist Phlx members and member organizations in the event of loss connectivity.

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 * 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   06/15/2016

By   Edward S. Knight

Executive Vice President and General Counsel

(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.

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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

Exhibit 1 - Notice of Proposed Rule Change *

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

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

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

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

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

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document
☐

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

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

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

Partial Amendment

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

1.   Text of the Proposed Rule Change

(a)   NASDAQ PHLX LLC ("Phlx" or "Exchange"), pursuant to Section

19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] is

filing with the Securities and Exchange Commission ("SEC" or "Commission") a

proposal to amend Phlx Rule 1019, entitled "Acceptance of Bid or Offer" to adopt

functionality which is designed to assist Phlx members and member organizations

(hereinafter "member(s)") in the event that they lose communication with their assigned

Financial Information eXchange ("FIX")[3] or Specialized Quote Feed ("SQF")[4] Ports due

to a loss of connectivity.

A notice of the proposed rule change for publication in the Federal Register is at

Exhibit 1 and the text of the amended Exchange Rule is at Exhibit 5.

(b)   Not applicable.

(c)   Not applicable.

2.   Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange

pursuant to authority delegated by the Board of Directors (the "Board") on July 1, 2015.

Exchange staff will advise the Board of any action taken pursuant to delegated authority.

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

[2]   17 CFR 240.19b-4.

[3]   FIX permits the entry of orders.

[4]   SQF permits the transmission of quotes to the Exchange by a Market Maker using
its Client Application. SQF Auction Responses would not be cancelled pursuant
to this Rule 1019 because other rules govern auction specific responses. Market
Sweeps would not be cancelled pursuant to this Rule 1019 because these type of
orders are Immediate or Cancel ("IOC").

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
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 amend Rule 1019 entitled "Acceptance of Bid or Offer" to adopt

a new section "c" entitled "Detection of Loss of Connection," a new automated process

which Phlx proposes to adopt for its SQF[5] and FIX Ports in the event that they lose

communication with a Client Application due to a loss of connectivity. This feature is

designed to protect Market Makers[6] and other market participants from inadvertent

exposure to excessive risk.

By way of background, Phlx members currently enter quotes and orders utilizing

either an SQF or FIX Port. SQF is utilized by Phlx Market Makers and FIX is utilized by

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[5]   Today, SQF has capability to cancel quotes for technical disconnects, although
        there is no automated process triggered by pre-set conditions. The rule change
        would adopt a formalized process to automatically cancel quotes when there is a
        loss of communication with the member's Client Application.

[6]   Phlx Market Makers include Specialists and Registered Options Traders or
        "ROTs." A Specialist is an Exchange member who is registered as an options
        specialist. See Phlx Rule 1020(a). An ROT is defined in Exchange Rule 1014(b)
        as 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. See Exchange Rule 1014 (b)(i) and (ii). A
        ROT includes a Streaming Quote Trader or "SQT," a Remote Streaming Quote
        Trader or "RSQT" and a Non-SQT, which by definition is neither a SQT nor a
        RSQT. For purposes of this filing, Specialists and ROTs shall be defined broadly
        as "Market Makers."

all market participants. These ports are trading system components through which a

member communicates its quotes and/or orders to the Phlx match engine through the

member's Client Application. Under the proposed rule change, an SQF Port would be

defined as the Exchange's system component through which members communicate their

quotes from the member's Client Application at proposed Rule 1019(c)(i)(B). A FIX

Port would be defined as the Exchange's system component through which members

communicate their orders from the member's Client Application at proposed Rule

1019(c)(i)(C). Market Makers may submit quotes to the Exchange from one or more

SQF Ports. Similarly, market participants may submit orders to the Exchange from one

or more FIX Ports. The proposed cancellation feature will be mandatory for each Market

Maker utilizing SQF for the removal of quotes and optional for any market participant

utilizing FIX for the removal of orders.

When the SQF Port detects the loss of communication with a member's Client

Application because the Exchange's server does not receive a Heartbeat message[7] for a

certain period of time (a period of "nn" seconds), the Exchange will automatically logoff

the member's affected Client Application and automatically cancel all of the member's

open quotes. Quotes will be cancelled across all Client Applications that are associated

with the same Specialist or Registered Options Trader (collectively "Market Maker") ID

and underlying issues.

The Exchange proposes to define "Client Application" as the system component

of the member through which the Exchange member or member organization

communicates its quotes and orders to the Exchange at proposed Rule 1019(c)(i)(D). The

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[7]   It is important to note that the Exchange separately sends a connectivity message
        to the member as evidence of connectivity.

Exchange proposes to define a "Heartbeat" message as a communication which acts as a virtual pulse between the SQF or FIX Port and the Client Application at proposed Rule 1019(c)(i)(A). The Heartbeat message sent by the member and subsequently received by the Exchange allows the SQF or FIX Port to continually monitor its connection with the member.

SQF Ports

The Exchange's system has a default time period, which will trigger a disconnect from the Exchange and remove quotes, set to fifteen (15) seconds for SQF Ports. A member may change the default period of "nn" seconds of no technical connectivity to trigger a disconnect from the Exchange and remove quotes to a number between one hundred (100) milliseconds and 99,999 milliseconds for SQF Ports prior to each session of connectivity to the Exchange. This feature is enabled for each Market Maker and may not be disabled.

There are two ways to change the number of "nn" seconds: (1) systemically or (2) by contacting the Exchange's operations staff. If the member systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity[8] and will then default back to fifteen seconds.[9] The member may change the default setting systemically prior to each session of connectivity. The member

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[8]   Each time the member connects to the Exchange's system is a new period of connectivity. For example, if the member were to connect and then disconnect within a trading day several times, each time the member disconnected the next session would be a new session of connectivity.

[9]   The Exchange's system would capture the new setting information that was changed by the member and utilize the amended setting for that particular session. The setting would not persist beyond the current session of connectivity and the setting would default back to 15 seconds for the next session if the member did not change the setting again.

may also communicate the time to the Exchange by calling the Exchange's operations

staff. If the time period is communicated to the Exchange by calling Exchange

operations, the number of "nn" seconds selected by the member shall persist for each

subsequent session of connectivity until the member either contacts Exchange operations

and changes the setting or the member systemically selects another time period prior to

the next session of connectivity.

FIX Ports

The Exchange's system has a default time period, which will trigger a disconnect

from the Exchange and remove orders, set to thirty (30) seconds for FIX Ports. The Phlx

member may disable the removal of orders feature but not the disconnect feature. If the

Phlx member elects to have its orders removed, in addition to the disconnect, the Phlx

member may determine a time period of no technical connectivity to trigger the

disconnect and removal of orders between one hundred (100) milliseconds and 99,999

milliseconds.

There are two ways to change the number of "nn" seconds: (1) systemically or (2)

by contacting the Exchange's operations staff. If the member systemically changes the

default number of "nn" seconds, that new setting shall be in effect throughout that session

of connectivity and will then default back to thirty seconds at the end of that session. The

member may change the default setting systemically prior to each session of connectivity.

The member may also communicate the time to the Exchange by calling the Exchange's

operations staff. If the time period is communicated to the Exchange by calling

Exchange operations, the number of "nn" seconds selected by the member shall persist

for each subsequent session of connectivity until the member either contacts Exchange

operations and changes the setting or the member systemically selects another time period prior to the next session of connectivity.

Similar to SQF Ports, when a FIX Port detects the loss of communication with a member's Client Application for a certain time period (a period of "nn" seconds), the Exchange will automatically logoff the member's affected Client Application and if elected, automatically cancel all open orders. The member may have an order which has routed away prior to the cancellation, in the event that the order returns to the Order Book, because it was either not filled or partially filled, that order will be subsequently cancelled.

The disconnect feature is mandatory for FIX users however the user has the ability to elect to also enable a removal feature, which will cancel all open orders submitted through that FIX Port. If the removal of orders feature is not enabled, the system will simply disconnect the FIX user and not cancel any orders. The FIX user would have to commence a new session to add, modify or cancel its orders once disconnected. The Exchange will issue an Options Trader Alert advising members on the manner in which they should communicate the number of "nn" seconds to the Exchange for SQF and FIX Ports.

The trigger for the SQF and FIX Ports is event and Client Application specific. The automatic cancellation of the Market Maker's quotes for SQF Ports and open orders, if elected by the member for FIX Ports, entered into the respective SQF or FIX Ports via a particular Client Application will neither impact nor determine the treatment of the quotes of other Market Makers entered into SQF Ports or orders of the same or other members entered into the FIX Ports via a separate and distinct Client Application. In

other words, with respect to quotes, each Market Maker only maintains one quote in a given option in the order book. A new quote would replace the existing quote. Orders on the other hand do not replace each other in the order book as multiple orders may exist in a given option at once. Therefore the difference in the impact as between Market Makers submitting quotes and members submitting orders is that quotes may continue to be submitted and/or refreshed by unaffected Market Makers because these market participants are cancelled based on ID when an SQF Port disconnects, whereas all of the open orders submitted by a given firm will be impacted when a FIX port disconnects, if the firm elected to have orders cancelled.

       b.   <u>Statutory Basis</u>

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[10] in general, and furthers the objectives of Section 6(b)(5) of the Act[11] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by imposing this mandatory removal functionality on Market Makers to prevent disruption in the marketplace and also offering this removal feature to other market participants.

Market Makers will be required to utilize this removal functionality with respect to SQF Ports. This feature will remove impediments to and perfect the mechanism of a free and open market and a national market system and protect investors and the public interest by requiring Market Makers quotes to be removed in the event of a loss of

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

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

connectivity with the Exchange's system. Market Makers provide liquidity to the market

place and have obligations unlike other market participants.[12] This risk feature is

important because it will enable Market Makers to avoid risks associated with inadvertent

executions in the event of a loss of connectivity with the Exchange. The proposed rule

change is designed to not permit unfair discrimination among market participants, as it

would apply uniformly to all Market Makers utilizing SQF.

The disconnect feature of FIX is mandatory, however market participants will

have the option to either enable or disable the cancellation feature, which would result in

the cancellation of all orders submitted over a FIX port when such port disconnects. It is

appropriate to offer this removal feature as optional to all market participants utilizing

FIX, because unlike Market Makers who are required to provide quotes in all products in

which they are registered, market participants utilizing FIX do not bear the same

magnitude of risk of potential erroneous or unintended executions. In addition, market

participants utilizing FIX may desire their orders to remain on the order book despite a

technical disconnect, so as not to miss any opportunities for execution of such orders

while the FIX session is disconnected.

Utilizing a time period for SQF Ports of fifteen (15) seconds and permitting the

Market Maker to modify the setting to between 100 milliseconds and 99,999 milliseconds

is consistent with the Act because the Exchange does not desire to trigger unwarranted

logoffs of members and therefore allows members the ability to set their time in order to

enable the Exchange the authority to disconnect the member with this feature. Each

Market Maker has different levels of sensitivity with respect to this disconnect setting

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[12]   See Rule 1014 titled "Obligations and Restrictions Applicable to Specialists and
         Registered Options Traders."

and each Market Maker has their own system safeguards as well. A default setting of fifteen (15) seconds is appropriate to capture the needs of all Market Makers and high enough not to trigger unwarranted removal of quotes.

Further, Market Makers are able to customize their setting. The Exchange's proposal to permit a timeframe for SQF Ports between 100 milliseconds and 99,999 milliseconds is consistent with the Act and the protection of investors because the purpose of this feature is to mitigate the risk of potential erroneous or unintended executions associated with a loss in communication with a Client Application. Members are able to better anticipate the appropriate time within which they may require prior to a logoff as compared to the Exchange. The member is being offered a timeframe by the Exchange within which to select the appropriate time. The Exchange does not desire to trigger unwarranted logoffs of members and therefore permits members to provide an alternative time to the Exchange, within the Exchange's prescribed timeframe, which authorized the Exchange to disconnect the member. The "nn" seconds serve as the member's instruction to the Exchange to act upon the loss of connection and remove quotes from the system. This range will accommodate members in selecting their appropriate times within the prescribed timeframes.

Also, Market Makers have quoting obligations[13] and are more sensitive to price movements as compared to other market participants. It is consistent with the Act to provide a wider timeframe within which to customize settings for FIX Ports as compared to SQF Ports. Market Makers need to remain vigilant of market conditions and react more quickly to market movements as compared to other members entering orders into

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[13]   Id.

the system. The proposal acknowledges this sensitivity borne by Market Makers and

reflects the reaction time of Market Makers as compared to members entering orders. Of

note, the proposed customized timeframe for FIX would be too long for Market Makers

given their quoting requirements and sensitivity to price movements. Market Makers

would be severely impacted by a loss of connectivity of more than several seconds. The

Market Maker would have exposure during the time period in which they are unable to

manage their quote and update that quote. The member is best positioned to determine

their setting.

The Exchange's proposal is further consistent with the Act because it will

mitigate the risk of potential erroneous or unintended executions associated with a loss in

communication with a Client Application which protects investors and the public interest.

Also, any interest that is executable against a Market Maker's quotes that is received[14] by

the Exchange prior to the trigger of the disconnect to the Client Application, which is

processed by the system, automatically executes at the price up to the Market Maker's

size. In other words, the system will process the request for cancellation in the order it

was received by the system.

The system operates consistently with the firm quote obligations of a broker-

dealer pursuant to Rule 602 of Regulation NMS. Specifically, with respect to Market

Makers, their obligation to provide continuous two-sided quotes on a daily basis is not

diminished by the removal of such quotes triggered by the disconnect. Market Makers

are required to provide continuous two-sided quotes on a daily basis.[15] Market Makers

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[14]   The time of receipt for an order or quote is the time such message is processed by
         the Exchange book.

[15]   See note 12 above.

will not be relieved of the obligation to provide continuous two-sided quotes on a daily

basis, nor will it prohibit the Exchange from taking disciplinary action against a Market

Maker for failing to meet the continuous quoting obligation each trading day as a result

of disconnects.

Today, BOX Options Exchange LLC offers its market makers a similar feature to

the one proposed by the Exchange for the automatic removal of quotes when connectivity

issues arise.[16] BOX automatically cancels a market maker's quotes for all appointed

classes when BOX loses communication with a market maker's trading host for a

specified time period. Phlx also proposes to similarly cancel Market Maker open quotes

associated with the same Market Maker ID and underlyings. Phlx proposes to cancel all

Market Maker's quotes in options which are assigned to that particular Market Maker.

BOX appears to similarly cancel all open quotes in options which are assigned to a

specific Market Maker. BOX's timeframe is no less than 1 second or no greater than 9

seconds. Phlx proposes a default timeframe for SQF Ports of fifteen (15) seconds with

the ability to modify this setting with a value between 100 milliseconds and 99,999

milliseconds. The proposal to permit Market Makers to amend the default setting at the

beginning of each session of connectivity is consistent with the Act because it avoids

unwarranted logoffs of members and provides members the opportunity to set a time,

within the prescribed timeframe, to authorize the Exchange to disconnect the member.

Another distinction to note is that while BOX sets the time for the participant,

Phlx permits members to modify the default setting for SQF Ports to a more appropriate

time within a set of parameters. While BOX does not offer the cancellations of orders,

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[16]   See BOX Rule 8140.

Chicago Board Options Exchange, Incorporated's ("CBOE") does offer its members a similar mechanism to cancel orders. CBOE's proposal is discussed further below.

With respect to FIX Ports, the Exchange will offer this optional removal functionality to all market participants. Offering the removal feature on a voluntary basis to all other non-Market Maker market participants is consistent with the Act because it permits them an opportunity to utilize this risk feature, if desired, and avoid risks associated with inadvertent executions in the event of a loss of connectivity with the Exchange. The removal feature is designed to mitigate the risk of missed and/or unintended executions associated with a loss in communication with a Client Application. The proposed rule change is designed to not permit unfair discrimination among market participants, as this removal feature will be offered uniformly to all Phlx members utilizing FIX.

The Exchange will disconnect members from the Exchange and not cancel its orders if the removal feature is disabled. The disconnect feature is mandatory and will cause the member to be disconnected within the default timeframe or the timeframe otherwise specified by the member. This feature is consistent with the Act because it enables FIX users the ability to disconnect from the Exchange, assess the situation and make a determination concerning their risk exposure. The Exchange notes that in the event that orders need to be removed, the Phlx market participant may elect to utilize the Kill Switch[17] feature. The Exchange believes that it is consistent with the Act to require other market participants to be disconnected because the participant is otherwise not connected to the Exchange's system and the member simply needs to reconnect to

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[17]   See Phlx Rule 1019(b).

commence submitting and cancelling orders. The Exchange believes requiring a

disconnect when a loss of communication is detected is a rational course of action for the

Exchange to alert the member of the technical connectivity issue.

The Exchange's proposal to set a default timeframe of thirty (30) seconds and

permit a FIX user to modify the timeframe for FIX ports to between 1 second and 30

seconds for the removal of orders is consistent with the Act and the protection of

investors because the purpose of this optional feature is to mitigate the risk of potential

erroneous or unintended executions associated with a loss in communication with a

Client Application. Members selecting the removal feature are able to better anticipate

the appropriate time that they require prior to a logoff as compared to the Exchange,

within the Exchange's prescribed timeframes. The Exchange does not desire to trigger

unwarranted logoffs of members and therefore permits members to provide a time to the

Exchange, within the Exchange's prescribed timeframe, to authorize the Exchange to

disconnect the member and remove orders. The "nn" seconds serve as the member's

instruction to the Exchange to act upon the loss of connection and remove orders from

the system. The member is also best positioned to determine that they only desire the

disconnect feature, which is mandatory, and do not desire to have their orders removed.

The Exchange's proposal to offer other market participants the removal feature on

a voluntary basis is similar to CBOE's Rule.[18] CBOE offers market participants, on a

voluntary basis, the ability to cancel orders entered through FIX when a technical

disconnect occurs, similar to the Phlx proposal. CBOE's Rule offers members the

opportunity to cancel orders within a timeframe determined by the Trading Permit

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[18]   See CBOE Rule 6.23C.

Holder. The default value selected by the CBOE is no less than 5 seconds. The

Exchange's default timeframe for the disconnect and removal of orders for FIX is 30

seconds with the ability to modify that timeframe to between 1 second and 30 seconds, on

a session by session basis, in contrast to CBOE. Also, in contrast to CBOE, FIX users

may choose to enable or disable the cancellation feature when a disconnect occurs. The

proposed timeframe for the FIX feature is consistent with the Act because the Exchange

seeks to provide its members with the ability to select the amount of time that they desire

for a loss of communication prior to taking action to cancel open orders or simply

disconnect. The member should have the ability to select the appropriate time, within a

prescribed timeframe, for authorizing the Exchange to cancel its open orders or simply

disconnect from the Exchange. Inadvertent cancellations may create a greater risk of

harm to investors and the member is better positioned to determine the appropriate time,

with the prescribed timeframe, to remove orders or disconnect. CBOE's rule also offers

members the ability to cancel orders as proposed by Phlx, on a voluntary basis.

The proposed rule change will help maintain a fair and orderly market which

promotes efficiency and protects investors. This mandatory removal feature for Market

Makers and optional removal for all other market participants will mitigate the risk of

potential erroneous or unintended executions associated with a loss in communication

with a Client Application.

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. Specifically, the Exchange does not believe the proposed rule change will cause an

undue burden on intra-market competition because Market Makers, unlike other market

participants, have greater risks in the market place. Quoting across many series in an

option creates large principal positions that expose Market Makers, who are required to

continuously quote in assigned options, to potentially significant market risk. Providing a

broader timeframe for the disconnect and removal of orders for FIX as compared to the

removal of quotes for SQF Ports does not create an undue burden on competition.

Market Makers have quoting obligations[19] and are more sensitive to price movements as

compared to other market participants. The proposal is consistent with the Act because it

provides a tighter timeframe for the disconnect and removal of quotes for SQF Ports as

compared to the removal of orders for FIX Ports. Market Makers need to remain vigilant

of market conditions and react more quickly to market movements as compared to other

members entering multiple orders into the system. The proposal reflects this sensitivity

borne by Market Makers and reflects the reaction time of Market Makers as compared to

other members entering orders. Offering the removal feature to other market participants

on an optional basis does not create an undue burden on intra-market competition

because unlike Market Makers, other market participants do not bear the same risks of

potential erroneous or unintended executions. FIX users have the opportunity to disable

the cancellation feature and simply disconnect from the Exchange. FIX users may also

set a timeframe that is appropriate for their business. It is appropriate to offer this

optional cancellation functionality to other market participants for open orders, because

those orders are subject to risks of missed and/or unintended executions due to a lack of

connectivity which the participants needs to weigh. Finally, the Exchange does not

believe that such change will impose any burden on inter-market competition that is not

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[19]   See note 12 above.

necessary or appropriate in furtherance of the purposes of the Act. Other options

exchanges offer similar functionality.[20]

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)[21]

of the Act and Rule 19b-4(f)(6) thereunder[22] 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 does not believe that requiring Market Makers to utilize the disconnect and

removal feature on SQF and offering the removal feature on an optional basis on FIX

significantly affects the protection of investors or the public interest because unlike other

market participants, Market Makers are required to continuously quote in assigned

options and bear potentially significant market risk. Providing an SQF default setting of

15 seconds for the disconnect and removal of quotes and permitting the Market Maker to

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[20]   See BOX's Rule 8140 and CBOE's Rule 6.23C.

[21]   15 U.S.C. 78s(b)(3)(A).

[22]   17 CFR 240.19b-4(f)(6).

modify the setting to between 100 milliseconds and 99,999 milliseconds does not

significantly affects the protection of investors or the public interest because Market

Makers have quoting obligations[23] and are more sensitive to price movements as

compared to other market participants. It is consistent with the Act to provide a tighter

timeframe for the disconnect and removal of quotes for SQF Ports as compared to the

disconnect and removal of orders for FIX Ports because Market Makers need to remain

vigilant of market conditions and react quickly to market movements as compared to

other members entering multiple orders into the system. The proposal represents this

sensitivity borne by Market Makers and reflects the reaction time of Market Makers as

compared to other members entering orders. Also, setting a 30 second default timeframe

for the disconnect and removal of orders for FIX Ports and offering market participants

the ability to modify that timeframe to between 1 second and 30 seconds does not

significantly affect the protection of investors or the public interest because this feature is

designed to mitigate the risk of missed and/or unintended executions associated with a

loss in communication with a Client Application. The Exchange also offers FIX users

the ability to disable the cancellation feature and simply disconnect from the Exchange

without cancelling orders. The mandatory disconnect feature does not significantly affect

the protection of investors because the participant is otherwise not connected to the

Exchange's system. The mandatory disconnect feature does not impose a significant

burden on competition because the member simply needs to reconnect to commence

submitting and cancelling orders

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[23]   See note 12 above.

Members are able to better anticipate the appropriate time that they require prior to a logoff as compared to the Exchange, within the Exchange's prescribed timeframes. The Exchange does not desire to trigger unwarranted logoffs of members and therefore requires members to provide a time to the Exchange, within the Exchange's prescribed timeframe, to authorize the Exchange to disconnect the member and remove orders.

The proposed rule change will not impose any significant burden on competition because with respect to the SQF Ports, Market Makers, unlike other market participants, have greater risks in the market place. Quoting across many series in an option create large principal positions that expose Market Makers, who are required to continuously quote in assigned options, to potentially significant market risk. Further, Market Makers are more sensitive to price movements as compared to other market participants and need to remain vigilant of market conditions and react quickly to market movements as compared to other members entering multiple orders into the system. Requiring Market Makers to utilize the disconnect and removal feature and offering the removal feature on an optional basis to other market participants does not impose a significant burden on competition because the Exchange places obligations on Market Makers that are not borne by other market participants.[24]

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.

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[24]   Id.

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 30-day operative delay contained in Rule 19b-4(f)(6)(iii) so that the Exchange may offer this important feature to its market participants. BOX and CBOE currently offer their participants these features.[25] The Exchange will remain a competitive options Exchange by offering its participants similar risk protections currently offered on other options exchanges.[26] Market participants will be able to avail themselves of the protections offered on other options markets.

This feature will protect the market by requiring Market Makers to utilize the disconnect and removal feature in the event of disconnecting from the Client Application. Market Makers provide liquidity to the market place and have obligations unlike other market participants.[27] This risk prevention feature is important because it will enable

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[25]   See BOX Rule 8140 and CBOE Rule 6.23C.

[26]   Id.

[27]   See note 12 above.

Market Makers to avoid risks associated with inadvertent executions in the event of a loss

of connectivity with the Exchange with the removal of quotes. Also, it is appropriate to

offer this optional cancellation functionality to other market participants for the removal

of open orders, because those orders are subject to risks of potential erroneous or

unintended executions due to a lack of connectivity. This type of protection is important

as it relates to the protection of investors.

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

        BOX and CBOE have similar rules. BOX offers its market makers a similar

feature to the one proposed by the Exchange for the automatic removal of quotes where

connectivity issues arise.[28] BOX automatically cancels a market maker's quotes for all

appointed classes when BOX loses communication with a market maker's trading host

for a specified time period. Phlx also proposes to similarly cancel Market Maker open

quotes associated with the same Market Maker ID and underlyings. Phlx proposes to

cancel all Market Maker's quotes in options which are assigned to that particular Market

Maker. BOX appears to similarly cancel all open quotes in options which are assigned to

a specific market maker. BOX's timeframe is no less than 1 second or no greater than 9

seconds. Phlx proposes an SQF Port default time period of fifteen (15) seconds with the

ability to modify the timeframe between 100 milliseconds and 99,999 milliseconds.

Another distinction to note is that while BOX sets the time for the participant, Phlx

permits members to modify the default setting for SQF Ports to a more appropriate time

within a set of parameters. While BOX does not offer the cancellation of orders, CBOE

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[28]   See BOX Rule 8140 and CBOE Rule 6.23C.

does offer its members a similar mechanism to cancel orders and allows members to designate a time within a specified timeframe.

The Exchange's proposal to offer other market participants this removal feature on a voluntary basis is similar to CBOE's Rule.[29] CBOE offers market participants, on a voluntary basis, the ability to cancel orders entered through FIX when a technical disconnect occurs, similar to the Phlx proposal. CBOE's Rule offers members the opportunity to cancel orders within a timeframe determined by the Trading Permit Holder. The default value selected by the CBOE is no less than 5 seconds. The Exchange's default timeframe for FIX is 30 seconds with the ability to modify that timeframe to between 1 second and 30 seconds in contrast to CBOE. Also, in contrast to CBOE, FIX users may disable the removal feature and simply disconnect from the Exchange without removing any orders. CBOE's rule also offers members the ability to cancel orders as proposed by Phlx, on a voluntary basis.

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 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-2016-72)

Self-Regulatory Organizations; NASDAQ PHLX LLC; Notice of Filing and Immediate
Effectiveness of Proposed Rule Change Relating to Detection of Loss of Connection

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1], and

Rule 19b-4 thereunder,[2] notice is hereby given that on June 15, 2016, 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 1019, entitled "Acceptance of Bid or

Offer" to adopt functionality which is designed to assist Phlx members and member

organizations (hereinafter "member(s)") in the event that they lose communication with

their assigned Financial Information eXchange ("FIX")[3] or Specialized Quote Feed

("SQF")[4] Ports due to a loss of connectivity.

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

[2]   17 CFR 240.19b-4.

[3]   FIX permits the entry of orders.

[4]   SQF permits the transmission of quotes to the Exchange by a Market Maker using
        its Client Application. SQF Auction Responses would not be cancelled pursuant
        to this Rule 1019 because other rules govern auction specific responses. Market
        Sweeps would not be cancelled pursuant to this Rule 1019 because these type of
        orders are Immediate or Cancel ("IOC").

The text of the proposed rule change is available on the Exchange's Website at

http://nasdaqomxphlx.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 amend Rule 1019 entitled "Acceptance of Bid or Offer" to adopt

a new section "c" entitled "Detection of Loss of Connection," a new automated process

which Phlx proposes to adopt for its SQF[5] and FIX Ports in the event that they lose

communication with a Client Application due to a loss of connectivity. This feature is

designed to protect Market Makers[6] and other market participants from inadvertent

exposure to excessive risk.

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[5]   Today, SQF has capability to cancel quotes for technical disconnects, although
        there is no automated process triggered by pre-set conditions. The rule change
        would adopt a formalized process to automatically cancel quotes when there is a
        loss of communication with the member's Client Application.

[6]   Phlx Market Makers include Specialists and Registered Options Traders or
        "ROTs." A Specialist is an Exchange member who is registered as an options
        specialist. See Phlx Rule 1020(a). An ROT is defined in Exchange Rule 1014(b)
        as 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

By way of background, Phlx members currently enter quotes and orders utilizing either an SQF or FIX Port. SQF is utilized by Phlx Market Makers and FIX is utilized by all market participants. These ports are trading system components through which a member communicates its quotes and/or orders to the Phlx match engine through the member's Client Application. Under the proposed rule change, an SQF Port would be defined as the Exchange's system component through which members communicate their quotes from the member's Client Application at proposed Rule 1019(c)(i)(B). A FIX Port would be defined as the Exchange's system component through which members communicate their orders from the member's Client Application at proposed Rule 1019(c)(i)(C). Market Makers may submit quotes to the Exchange from one or more SQF Ports. Similarly, market participants may submit orders to the Exchange from one or more FIX Ports. The proposed cancellation feature will be mandatory for each Market Maker utilizing SQF for the removal of quotes and optional for any market participant utilizing FIX for the removal of orders.

When the SQF Port detects the loss of communication with a member's Client Application because the Exchange's server does not receive a Heartbeat message[7] for a certain period of time (a period of "nn" seconds), the Exchange will automatically logoff the member's affected Client Application and automatically cancel all of the member's open quotes. Quotes will be cancelled across all Client Applications that are associated

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trade in options for his own account. See Exchange Rule 1014 (b)(i) and (ii). A ROT includes a Streaming Quote Trader or "SQT," a Remote Streaming Quote Trader or "RSQT" and a Non-SQT, which by definition is neither a SQT nor a RSQT. For purposes of this filing, Specialists and ROTs shall be defined broadly as "Market Makers."

[7] It is important to note that the Exchange separately sends a connectivity message to the member as evidence of connectivity.

with the same Specialist or Registered Options Trader (collectively "Market Maker") ID

and underlying issues.

The Exchange proposes to define "Client Application" as the system component

of the member through which the Exchange member or member organization

communicates its quotes and orders to the Exchange at proposed Rule 1019(c)(i)(D). The

Exchange proposes to define a "Heartbeat" message as a communication which acts as a

virtual pulse between the SQF or FIX Port and the Client Application at proposed Rule

1019(c)(i)(A). The Heartbeat message sent by the member and subsequently received by

the Exchange allows the SQF or FIX Port to continually monitor its connection with the

member.

SQF Ports

The Exchange's system has a default time period, which will trigger a disconnect

from the Exchange and remove quotes, set to fifteen (15) seconds for SQF Ports. A

member may change the default period of "nn" seconds of no technical connectivity to

trigger a disconnect from the Exchange and remove quotes to a number between one

hundred (100) milliseconds and 99,999 milliseconds for SQF Ports prior to each session

of connectivity to the Exchange. This feature is enabled for each Market Maker and may

not be disabled.

There are two ways to change the number of "nn" seconds: (1) systemically or (2)

by contacting the Exchange's operations staff. If the member systemically changes the

default number of "nn" seconds, that new setting shall be in effect throughout the current

session of connectivity[8] and will then default back to fifteen seconds.[9] The member may

change the default setting systemically prior to each session of connectivity. The member

may also communicate the time to the Exchange by calling the Exchange's operations

staff. If the time period is communicated to the Exchange by calling Exchange

operations, the number of "nn" seconds selected by the member shall persist for each

subsequent session of connectivity until the member either contacts Exchange operations

and changes the setting or the member systemically selects another time period prior to

the next session of connectivity.

FIX Ports

The Exchange's system has a default time period, which will trigger a disconnect

from the Exchange and remove orders, set to thirty (30) seconds for FIX Ports. The Phlx

member may disable the removal of orders feature but not the disconnect feature. If the

Phlx member elects to have its orders removed, in addition to the disconnect, the Phlx

member may determine a time period of no technical connectivity to trigger the

disconnect and removal of orders between one hundred (100) milliseconds and 99,999

milliseconds.

There are two ways to change the number of "nn" seconds: (1) systemically or (2)

by contacting the Exchange's operations staff. If the member systemically changes the

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[8]   Each time the member connects to the Exchange's system is a new period of
        connectivity. For example, if the member were to connect and then disconnect
        within a trading day several times, each time the member disconnected the next
        session would be a new session of connectivity.

[9]   The Exchange's system would capture the new setting information that was
        changed by the member and utilize the amended setting for that particular session.
        The setting would not persist beyond the current session of connectivity and the
        setting would default back to 15 seconds for the next session if the member did
        not change the setting again.

default number of "nn" seconds, that new setting shall be in effect throughout that session

of connectivity and will then default back to thirty seconds at the end of that session. The

member may change the default setting systemically prior to each session of connectivity.

The member may also communicate the time to the Exchange by calling the Exchange's

operations staff. If the time period is communicated to the Exchange by calling

Exchange operations, the number of "nn" seconds selected by the member shall persist

for each subsequent session of connectivity until the member either contacts Exchange

operations and changes the setting or the member systemically selects another time

period prior to the next session of connectivity.

Similar to SQF Ports, when a FIX Port detects the loss of communication with a

member's Client Application for a certain time period (a period of "nn" seconds), the

Exchange will automatically logoff the member's affected Client Application and if

elected, automatically cancel all open orders. The member may have an order which has

routed away prior to the cancellation, in the event that the order returns to the Order

Book, because it was either not filled or partially filled, that order will be subsequently

cancelled.

The disconnect feature is mandatory for FIX users however the user has the

ability to elect to also enable a removal feature, which will cancel all open orders

submitted through that FIX Port. If the removal of orders feature is not enabled, the

system will simply disconnect the FIX user and not cancel any orders. The FIX user

would have to commence a new session to add, modify or cancel its orders once

disconnected. The Exchange will issue an Options Trader Alert advising members on the

manner in which they should communicate the number of "nn" seconds to the Exchange

for SQF and FIX Ports.

The trigger for the SQF and FIX Ports is event and Client Application specific.

The automatic cancellation of the Market Maker's quotes for SQF Ports and open orders,

if elected by the member for FIX Ports, entered into the respective SQF or FIX Ports via

a particular Client Application will neither impact nor determine the treatment of the

quotes of other Market Makers entered into SQF Ports or orders of the same or other

members entered into the FIX Ports via a separate and distinct Client Application. In

other words, with respect to quotes, each Market Maker only maintains one quote in a

given option in the order book. A new quote would replace the existing quote. Orders on

the other hand do not replace each other in the order book as multiple orders may exist in

a given option at once. Therefore the difference in the impact as between Market Makers

submitting quotes and members submitting orders is that quotes may continue to be

submitted and/or refreshed by unaffected Market Makers because these market

participants are cancelled based on ID when an SQF Port disconnects, whereas all of the

open orders submitted by a given firm will be impacted when a FIX port disconnects, if

the firm elected to have orders cancelled.

2.   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the

Act[10] in general, and furthers the objectives of Section 6(b)(5) of the Act[11] in particular,

in that it is designed to promote just and equitable principles of trade, to remove

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

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

impediments to and perfect the mechanism of a free and open market and a national

market system, and, in general to protect investors and the public interest, by imposing

this mandatory removal functionality on Market Makers to prevent disruption in the

marketplace and also offering this removal feature to other market participants.

Market Makers will be required to utilize this removal functionality with respect

to SQF Ports. This feature will remove impediments to and perfect the mechanism of a

free and open market and a national market system and protect investors and the public

interest by requiring Market Makers quotes to be removed in the event of a loss of

connectivity with the Exchange's system. Market Makers provide liquidity to the market

place and have obligations unlike other market participants.[12] This risk feature is

important because it will enable Market Makers to avoid risks associated with inadvertent

executions in the event of a loss of connectivity with the Exchange. The proposed rule

change is designed to not permit unfair discrimination among market participants, as it

would apply uniformly to all Market Makers utilizing SQF.

The disconnect feature of FIX is mandatory, however market participants will

have the option to either enable or disable the cancellation feature, which would result in

the cancellation of all orders submitted over a FIX port when such port disconnects. It is

appropriate to offer this removal feature as optional to all market participants utilizing

FIX, because unlike Market Makers who are required to provide quotes in all products in

which they are registered, market participants utilizing FIX do not bear the same

magnitude of risk of potential erroneous or unintended executions. In addition, market

participants utilizing FIX may desire their orders to remain on the order book despite a

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[12]   See Rule 1014 titled "Obligations and Restrictions Applicable to Specialists and
         Registered Options Traders."

technical disconnect, so as not to miss any opportunities for execution of such orders while the FIX session is disconnected.

Utilizing a time period for SQF Ports of fifteen (15) seconds and permitting the Market Maker to modify the setting to between 100 milliseconds and 99,999 milliseconds is consistent with the Act because the Exchange does not desire to trigger unwarranted logoffs of members and therefore allows members the ability to set their time in order to enable the Exchange the authority to disconnect the member with this feature. Each Market Maker has different levels of sensitivity with respect to this disconnect setting and each Market Maker has their own system safeguards as well. A default setting of fifteen (15) seconds is appropriate to capture the needs of all Market Makers and high enough not to trigger unwarranted removal of quotes.

Further, Market Makers are able to customize their setting. The Exchange's proposal to permit a timeframe for SQF Ports between 100 milliseconds and 99,999 milliseconds is consistent with the Act and the protection of investors because the purpose of this feature is to mitigate the risk of potential erroneous or unintended executions associated with a loss in communication with a Client Application. Members are able to better anticipate the appropriate time within which they may require prior to a logoff as compared to the Exchange. The member is being offered a timeframe by the Exchange within which to select the appropriate time. The Exchange does not desire to trigger unwarranted logoffs of members and therefore permits members to provide an alternative time to the Exchange, within the Exchange's prescribed timeframe, which authorized the Exchange to disconnect the member. The "nn" seconds serve as the member's instruction to the Exchange to act upon the loss of connection and remove

quotes from the system. This range will accommodate members in selecting their

appropriate times within the prescribed timeframes.

Also, Market Makers have quoting obligations[13] and are more sensitive to price

movements as compared to other market participants. It is consistent with the Act to

provide a wider timeframe within which to customize settings for FIX Ports as compared

to SQF Ports. Market Makers need to remain vigilant of market conditions and react

more quickly to market movements as compared to other members entering orders into

the system. The proposal acknowledges this sensitivity borne by Market Makers and

reflects the reaction time of Market Makers as compared to members entering orders. Of

note, the proposed customized timeframe for FIX would be too long for Market Makers

given their quoting requirements and sensitivity to price movements. Market Makers

would be severely impacted by a loss of connectivity of more than several seconds. The

Market Maker would have exposure during the time period in which they are unable to

manage their quote and update that quote. The member is best positioned to determine

their setting.

The Exchange's proposal is further consistent with the Act because it will

mitigate the risk of potential erroneous or unintended executions associated with a loss in

communication with a Client Application which protects investors and the public interest.

Also, any interest that is executable against a Market Maker's quotes that is received[14] by

the Exchange prior to the trigger of the disconnect to the Client Application, which is

processed by the system, automatically executes at the price up to the Market Maker's

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13   Id.

14   The time of receipt for an order or quote is the time such message is processed by
        the Exchange book.

size. In other words, the system will process the request for cancellation in the order it

was received by the system.

The system operates consistently with the firm quote obligations of a broker-

dealer pursuant to Rule 602 of Regulation NMS. Specifically, with respect to Market

Makers, their obligation to provide continuous two-sided quotes on a daily basis is not

diminished by the removal of such quotes triggered by the disconnect. Market Makers

are required to provide continuous two-sided quotes on a daily basis.[15] Market Makers

will not be relieved of the obligation to provide continuous two-sided quotes on a daily

basis, nor will it prohibit the Exchange from taking disciplinary action against a Market

Maker for failing to meet the continuous quoting obligation each trading day as a result

of disconnects.

Today, BOX Options Exchange LLC offers its market makers a similar feature to

the one proposed by the Exchange for the automatic removal of quotes when connectivity

issues arise.[16] BOX automatically cancels a market maker's quotes for all appointed

classes when BOX loses communication with a market maker's trading host for a

specified time period. Phlx also proposes to similarly cancel Market Maker open quotes

associated with the same Market Maker ID and underlyings. Phlx proposes to cancel all

Market Maker's quotes in options which are assigned to that particular Market Maker.

BOX appears to similarly cancel all open quotes in options which are assigned to a

specific Market Maker. BOX's timeframe is no less than 1 second or no greater than 9

seconds. Phlx proposes a default timeframe for SQF Ports of fifteen (15) seconds with

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[15]   See note 12 above.

[16]   See BOX Rule 8140.

the ability to modify this setting with a value between 100 milliseconds and 99,999

milliseconds. The proposal to permit Market Makers to amend the default setting at the

beginning of each session of connectivity is consistent with the Act because it avoids

unwarranted logoffs of members and provides members the opportunity to set a time,

within the prescribed timeframe, to authorize the Exchange to disconnect the member.

Another distinction to note is that while BOX sets the time for the participant,

Phlx permits members to modify the default setting for SQF Ports to a more appropriate

time within a set of parameters. While BOX does not offer the cancellations of orders,

Chicago Board Options Exchange, Incorporated's ("CBOE") does offer its members a

similar mechanism to cancel orders. CBOE's proposal is discussed further below.

With respect to FIX Ports, the Exchange will offer this optional removal

functionality to all market participants. Offering the removal feature on a voluntary basis

to all other non-Market Maker market participants is consistent with the Act because it

permits them an opportunity to utilize this risk feature, if desired, and avoid risks

associated with inadvertent executions in the event of a loss of connectivity with the

Exchange. The removal feature is designed to mitigate the risk of missed and/or

unintended executions associated with a loss in communication with a Client Application.

The proposed rule change is designed to not permit unfair discrimination among market

participants, as this removal feature will be offered uniformly to all Phlx members

utilizing FIX.

The Exchange will disconnect members from the Exchange and not cancel its

orders if the removal feature is disabled. The disconnect feature is mandatory and will

cause the member to be disconnected within the default timeframe or the timeframe

otherwise specified by the member. This feature is consistent with the Act because it

enables FIX users the ability to disconnect from the Exchange, assess the situation and

make a determination concerning their risk exposure. The Exchange notes that in the

event that orders need to be removed, the Phlx market participant may elect to utilize the

Kill Switch[17] feature. The Exchange believes that it is consistent with the Act to require

other market participants to be disconnected because the participant is otherwise not

connected to the Exchange's system and the member simply needs to reconnect to

commence submitting and cancelling orders. The Exchange believes requiring a

disconnect when a loss of communication is detected is a rational course of action for the

Exchange to alert the member of the technical connectivity issue.

The Exchange's proposal to set a default timeframe of thirty (30) seconds and

permit a FIX user to modify the timeframe for FIX ports to between 1 second and 30

seconds for the removal of orders is consistent with the Act and the protection of

investors because the purpose of this optional feature is to mitigate the risk of potential

erroneous or unintended executions associated with a loss in communication with a

Client Application. Members selecting the removal feature are able to better anticipate

the appropriate time that they require prior to a logoff as compared to the Exchange,

within the Exchange's prescribed timeframes. The Exchange does not desire to trigger

unwarranted logoffs of members and therefore permits members to provide a time to the

Exchange, within the Exchange's prescribed timeframe, to authorize the Exchange to

disconnect the member and remove orders. The "nn" seconds serve as the member's

instruction to the Exchange to act upon the loss of connection and remove orders from

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[17]   See Phlx Rule 1019(b).

the system. The member is also best positioned to determine that they only desire the

disconnect feature, which is mandatory, and do not desire to have their orders removed.

The Exchange's proposal to offer other market participants the removal feature on

a voluntary basis is similar to CBOE's Rule.[18] CBOE offers market participants, on a

voluntary basis, the ability to cancel orders entered through FIX when a technical

disconnect occurs, similar to the Phlx proposal. CBOE's Rule offers members the

opportunity to cancel orders within a timeframe determined by the Trading Permit

Holder. The default value selected by the CBOE is no less than 5 seconds. The

Exchange's default timeframe for the disconnect and removal of orders for FIX is 30

seconds with the ability to modify that timeframe to between 1 second and 30 seconds, on

a session by session basis, in contrast to CBOE. Also, in contrast to CBOE, FIX users

may choose to enable or disable the cancellation feature when a disconnect occurs. The

proposed timeframe for the FIX feature is consistent with the Act because the Exchange

seeks to provide its members with the ability to select the amount of time that they desire

for a loss of communication prior to taking action to cancel open orders or simply

disconnect. The member should have the ability to select the appropriate time, within a

prescribed timeframe, for authorizing the Exchange to cancel its open orders or simply

disconnect from the Exchange. Inadvertent cancellations may create a greater risk of

harm to investors and the member is better positioned to determine the appropriate time,

with the prescribed timeframe, to remove orders or disconnect. CBOE's rule also offers

members the ability to cancel orders as proposed by Phlx, on a voluntary basis.

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[18]   See CBOE Rule 6.23C.

The proposed rule change will help maintain a fair and orderly market which promotes efficiency and protects investors. This mandatory removal feature for Market Makers and optional removal for all other market participants will mitigate the risk of potential erroneous or unintended executions associated with a loss in communication with a Client Application.

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. Specifically, the Exchange does not believe the proposed rule change will cause an undue burden on intra-market competition because Market Makers, unlike other market participants, have greater risks in the market place. Quoting across many series in an option creates large principal positions that expose Market Makers, who are required to continuously quote in assigned options, to potentially significant market risk. Providing a broader timeframe for the disconnect and removal of orders for FIX as compared to the removal of quotes for SQF Ports does not create an undue burden on competition. Market Makers have quoting obligations[19] and are more sensitive to price movements as compared to other market participants. The proposal is consistent with the Act because it provides a tighter timeframe for the disconnect and removal of quotes for SQF Ports as compared to the removal of orders for FIX Ports. Market Makers need to remain vigilant of market conditions and react more quickly to market movements as compared to other members entering multiple orders into the system. The proposal reflects this sensitivity borne by Market Makers and reflects the reaction time of Market Makers as compared to

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[19]   See note 12 above.

other members entering orders. Offering the removal feature to other market participants

on an optional basis does not create an undue burden on intra-market competition

because unlike Market Makers, other market participants do not bear the same risks of

potential erroneous or unintended executions. FIX users have the opportunity to disable

the cancellation feature and simply disconnect from the Exchange. FIX users may also

set a timeframe that is appropriate for their business. It is appropriate to offer this

optional cancellation functionality to other market participants for open orders, because

those orders are subject to risks of missed and/or unintended executions due to a lack of

connectivity which the participants needs to weigh. Finally, the Exchange does not

believe that such change will impose any burden on inter-market competition that is not

necessary or appropriate in furtherance of the purposes of the Act. Other options

exchanges offer similar functionality.[20]

> 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

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[20]   See BOX's Rule 8140 and CBOE's Rule 6.23C.

to Section 19(b)(3)(A)(iii) of the Act[21] and subparagraph (f)(6) of Rule 19b-4 thereunder.[22]

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

IV.   Solicitation of Comments

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

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-2016-72 on the subject line.

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[21]   15 U.S.C. 78s(b)(3)(a)(iii).

[22]   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.

Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and

   Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2016-72. 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-2016-72 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.[23]

Robert W. Errett
Deputy Secretary

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[23]   17 CFR 200.30-3(a)(12).

EXHIBIT 5

New text is underlined.
NASDAQ PHLX Rules

* * * * *

Rule 1019. Acceptance Of Bid Or Offer
(a) and (b) No change.

(c) Detection of Loss of Communication

(i) When the SQF Port detects the loss of communication with a member's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the member's affected Client Application and automatically cancel all of the member's open quotes. Quotes will be cancelled across all Client Applications that are associated with the same Specialist or Registered Options Trader (collectively "Market Maker") ID and underlying issues.

> (A) A "Heartbeat" message is a communication which acts as a virtual pulse between the SQF or FIX Port and the Client Application. The Heartbeat message sent by the member and subsequently received by the Exchange allows the SQF or FIX Port to continually monitor its connection with the member.

> (B) SQF Port is the Exchange's system component through which members communicate their quotes from the Client Application.

> (C) FIX Port is the Exchange's system component through which members communicate their orders from the Client Application.

> (D) Client Application is the system component of the member through which the Exchange member or member organization communicates its quotes and orders to the Exchange.

(ii) When the FIX Port detects the loss of communication with a member's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the member's affected Client Application and if the member has elected to have its orders cancelled pursuant to Rule 1019(c)(iv) automatically cancel all open orders posted.

(iii) The default time period ("nn" seconds) for SQF Ports shall be fifteen (15) seconds. A Phlx member may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (i) above, to trigger the disconnect and must communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one hundred (100) milliseconds and 99,999 milliseconds for SQF Ports prior to each session of connectivity to the Exchange. This feature is enabled for each member and may not be disabled.

(A) If the member systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to fifteen seconds. The member may change the default setting systemically prior to each session of connectivity.

(B) If a time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the member shall persist for each subsequent session of connectivity until the member either contacts Exchange operations and changes the setting or the member systemically selects another time period prior to the next session of connectivity.

(iv) The default period of "nn" seconds for FIX Ports shall be thirty (30) seconds for the disconnect and, if elected, the removal of orders. If the Phlx member elects to have its orders removed, in addition to the disconnect, the Phlx member may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (ii) above, to trigger the disconnect and removal of orders and communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one (1) second and thirty (30) seconds for FIX Ports prior to each session of connectivity to the Exchange. This feature may be disabled for the removal of orders, however the member will be disconnected.

(A) If the member systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to thirty seconds. The member may change the default setting systemically prior to each session of connectivity.

(B) If the time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the member shall persist for each subsequent session of connectivity until the member either contacts Exchange operations and changes the setting or the member systemically selects another time period prior to the next session of connectivity.

(v) The trigger for the SQF and FIX Ports is event and Client Application specific. The automatic cancellation of the Market Maker's quotes for SQF Ports and open orders for FIX Ports entered into the respective SQF or FIX Ports via a particular Client Application will neither impact nor determine the treatment of the quotes of other Market Makers entered into SQF Ports or orders of the same or other members entered into the FIX Ports via a separate and distinct Client Application.

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