Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 49	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2017 - * 34
		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)(4) ▣
			19b-4(f)(2) ▣ 19b-4(f)(5) ▣
			19b-4(f)(3) ▣ 19b-4(f)(6) ▣

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * ☐ Section 806(e)(2) * ☐	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 *).

A proposal to amend Exchange Rules 1000 and 1063 to add functionality to the Options Floor Broker Management System.

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 *	Brett	Last Name *	Kitt

Title *	Senior Associate General Counsel
E-mail *	Brett.Kitt@nasdaq.com
Telephone *	(301) 978-8132 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	07/18/2017	Executive Vice President and General Counsel
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 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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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)   Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

("Act")[1] and Rule 19b-4 thereunder,[2] NASDAQ PHLX, LLC ("Phlx" or "Exchange")

proposes to amend Exchange Rules 1000 and 1063 to add functionality to the Options

Floor Broker Management System ("FBMS"), the electronic system through which

Exchange Floor Brokers transmit orders to the Exchange's trading system (the

"System").   The Exchange also proposes to amend Options Floor Procedure Advice C-2.

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

attached hereto as Exhibit 1 and the text of the amended rules is attached hereto as

Exhibit 5.

        (b)   Not applicable.

        (c)   Not applicable.

2.   Procedures of the Self-Regulatory Organization

        The Board of Directors of the Exchange approved the submission of this proposed

rule change on July 25, 2016. No other action by the Exchange is necessary for the filing

of the rule change.

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

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

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

[2]   17 CFR 240.19b-4.

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

a.   Purpose

Overview of FBMS. As described in Exchange Rule 1063, the Floor Broker Management System or FBMS is the electronic system that enables Floor Brokers to submit option orders represented on the Exchange trading floor (the "Floor") to the Exchange's Trading System for execution and reporting to the consolidated tape. FBMS also facilitates the creation of an electronic audit trail for such orders.

Specifically, when a Floor Broker agrees to the terms of a trade on the Floor, then the Floor Broker memorializes the terms by entering the information into the FBMS software application using either a handheld tablet or a desktop computer. After the Floor Broker enters the trade terms into FBMS, the Floor Broker directs FBMS to transmit the information to the Exchange's automated Trading System.

Upon receipt, the Trading System immediately verifies whether the terms of the trade comply with the Exchange's trade-through and priority requirements. It does so by comparing the terms of the trade to the market that prevailed at the time that the Trading System received the trade from FBMS. If the Trading System determines, at the time of receipt, that the trade violates either the trade-through rule or applicable priority requirements, then the Trading System rejects the trade. However, if the Trading System verifies that the trade complies with the applicable rules, then the Trading System will proceed to execute the trade and report the execution to the consolidated tape for dissemination to the public.

FBMS provides numerous benefits to Floor Brokers, their Customers, and the Exchange. Notably, it helps to ensure fair and orderly trading by automating the

enforcement of priority and trade-through rules for on-Floor trades and rendering the enforcement of such rules consistent for both on-Floor and off-Floor trading. FBMS also facilitates trading surveillance by capturing a fulsome audit trail for all options orders that Floor Brokers enter into it.

Notwithstanding the benefits of FMBS, the simplicity of its design and the universality of its application also sometimes generate unintended adverse consequences for Floor Brokers, their Customers, and the Exchange. The circumstances in which these adverse consequences arise are as follows.

Unlike routine trades, which Floor Brokers typically submit from FBMS to the Trading System almost instantaneously after coming to an agreement to their terms in open outcry on the Floor, certain Floor trades involve Multi-leg Orders,[3] which require Floor Brokers to spend several seconds or more to fully calculate or reconcile their terms before the Floor Brokers are ready and able to submit them to the Trading System. For example, the Exchange estimates that the following tasks associated with reconciling the terms of Multi-leg Orders would require the following time periods to complete:

- The announced/negotiated price of a Multi-leg Order differs from that which was entered on the order but is in the allowable minimum price variation ("MPV") (4 seconds);

- The announced/negotiated volume of a Multi-leg Order differs from that which was entered on the order (4 seconds);

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[3]   See Rule 1066(f) (defining the term "Multi-leg Orders").

- The announced/negotiated volume and price of a Multi-leg Order differs from that which was entered on the order, but the price is in the allowable MPV (7 seconds);

- The Multi-leg Order requires the use of the Complex Calculator to change the volume and/or price for one leg (9 seconds); and

- The Multi-leg Order requires the use of the Complex Calculator to enter all prices and volumes for: (i) 2 legs (14 seconds); 5 legs (27 seconds); 10 legs (51 seconds); and 15 legs (69 seconds).

While the near-instantaneous entry of information about routine trades typically mitigates the risk that market conditions will shift between the time when Floor Brokers agree upon the terms of such trades on the Floor and the time when the Trading System receives the trades for verification and execution, the same cannot be said for trades involving Multi-leg Orders. A heightened risk exists that, during any extended delay that occurs between the time when Floor Brokers come to an agreement on the terms of a trade involving a Multi-leg Order and the time when the Broker submits the trade to the Trading System, market conditions will shift in a way that will render the trade inconsistent with Exchange's priority and trade-through rules, such that the Trading System will reject the trade.

Simple orders in certain options are also susceptible to this risk when the markets for such options are volatile or prone to rapid changes – even during a short time frame between the time of agreement to the terms of a trade on the Floor and Trading System receipt. The market for options on exchange traded funds ("ETFs") in the Penny Options Pilot is an example of a market that tends to shift rapidly.

When the aforementioned scenarios occur, they harm Floor Brokers, their

Customers, and the Exchange. In particular, a Customer experiences harm when a trade

that a Floor Broker agrees to on its behalf cannot be executed on the terms agreed upon

by the parties, if at all. This harm is unfair in that it occurs, not because the Customer's

trade is invalid when agreed upon, but instead because the Floor Broker finds it humanly

impossible to reconcile the trade details in FBMS and submit the trade to the Trading

System quickly enough to keep pace with the market – a market that is often dominated

by electronic trading algorithms that update quotations in nanoseconds rather than

seconds. Meanwhile, a Floor Broker suffers financially when he or she is unable to

execute a trade on behalf of his or her client. Finally, the Exchange suffers when, as a

result of all of the foregoing, Floor Brokers and their Customers forego trading on the

Floor of the Exchange and instead resort to other venues that afford no similar

disadvantages to those who engage in floor trades and are not held to the same execution

standards that FBMS enforces today. Indeed, the Exchange observes that competing

exchanges, like NYSE Amex, execute floor trades based upon the time when their floor

brokers reach agreement on the trades in the trading crowd rather than the time when the

trading system receives the trades; the Exchange further observes that at such competing

exchanges, floor trades often execute at prices that differ from those that prevail when the

exchanges report the trades to the consolidated tape.

The Exchange notes that the problem it is attempting to solve through this

proposal did not exist prior to the advent of FBMS, when Floor Brokers stamped paper

tickets with the times when they reached agreement on their trades in the trading crowd,

entered the trade terms onto the tickets, and submitted the tickets to an Exchange Data

Entry Technician, who in turn forwarded the trade information to the Trading System for

execution as of the time of the date stamp on the ticket. Moreover, the Exchange notes

that even in the original version of FBMS, Floor Brokers could self-stipulate the time

when they executed a trade and thereby avoid the risk that the market would move before

they finished entering the terms of that trade into FBMS and submitted it to the System.

Overview of Snapshot. To mitigate the unintended and unfair consequences of

the current iteration of FBMS – while also preserving its benefits – the Exchange

proposes to amend Rules 1000 and 1063 to permit the use of a new feature in FMBS

called "Snapshot."[4]

Snapshot will in many respects serve as an electronic equivalent – if not an

enhanced version – of a paper ticket for Floor Brokers.[5] Specifically, Snapshot will

enable Floor Brokers who engage in certain types of Floor trades to: (i) provisionally

execute[6] the trades in open outcry on the options Floor[7]; (ii) capture information about

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[4]   The Exchange became capable of offering Snapshot upon upgrading FBMS to
       version 3.0 in November 2016. The Exchange works continually to enhance
       Exchange systems to improve trading on the Exchange and in the national market
       system. The history of the different versions of FBMS is described in great detail
       in a previous filing. See Securities Exchange Release No. 78593 (August 16,
       2016) (SR-Phlx-2016-82).

[5]   As described below, Snapshot would be superior to a paper ticket in that it would
       provide for systematic enforcement of trade-through and priority rules.

[6]   As set forth in proposed Rule 1063(e)(v)(A)(1), provisional execution occurs
       when either: (i) the participants to a trade reach a verbal agreement in the trading
       crowd as to the terms of the trade or (ii) a Floor Broker crosses an order as set
       forth in Rule 1064(a). Execution is defined as "provisional" insofar as the trade
       may be deemed invalid and then rejected when the Trading System subsequently
       verifies it.

[7]   The use of Snapshot (for multi-leg orders and simple orders on options in ETFs
       included in the Options Penny Pilot) would be an exception to the general rule set
       forth in Rule 1000(f)(iii) that Floor Brokers may not execute trades in open outcry
       on the options trading Floor.

the state of the market that exists at the time when they provisionally execute such trades

(i.e., take a "snapshot" of the market); (iii) afford Floor Brokers a limited amount of

additional time to submit their provisionally executed trades through FBMS to the

Trading System; and (iv) provided that Floor Brokers enter the trade information into

FBMS and submit it to the Trading System in a timely fashion, have the Trading System

verify[8] their trades for compliance with trade-through and priority rules based upon the

state of the market that existed at the time when the trades were provisionally executed

and Snapshots were taken (rather than at the time when the Trading System received the

trades). Provided that the trades are indeed compliant, then the Trading System will

report them to the consolidated tape. (If the trades are deemed to have been non-

compliant with trade-through or priority rules at the time when the Snapshots were taken,

then they will be rejected.) The time and market captured by the Snapshot will be

utilized for all purposes, including audit trail[9] and surveillance purposes.

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[8]   The Snapshot will contain all information necessary for the Trading System to
        determine that a provisionally executed trade is consistent with all applicable
        priority and trade-through rules based on the time the trade is provisionally
        executed on the Floor. Specifically, the Snapshot will include: (1) the away
        market best bid and best offer; (2) the Exchange best bid and best offer; (3)
        Customer orders at the top of the Exchange book; and (4) the best bid and offer of
        all-or-none orders. The System needs each of these data elements to complete
        important priority and trade-through checks. The Snapshot must capture
        information regarding Customer orders and all-or-none orders because those
        impact the determination of priority and trade through differently than other
        orders on the Exchange Book.

[9]   Every time a Floor Broker takes a Snapshot, a record of the Snapshot will be
        created and retained for audit trail purposes regardless of whether the Floor
        Broker acts upon the Snapshot by submitting it to the Trading System. This
        record is in addition to that which the Exchange presently creates upon initiation
        of an order in FBMS. Moreover, when a Floor Broker submits a trade subject to
        Snapshot to the Trading System and the trade is thereafter reported to the
        consolidated tape, an additional execution record will be created and retained for

The Exchange notes that Snapshot would not interact with the Exchange's electronic order book. As set forth in proposed Rule 1063(e)(v)(C)(3), if an order exists on the book that has priority at the time when a Floor Broker seeks to take a Snapshot, the System will not prevent the Floor Broker from taking the Snapshot, but he will need to clear the order on the book, re-announce and provisionally re-execute the trade, and take a new Snapshot before he submits the provisionally executed trade to the Trading System or else the Trading System will reject the provisionally executed trade and will not report that trade to the consolidated tape (as it would violate the priority rules of the Exchange).

The following is an example of how Snapshot would operate in practice and how it would impact a hypothetical trade. In this example, a Floor Broker receives a Customer order to buy 100 SPY Jan 250 Calls for $1.05. He enters the trading crowd, lawfully announces the order, and requests bids and offers from the trading crowd. A Market Maker in the trading crowd offers to sell 100 contracts at $1.04 while the National Best Bid or Offer is $1.03 bid and $1.05 offer (no Customer orders on the offer). At this point, the Floor Broker can agree to the trade of the 100 SPY Jan 250 calls at a price of $1.04, a price which is $0.01 better than the limit price of the Customer order.

Presently, and without the availability of Snapshot, if the market changes to $1.05 bid and $1.07 offer while the Floor Broker is updating his order in FBMS to reflect the

audit trail purposes that will contain all of the same details as all other trade records. For example, the Snapshot and the execution record created at the time of reporting to the consolidated tape will contain the time when a Snapshot was taken, the time of reporting to the consolidated tape, and all relevant order and execution details (including the Exchange best bid and offer and away best bid and offer). Lastly, the Snapshot record will include Exchange all-or-none order details to provide a fulsome capture of the Exchange best bid and offer at the time of the Snapshot.

provisional execution price of $1.04, then the Floor Broker will be unable to complete his

purchase of 100 contracts at $1.04 on behalf of the Customer and the Customer may end

up paying the new offer of $1.07 per contract. Moreover, if another round of negotiation

occurs in the crowd due to the inability of the Floor Broker to execute the previously

agreed-upon trade at the time of agreement, then the same scenario noted above may

occur again, resulting in either an error for the Floor Broker or the Customer paying a

price higher than $1.07.

    With Snapshot, by contrast, the Floor Broker could click the Snapshot button in

FBMS upon reaching an agreement with a Market Maker in the crowd as to the terms of

the trade, thereby effecting a provisional execution of the trade based upon the available

market of a $1.03 bid and $1.05 offer. As discussed below, once the Floor Broker clicks

the Snapshot button, he will have up to 15 seconds to enter into FBMS the final terms of

his Customer's trade and then submit the trade to the Trading System. The Trading

System will then verify that the trade complies with trade-through and priority rules

based upon the market that existed, $1.03 bid and $1.05 offer, when the Snapshot was

taken. Because in this example, the Trading System determines that the trade is valid, it

will report the trade to the consolidated tape.

    By affording the Floor Broker the extra time that he needs to enter and submit this

provisionally executed trade without having to bear the interim risk of market conditions

changing, Snapshot would help ensure that the Floor Broker is able to execute the

Customer order and do so at a price that meets the Customer's expectations and needs

while continuing to adhere to trade-through and priority rules. In a larger sense, Snapshot

would also compensate for the inherent disparity that exists between electronic options

trading (involving the instantaneous interactions of trading algorithms) and floor-based

options trading (involving the slower interactions of human beings). Lastly, it would

help ensure that the Exchange remains competitive with other floor trading venues, like

NYSE Amex, that already permit trading to occur in a manner similar to Snapshot, as

well as with venues, like the proposed BOX Options Exchange trading floor, that are

vague about whether they would permit such trading practices.[10]

  Limitations on the Availability of Snapshot. Although the Exchange believes

that Snapshot will be a welcome and beneficial addition to its Floor trading operations,

the Exchange nevertheless recognizes the prudence of imposing reasonable controls upon

the use of Snapshot to ensure that Floor Brokers do not misuse or abuse the functionality.

These controls, which are set forth in proposed Rule 1063(v)(A), are as follows.

  First, a Floor Broker may not use the Snapshot feature for all of his options

orders. Instead, a Floor Broker may trigger the Snapshot feature only for his or her use

with a trade involving a Multi-leg Order (as defined in Rule 1066(f)) or a simple option

order on an ETF that is included in the Options Penny Pilot. The reason for this

limitation is to ensure that Floor Brokers use Snapshot only when the complexity of an

order or the fast-moving nature of the market for certain options reasonably justifies the

need for additional time to calculate or enter trade information or the ability to preserve

market conditions that exist at the time of provisional execution. As discussed above,

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[10] See Ltr. from J. Conley, SVP and Corporate Secretary, Nasdaq to B. Fields,
Secretary, Securities and Exchange Commission, dated March 27, 2017, at 3-4
(commenting on the failure of the BOX Options Exchange, in its proposal to
establish open outcry trading, to explain how it would address a shift in the
market that occurs between the time when a trade is agreed upon in open outcry
and when it is entered into the BOX electronic order entry system for verification
and execution).

options involving Multi-leg Orders often involve time-consuming tasks prior to trade entry that justify use of Snapshot. Likewise, the market for options orders on ETFs included in the Options Penny Pilot is known to be especially fast-moving and volatile, which again justifies the use of Snapshot.

A second limitation that the Exchange proposes is that a Floor Broker may have only one Snapshot outstanding at any given time across all options classes and series. In other words, when a Floor Broker takes a Snapshot of a trade and while that Snapshot remains valid, the Floor Broker may not simultaneously take a Snapshot of another trade. The Exchange has built this limitation into FBMS such that FBMS will enforce it automatically. This limitation will directly contribute to preventing Floor Brokers from engaging in excessive use of and abuse of Snapshot.

The Exchange notes that it proposes to amend Floor Advice C-2 to render it a violation for a Floor Broker to trigger the Snapshot feature for the purpose of obtaining favorable priority or trade-through conditions or improperly avoiding unfavorable priority or trade-through conditions. Conduct that violates this Advice would include, for example, repeated instances in which Floor Brokers permit valid Snapshots to expire without submitting the trades subject to the Snapshots to the Trading System for verification and reporting to the consolidated tape. Surveillance Staff will monitor and enforce proper usage of the Snapshot feature on a post-trade basis.

Limitations on the Validity of a Snapshot. In addition to the above, the Exchange proposes, in Rule 1063(v)(B), to limit the time period during which a Snapshot will remain valid such that a trade may execute based upon it. Specifically, the Exchange proposes to make each Snapshot valid for only 15 seconds, meaning that a Floor Broker

may submit a trade from FBMS to the Trading System based upon a Snapshot at any time within 15 seconds after the Floor Broker clicks the Snapshot button and activates the feature.

The Exchange decided to impose this limitation after it concluded that allowing Floor Brokers to rely upon a Snapshot for an extended period of time would unduly impair the validity of the consolidated tape. For example, the Exchange considered making a Snapshot valid for up to the full 90 seconds available to report trades to the consolidated tape. Although designating Snapshots as valid for up to 90 seconds would have provided Floor Brokers with ample time to enter and submit even their most complex trades, the Exchange concluded that the cost to market transparency of lengthy delays in executing and reporting trades would outweigh this benefit. At the other end of the spectrum, the Exchange also considered imposing a strict time limitation on the validity of a Snapshot (as short as five seconds), but it decided against doing so after concluding that such a limitation would eliminate the utility of the Snapshot feature in most of the scenarios in which it could be useful. Ultimately, the Exchange settled on a 15 second limitation for the validity of a Snapshot as a reasonable and prudent compromise between the needs of the Floor Brokers for additional time to completely reconcile and record the terms of their trades with the needs of market participants for fast, accurate, and transparent reporting of trades.

If a Snapshot expires before a Floor Broker completes his or her entry and submission of a trade, then FBMS will not permit the Floor Broker to rely upon the expired Snapshot to submit the trade to the Trading System. Instead, the Floor Broker has two options under the Exchange's proposal.

First, assuming that the Floor Broker re-confirms the acceptability of the terms of the trade with all participants, then the Floor Broker may finish entering the trade details into FBMS without Snapshot and submit it to the Trading System. The Trading System will then validate and (assuming validity) execute the trade in the normal course using the market conditions that prevail at the time when the Trading System receives the trade.

Alternatively, the Floor Broker may, after re-confirming the terms of the trade, take a new Snapshot of the market that records a new time of provisional execution. The Floor Broker would then have no more than 15 seconds within which to submit the re-confirmed trade and, upon timely submission, the Trading System would evaluate it based upon the prevailing market conditions reflected in the new Snapshot. Provided that the submitted trade adheres to the priority and trade-through restrictions based upon the prevailing market condition reflected in the new Snapshot, then the Trading System will report the trade to the consolidated tape. Note that if the Floor Broker records multiple Snapshots respecting the same order, the Trading System would automatically use the most recent Snapshot for verification purposes.

Ability to Refresh a Snapshot Before it Expires. Lastly, the proposal would permit a Floor Broker to replace a valid and existing Snapshot, prior to its expiration, with a new one by re-clicking the Snapshot button within 15 seconds of clicking it the first time. The Exchange proposes to include this functionality in Snapshot to allow a Floor Broker to address a scenario in which the market shifts between the time of provisional execution and the time when the Floor Broker takes a Snapshot, wherein the market captured in the Snapshot is such that it would not permit a trade to occur in accordance with the Exchange's rules. In this scenario, where the Trading System rejects

or the Floor Broker reasonably anticipates that the Trading System will reject a

provisional execution subject to a Snapshot, the proposal provides that the Floor Broker

must re-announce the trade in the crowd before he refreshes the Snapshot.[11]

This functionality in Snapshot would also allow a Floor Broker to take a new

Snapshot when he reasonably anticipates that he will be unable to input the final terms of

the trade within the 15 second window. In this scenario, the proposal provides that the

Floor Broker need only re-confirm the terms of the trade with the existing participants

before he refreshes the Snapshot.

By way of example, a Floor Broker enters the trading crowd with a Customer

Multi-leg Order to Buy 100 IBM Jan 100 calls for $1.05 and Sell 97 Jan 105 calls for

$0.85. The market for the Jan 100 calls is $1.00 bid and $1.15 offer while the market for

the Jan 105 calls is $0.70 bid and $1.00 offer. The trading crowd has no interest in

participating in this trade. This is a lawful trade and when the Floor Broker announces

the execution, he clicks the Snapshot button. When the Snapshot appears, it reflects a

rapid change in the market for the Jan 100 calls to $1.10 bid and $1.15 offer. When the

Floor Broker sees the Snapshot, he knows that it will be useless because the Trading

System will reject the trade since his price of $1.05 is outside of the market. While the

Snapshot remains valid, he sees the market for the Jan 100 calls change back to $1.00 bid

and $1.15 offer. He re-announces the trade, receives no interest, and then clicks the

Snapshot button again to record the change in the market and receives a new 15 second

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[11]   An example of this would occur if the System rejects or the Floor Broker realizes
         that the System will reject his or her Snapshot because an order exists on the
         Exchange's limit order book that has priority.

window in which to open the Complex Calculator, enter the terms of the trade into the

Complex Calculator, and submit the trade to the Trading System for execution.

A second example where a Floor Broker may utilize the Snapshot feature and find

it necessary to re-click the Snapshot could occur when the Floor Broker enters the trading

crowd with a multi-Legged Customer Order to buy 819 contracts of Leg 1, sell 912

contracts of Leg 2, and buy 1011 contacts of Leg 3 – all for a net price of $2.00. In the

trading crowd, the Floor Broker receives interest from several Market Makers who

provide $2.00 offers with a net offer size greater than his order size (providing an over

subscription of size). Because the Floor Broker has sufficient interest to execute the trade

at $2.00, he clicks Snapshot, but he then finds himself unable, before the Snapshot

expires, to finalize the volumes that each Market Maker will agree to trade (given that

each Market Maker desired to trade more contracts than the order size). Accordingly, the

Floor Broker re-confirms the terms of the trade and then refreshes the Snapshot.

The Exchange does not believe that Floor Brokers have an incentive to abuse the

Snapshot "refresh" functionality to take advantage of favorable market moves.

Nevertheless, in an abundance of caution, the Exchange proposes to limit to three the

number of Snapshots that Floor Brokers may take with respect to any single order,

regardless of whether each such Snapshot persists for the full 15 seconds or for a shorter

period.

b.   Statutory Basis

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

Act[12] in general, and furthers the objectives of Section 6(b)(5) of the Act[13] in particular,

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[12]   15 U.S.C. 78f(b).

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 to protect investors and the public interest.

Snapshot promotes just and equitable principles of trade and serves the interests

of investors and the public by increasing the likelihood that investors will be able to

execute their orders and do so in line with their expectations and needs. Similarly,

Snapshot mitigates the risk that the Trading System will unfairly reject a trade due to a

change in market conditions that occurs between the time when the parties negotiate a

lawful and valid trade on the Floor and the time when the Trading System receives it.

Snapshot also renders the Exchange Floor more competitive with off-floor

electronic trading venues because it compensates for the inefficiencies and delays

inherent in a floor trading system that depends upon the inputs and interactions of human

beings; such inefficiencies and delays do not exist in fully-electronic trading

environments, where computers and algorithms interact on a near instantaneous basis.

Additionally, Snapshot will render the Floor more competitive with other floor-based

trading venues at which the Exchange observes trade executions occurring seconds or

even minutes after verifications occur, but on trading terms that existed as of the time of

verification.

The Exchange believes that it is consistent with the Act to specifically exempt

multi-leg orders and simple orders in options on Options Penny Pilot ETFs from the

general rule set forth Rule 1000(f)(iii) that Floor Brokers may not execute orders in the

options trading crowd. As noted previously, the complex calculations that are often

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13   15 U.S.C. 78f(b)(5).

involved in multi-leg orders and the fast-moving nature of the markets for options on

Penny Pilot ETFs render these two categories of options particularly appropriate for

exceptional treatment using Snapshot. Enabling Floor Brokers to provisionally execute

these two categories of options on the Options Floor (using Snapshot), rather than

execute them in the Trading System, will not adversely impact investors or the quality of

the market due to the controls that the Exchange proposes on the circumstances in which

Floor Brokers may use Snapshot and on the manner in which they may use it. In fact, the

proposal will protect investors and the public interest by improving Floor Brokers' ability

to execute multi-leg orders and simple options on Penny Options Pilot ETFs while

continuing to ensure that all priority and trade through rules are systematically enforced.

Moreover, this proposal is consistent with Rule 611 of Regulation NMS,[14] which

requires the Exchange to establish policies and procedures that are reasonably designed to

prevent trade-throughs of protected quotations. Presently, the Exchange verifies that a

proposed trade complies with the trade-through rule as of the time when the Trading

System receives the trade from FBMS; if the trade complies, then the Trading System

executes the trade and reports it to the consolidated tape. However, the proposal would

serve as an exception to this practice. It would permit Floor Brokers, upon reaching a

meeting of the minds in the trading crowd regarding the terms of a trade, to take a

Snapshot that provisionally executes the trade on the Floor. When the Floor Broker

submits the trade to the Trading System using Snapshot, the Trading System will verify

that the provisionally executed trade complied with the trade-through rule as of the time

of its execution – i.e., the time when the crowd agreed to the terms of the trade and

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[14]   12 CFR 242.611.

Snapshot was taken – rather than at the time when the Trading System receives the trade.

If the Trading System determines that the provisionally executed trade complied with the

trade-through rule, then it will report the trade to the consolidated tape. If, however, the

Trading System determines that the provisionally executed trade was non-compliant with

the trade-through rule as of the time when the Snapshot was taken, then it will reject the

trade. In other words, even though the proposal will change the time of execution of a

trade for purposes of verifying compliance with the trade-through rule, the automated

compliance verification process will otherwise be unchanged and will still apply to

systematically prevent trade-throughs for all trades, including those utilizing Snapshot.[15]

Finally, the Exchange's proposal accomplishes the above in a manner that: (1)

continues to provide automated and verifiable enforcement of applicable trade-through

and priority rules; (2) is documented in writing and transparent, in contrast to the

practices of other exchanges; (3) provides for trade reporting to occur in a timely fashion,

even for the most complex trades, and within a 15 second time frame that is far less than

the maximum 90 second reporting period allowable; and (4) imposes surveillance and

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[15]   The Exchange notes that the SEC has published analogous guidance indicating
         that a broker-dealer that individually negotiates the terms of a block trade among
         multiple parties would have policies and procedures reasonably designed to
         prevent a trade-through even where the individually negotiated price is not at or
         within the best protected quotations at the time when the transaction terms are
         entered into the broker-dealer's automated system if the broker-dealer takes steps
         to verify that the transaction price of the trade was at or within the best protected
         quotations at some point during a 20 second period up to and including the time
         when the transaction terms are entered into the broker-dealer's order entry system.
         See SEC, Responses to Frequently Asked Questions Concerning Rule 611 and
         Rule 610 or Regulation NMS, Question 3.23: Agency Block Transactions with
         Non-Trade-Through Prices that are Individually Negotiated, at
         https://www.sec.gov/divisions/marketreg/nmsfaq610-11.htm.

responsible limitations upon Snapshot that ensure appropriate usage and prevents violations and abuse.

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.

In fact, the proposal is pro-competitive for several reasons. The Exchange believes that the Snapshot feature will result in the Exchange's Floor operating more efficiently, which will help it compete with other floor-based exchanges.

Moreover, the proposal helps the Exchange compete by ensuring the robustness of its regulatory program, ensuring Floor Brokers' compliance with that program, and by enhancing Customer protections through further utilization of electronic tools by members. The Exchange considers all of these things to be differentiators in attracting participants and order flow.

Lastly, the proposal does not impose a burden on intra-market competition not necessary or appropriate in furtherance of the purposes of the Act. Although the benefits of Snapshot will apply initially only to Floor Brokers, the Exchange plans to extend its availability to Registered Options Traders and Specialists once it receives authority to allow them to utilize FBMS.

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

No written comments were either solicited or received.

6.   Extension of Time Period for Commission Action

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

Commission action.

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

Not applicable.

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

The Exchange has observed that other exchanges that operate trading floors have

had members report trades up to 3 minutes after verifying that such trades are consistent

with applicable priority and trade-through provisions based upon the prevailing market

that existed at the time when the parties agreed to the terms of the trade. The Exchange

believes that such exchanges utilize various methods and processes to address market

changes that occur while a floor broker is in the process of executing an order. The

Exchange is unaware that such other exchanges have adopted written rules governing

these practices. The Exchange believes that its Snapshot feature performs the same

function as those occurring on other exchanges and that it is superior to such other

practices because it is documented in writing and transparent, more automated, and

incorporates prudent and reasonable controls to prevent misuse.

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.   <u>Exhibits</u>

      1.   Exhibit 1, Notice of proposed rule for publication in the <u>Federal Register</u>.

      2.   Exhibit 5, Proposed rule text.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No.   ; File No. SR-Phlx-2017-34)

July __, 2017

Self-Regulatory Organizations; NASDAQ PHLX LLC; Notice of Filing and Immediate
Effectiveness of Proposed Rule Change to Add Functionality to the Options Floor Broker
Management System

   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 July 18, 2017, 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 add functionality to the Options Floor Broker

Management System ("FBMS"), the electronic system through which Exchange Floor

Brokers transmit orders to the Exchange's trading system ("System"). The Exchange

also proposes to amend Options Floor Procedure Advice C-2.

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

http://nasdaqphlx.cchwallstreet.com/, at the principal office of the Exchange, and at the

Commission's Public Reference Room.

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

[2] 17 CFR 240.19b-4.

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

         In its filing with the Commission, the Exchange included statements concerning

the purpose of and basis for the proposed rule change and discussed any comments it

received on the proposed rule change. The text of these statements may be examined at

the places specified in Item IV below. The Exchange has prepared summaries, set forth

in sections A, B, and C below, of the most significant aspects of such statements.

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

                 1.   Purpose

Overview of FBMS. As described in Exchange Rule 1063, the Floor Broker

Management System or FBMS is the electronic system that enables Floor Brokers to

submit option orders represented on the Exchange trading floor (the "Floor") to the

Exchange's Trading System for execution and reporting to the consolidated tape. FBMS

also facilitates the creation of an electronic audit trail for such orders.

         Specifically, when a Floor Broker agrees to the terms of a trade on the Floor, then

the Floor Broker memorializes the terms by entering the information into the FBMS

software application using either a handheld tablet or a desktop computer. After the

Floor Broker enters the trade terms into FBMS, the Floor Broker directs FBMS to

transmit the information to the Exchange's automated Trading System.

         Upon receipt, the Trading System immediately verifies whether the terms of the

trade comply with the Exchange's trade-through and priority requirements. It does so by

comparing the terms of the trade to the market that prevailed at the time that the Trading

System received the trade from FBMS. If the Trading System determines, at the time of

receipt, that the trade violates either the trade-through rule or applicable priority

requirements, then the Trading System rejects the trade. However, if the Trading System verifies that the trade complies with the applicable rules, then the Trading System will proceed to execute the trade and report the execution to the consolidated tape for dissemination to the public.

FBMS provides numerous benefits to Floor Brokers, their Customers, and the Exchange. Notably, it helps to ensure fair and orderly trading by automating the enforcement of priority and trade-through rules for on-Floor trades and rendering the enforcement of such rules consistent for both on-Floor and off-Floor trading. FBMS also facilitates trading surveillance by capturing a fulsome audit trail for all options orders that Floor Brokers enter into it.

Notwithstanding the benefits of FMBS, the simplicity of its design and the universality of its application also sometimes generate unintended adverse consequences for Floor Brokers, their Customers, and the Exchange. The circumstances in which these adverse consequences arise are as follows.

Unlike routine trades, which Floor Brokers typically submit from FBMS to the Trading System almost instantaneously after coming to an agreement to their terms in open outcry on the Floor, certain Floor trades involve Multi-leg Orders,[3] which require Floor Brokers to spend several seconds or more to fully calculate or reconcile their terms before the Floor Brokers are ready and able to submit them to the Trading System. For example, the Exchange estimates that the following tasks associated with reconciling the terms of Multi-leg Orders would require the following time periods to complete:

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[3]   See Rule 1066(f) (defining the term "Multi-leg Orders").

- The announced/negotiated price of a Multi-leg Order differs from that which was entered on the order but is in the allowable minimum price variation ("MPV") (4 seconds);

- The announced/negotiated volume of a Multi-leg Order differs from that which was entered on the order (4 seconds);

- The announced/negotiated volume and price of a Multi-leg Order differs from that which was entered on the order, but the price is in the allowable MPV (7 seconds);

- The Multi-leg Order requires the use of the Complex Calculator to change the volume and/or price for one leg (9 seconds); and

- The Multi-leg Order requires the use of the Complex Calculator to enter all prices and volumes for: (i) 2 legs (14 seconds); 5 legs (27 seconds); 10 legs (51 seconds); and 15 legs (69 seconds).

While the near-instantaneous entry of information about routine trades typically mitigates the risk that market conditions will shift between the time when Floor Brokers agree upon the terms of such trades on the Floor and the time when the Trading System receives the trades for verification and execution, the same cannot be said for trades involving Multi-leg Orders. A heightened risk exists that, during any extended delay that occurs between the time when Floor Brokers come to an agreement on the terms of a trade involving a Multi-leg Order and the time when the Broker submits the trade to the Trading System, market conditions will shift in a way that will render the trade inconsistent with Exchange's priority and trade-through rules, such that the Trading System will reject the trade.

Simple orders in certain options are also susceptible to this risk when the markets

for such options are volatile or prone to rapid changes – even during a short time frame

between the time of agreement to the terms of a trade on the Floor and Trading System

receipt. The market for options on exchange traded funds ("ETFs") in the Penny Options

Pilot is an example of a market that tends to shift rapidly.

When the aforementioned scenarios occur, they harm Floor Brokers, their

Customers, and the Exchange. In particular, a Customer experiences harm when a trade

that a Floor Broker agrees to on its behalf cannot be executed on the terms agreed upon

by the parties, if at all. This harm is unfair in that it occurs, not because the Customer's

trade is invalid when agreed upon, but instead because the Floor Broker finds it humanly

impossible to reconcile the trade details in FBMS and submit the trade to the Trading

System quickly enough to keep pace with the market – a market that is often dominated

by electronic trading algorithms that update quotations in nanoseconds rather than

seconds. Meanwhile, a Floor Broker suffers financially when he or she is unable to

execute a trade on behalf of his or her client. Finally, the Exchange suffers when, as a

result of all of the foregoing, Floor Brokers and their Customers forego trading on the

Floor of the Exchange and instead resort to other venues that afford no similar

disadvantages to those who engage in floor trades and are not held to the same execution

standards that FBMS enforces today. Indeed, the Exchange observes that competing

exchanges, like NYSE Amex, execute floor trades based upon the time when their floor

brokers reach agreement on the trades in the trading crowd rather than the time when the

trading system receives the trades; the Exchange further observes that at such competing

exchanges, floor trades often execute at prices that differ from those that prevail when the

exchanges report the trades to the consolidated tape.

The Exchange notes that the problem it is attempting to solve through this

proposal did not exist prior to the advent of FBMS, when Floor Brokers stamped paper

tickets with the times when they reached agreement on their trades in the trading crowd,

entered the trade terms onto the tickets, and submitted the tickets to an Exchange Data

Entry Technician, who in turn forwarded the trade information to the Trading System for

execution as of the time of the date stamp on the ticket. Moreover, the Exchange notes

that even in the original version of FBMS, Floor Brokers could self-stipulate the time

when they executed a trade and thereby avoid the risk that the market would move before

they finished entering the terms of that trade into FBMS and submitted it to the System.

Overview of Snapshot. To mitigate the unintended and unfair consequences of

the current iteration of FBMS – while also preserving its benefits – the Exchange

proposes to amend Rules 1000 and 1063 to permit the use of a new feature in FMBS

called "Snapshot."[4]

Snapshot will in many respects serve as an electronic equivalent – if not an

enhanced version – of a paper ticket for Floor Brokers.[5] Specifically, Snapshot will

enable Floor Brokers who engage in certain types of Floor trades to: (i) provisionally

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[4]   The Exchange became capable of offering Snapshot upon upgrading FBMS to
        version 3.0 in November 2016. The Exchange works continually to enhance
        Exchange systems to improve trading on the Exchange and in the national market
        system. The history of the different versions of FBMS is described in great detail
        in a previous filing. See Securities Exchange Release No. 78593 (August 16,
        2016) (SR-Phlx-2016-82).

[5]   As described below, Snapshot would be superior to a paper ticket in that it would
        provide for systematic enforcement of trade-through and priority rules.

execute[6] the trades in open outcry on the options Floor[7]; (ii) capture information about

the state of the market that exists at the time when they provisionally execute such trades

(i.e., take a "snapshot" of the market); (iii) afford Floor Brokers a limited amount of

additional time to submit their provisionally executed trades through FBMS to the

Trading System; and (iv) provided that Floor Brokers enter the trade information into

FBMS and submit it to the Trading System in a timely fashion, have the Trading System

verify[8] their trades for compliance with trade-through and priority rules based upon the

state of the market that existed at the time when the trades were provisionally executed

and Snapshots were taken (rather than at the time when the Trading System received the

trades). Provided that the trades are indeed compliant, then the Trading System will

report them to the consolidated tape. (If the trades are deemed to have been non-

compliant with trade-through or priority rules at the time when the Snapshots were taken,

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[6]   As set forth in proposed Rule 1063(e)(v)(A)(1), provisional execution occurs when either: (i) the participants to a trade reach a verbal agreement in the trading crowd as to the terms of the trade or (ii) a Floor Broker crosses an order as set forth in Rule 1064(a). Execution is defined as "provisional" insofar as the trade may be deemed invalid and then rejected when the Trading System subsequently verifies it.

[7]   The use of Snapshot (for multi-leg orders and simple orders on options in ETFs included in the Options Penny Pilot) would be an exception to the general rule set forth in Rule 1000(f)(iii) that Floor Brokers may not execute trades in open outcry on the options trading Floor.

[8]   The Snapshot will contain all information necessary for the Trading System to determine that a provisionally executed trade is consistent with all applicable priority and trade-through rules based on the time the trade is provisionally executed on the Floor. Specifically, the Snapshot will include: (1) the away market best bid and best offer; (2) the Exchange best bid and best offer; (3) Customer orders at the top of the Exchange book; and (4) the best bid and offer of all-or-none orders. The System needs each of these data elements to complete important priority and trade-through checks. The Snapshot must capture information regarding Customer orders and all-or-none orders because those impact the determination of priority and trade through differently than other orders on the Exchange Book.

then they will be rejected.) The time and market captured by the Snapshot will be

utilized for all purposes, including audit trail[9] and surveillance purposes.

The Exchange notes that Snapshot would not interact with the Exchange's

electronic order book. As set forth in proposed Rule 1063(e)(v)(C)(3), if an order exists

on the book that has priority at the time when a Floor Broker seeks to take a Snapshot,

the System will not prevent the Floor Broker from taking the Snapshot, but he will need

to clear the order on the book, re-announce and provisionally re-execute the trade, and

take a new Snapshot before he submits the provisionally executed trade to the Trading

System or else the Trading System will reject the provisionally executed trade and will

not report that trade to the consolidated tape (as it would violate the priority rules of the

Exchange).

The following is an example of how Snapshot would operate in practice and how

it would impact a hypothetical trade. In this example, a Floor Broker receives a

Customer order to buy 100 SPY Jan 250 Calls for $1.05. He enters the trading crowd,

lawfully announces the order, and requests bids and offers from the trading crowd. A

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9   Every time a Floor Broker takes a Snapshot, a record of the Snapshot will be
        created and retained for audit trail purposes regardless of whether the Floor
        Broker acts upon the Snapshot by submitting it to the Trading System. This
        record is in addition to that which the Exchange presently creates upon initiation
        of an order in FBMS. Moreover, when a Floor Broker submits a trade subject to
        Snapshot to the Trading System and the trade is thereafter reported to the
        consolidated tape, an additional execution record will be created and retained for
        audit trail purposes that will contain all of the same details as all other trade
        records. For example, the Snapshot and the execution record created at the time
        of reporting to the consolidated tape will contain the time when a Snapshot was
        taken, the time of reporting to the consolidated tape, and all relevant order and
        execution details (including the Exchange best bid and offer and away best bid
        and offer). Lastly, the Snapshot record will include Exchange all-or-none order
        details to provide a fulsome capture of the Exchange best bid and offer at the time
        of the Snapshot.

Market Maker in the trading crowd offers to sell 100 contracts at $1.04 while the

National Best Bid or Offer is $1.03 bid and $1.05 offer (no Customer orders on the offer).

At this point, the Floor Broker can agree to the trade of the 100 SPY Jan 250 calls at a

price of $1.04, a price which is $0.01 better than the limit price of the Customer order.

Presently, and without the availability of Snapshot, if the market changes to $1.05

bid and $1.07 offer while the Floor Broker is updating his order in FBMS to reflect the

provisional execution price of $1.04, then the Floor Broker will be unable to complete his

purchase of 100 contracts at $1.04 on behalf of the Customer and the Customer may end

up paying the new offer of $1.07 per contract. Moreover, if another round of negotiation

occurs in the crowd due to the inability of the Floor Broker to execute the previously

agreed-upon trade at the time of agreement, then the same scenario noted above may

occur again, resulting in either an error for the Floor Broker or the Customer paying a

price higher than $1.07.

With Snapshot, by contrast, the Floor Broker could click the Snapshot button in

FBMS upon reaching an agreement with a Market Maker in the crowd as to the terms of

the trade, thereby effecting a provisional execution of the trade based upon the available

market of a $1.03 bid and $1.05 offer. As discussed below, once the Floor Broker clicks

the Snapshot button, he will have up to 15 seconds to enter into FBMS the final terms of

his Customer's trade and then submit the trade to the Trading System. The Trading

System will then verify that the trade complies with trade-through and priority rules

based upon the market that existed, $1.03 bid and $1.05 offer, when the Snapshot was

taken. Because in this example, the Trading System determines that the trade is valid, it

will report the trade to the consolidated tape.

By affording the Floor Broker the extra time that he needs to enter and submit this provisionally executed trade without having to bear the interim risk of market conditions changing, Snapshot would help ensure that the Floor Broker is able to execute the Customer order and do so at a price that meets the Customer's expectations and needs while continuing to adhere to trade-through and priority rules. In a larger sense, Snapshot would also compensate for the inherent disparity that exists between electronic options trading (involving the instantaneous interactions of trading algorithms) and floor-based options trading (involving the slower interactions of human beings). Lastly, it would help ensure that the Exchange remains competitive with other floor trading venues, like NYSE Amex, that already permit trading to occur in a manner similar to Snapshot, as well as with venues, like the proposed BOX Options Exchange trading floor, that are vague about whether they would permit such trading practices.[10]

Limitations on the Availability of Snapshot. Although the Exchange believes that Snapshot will be a welcome and beneficial addition to its Floor trading operations, the Exchange nevertheless recognizes the prudence of imposing reasonable controls upon the use of Snapshot to ensure that Floor Brokers do not misuse or abuse the functionality. These controls, which are set forth in proposed Rule 1063(v)(A), are as follows.

First, a Floor Broker may not use the Snapshot feature for all of his options orders. Instead, a Floor Broker may trigger the Snapshot feature only for his or her use

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[10]   See Ltr. from J. Conley, SVP and Corporate Secretary, Nasdaq to B. Fields, Secretary, Securities and Exchange Commission, dated March 27, 2017, at 3-4 (commenting on the failure of the BOX Options Exchange, in its proposal to establish open outcry trading, to explain how it would address a shift in the market that occurs between the time when a trade is agreed upon in open outcry and when it is entered into the BOX electronic order entry system for verification and execution).

with a trade involving a Multi-leg Order (as defined in Rule 1066(f)) or a simple option

order on an ETF that is included in the Options Penny Pilot. The reason for this

limitation is to ensure that Floor Brokers use Snapshot only when the complexity of an

order or the fast-moving nature of the market for certain options reasonably justifies the

need for additional time to calculate or enter trade information or the ability to preserve

market conditions that exist at the time of provisional execution. As discussed above,

options involving Multi-leg Orders often involve time-consuming tasks prior to trade

entry that justify use of Snapshot. Likewise, the market for options orders on ETFs

included in the Options Penny Pilot is known to be especially fast-moving and volatile,

which again justifies the use of Snapshot.

A second limitation that the Exchange proposes is that a Floor Broker may have

only one Snapshot outstanding at any given time across all options classes and series. In

other words, when a Floor Broker takes a Snapshot of a trade and while that Snapshot

remains valid, the Floor Broker may not simultaneously take a Snapshot of another trade.

The Exchange has built this limitation into FBMS such that FBMS will enforce it

automatically. This limitation will directly contribute to preventing Floor Brokers from

engaging in excessive use of and abuse of Snapshot.

The Exchange notes that it proposes to amend Floor Advice C-2 to render it a

violation for a Floor Broker to trigger the Snapshot feature for the purpose of obtaining

favorable priority or trade-through conditions or improperly avoiding unfavorable

priority or trade-through conditions. Conduct that violates this Advice would include, for

example, repeated instances in which Floor Brokers permit valid Snapshots to expire

without submitting the trades subject to the Snapshots to the Trading System for

verification and reporting to the consolidated tape. Surveillance Staff will monitor and enforce proper usage of the Snapshot feature on a post-trade basis.

Limitations on the Validity of a Snapshot. In addition to the above, the Exchange proposes, in Rule 1063(v)(B), to limit the time period during which a Snapshot will remain valid such that a trade may execute based upon it. Specifically, the Exchange proposes to make each Snapshot valid for only 15 seconds, meaning that a Floor Broker may submit a trade from FBMS to the Trading System based upon a Snapshot at any time within 15 seconds after the Floor Broker clicks the Snapshot button and activates the feature.

The Exchange decided to impose this limitation after it concluded that allowing Floor Brokers to rely upon a Snapshot for an extended period of time would unduly impair the validity of the consolidated tape. For example, the Exchange considered making a Snapshot valid for up to the full 90 seconds available to report trades to the consolidated tape. Although designating Snapshots as valid for up to 90 seconds would have provided Floor Brokers with ample time to enter and submit even their most complex trades, the Exchange concluded that the cost to market transparency of lengthy delays in executing and reporting trades would outweigh this benefit. At the other end of the spectrum, the Exchange also considered imposing a strict time limitation on the validity of a Snapshot (as short as five seconds), but it decided against doing so after concluding that such a limitation would eliminate the utility of the Snapshot feature in most of the scenarios in which it could be useful. Ultimately, the Exchange settled on a 15 second limitation for the validity of a Snapshot as a reasonable and prudent compromise between the needs of the Floor Brokers for additional time to completely

reconcile and record the terms of their trades with the needs of market participants for fast, accurate, and transparent reporting of trades.

If a Snapshot expires before a Floor Broker completes his or her entry and submission of a trade, then FBMS will not permit the Floor Broker to rely upon the expired Snapshot to submit the trade to the Trading System. Instead, the Floor Broker has two options under the Exchange's proposal.

First, assuming that the Floor Broker re-confirms the acceptability of the terms of the trade with all participants, then the Floor Broker may finish entering the trade details into FBMS without Snapshot and submit it to the Trading System. The Trading System will then validate and (assuming validity) execute the trade in the normal course using the market conditions that prevail at the time when the Trading System receives the trade.

Alternatively, the Floor Broker may, after re-confirming the terms of the trade, take a new Snapshot of the market that records a new time of provisional execution. The Floor Broker would then have no more than 15 seconds within which to submit the re-confirmed trade and, upon timely submission, the Trading System would evaluate it based upon the prevailing market conditions reflected in the new Snapshot. Provided that the submitted trade adheres to the priority and trade-through restrictions based upon the prevailing market condition reflected in the new Snapshot, then the Trading System will report the trade to the consolidated tape. Note that if the Floor Broker records multiple Snapshots respecting the same order, the Trading System would automatically use the most recent Snapshot for verification purposes.

Ability to Refresh a Snapshot Before it Expires. Lastly, the proposal would permit a Floor Broker to replace a valid and existing Snapshot, prior to its expiration,

with a new one by re-clicking the Snapshot button within 15 seconds of clicking it the

first time. The Exchange proposes to include this functionality in Snapshot to allow a

Floor Broker to address a scenario in which the market shifts between the time of

provisional execution and the time when the Floor Broker takes a Snapshot, wherein the

market captured in the Snapshot is such that it would not permit a trade to occur in

accordance with the Exchange's rules. In this scenario, where the Trading System rejects

or the Floor Broker reasonably anticipates that the Trading System will reject a

provisional execution subject to a Snapshot, the proposal provides that the Floor Broker

must re-announce the trade in the crowd before he refreshes the Snapshot.[11]

This functionality in Snapshot would also allow a Floor Broker to take a new

Snapshot when he reasonably anticipates that he will be unable to input the final terms of

the trade within the 15 second window. In this scenario, the proposal provides that the

Floor Broker need only re-confirm the terms of the trade with the existing participants

before he refreshes the Snapshot.

By way of example, a Floor Broker enters the trading crowd with a Customer

Multi-leg Order to Buy 100 IBM Jan 100 calls for $1.05 and Sell 97 Jan 105 calls for

$0.85. The market for the Jan 100 calls is $1.00 bid and $1.15 offer while the market for

the Jan 105 calls is $0.70 bid and $1.00 offer. The trading crowd has no interest in

participating in this trade. This is a lawful trade and when the Floor Broker announces

the execution, he clicks the Snapshot button. When the Snapshot appears, it reflects a

rapid change in the market for the Jan 100 calls to $1.10 bid and $1.15 offer. When the

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[11]   An example of this would occur if the System rejects or the Floor Broker realizes
         that the System will reject his or her Snapshot because an order exists on the
         Exchange's limit order book that has priority.

Floor Broker sees the Snapshot, he knows that it will be useless because the Trading

System will reject the trade since his price of $1.05 is outside of the market. While the

Snapshot remains valid, he sees the market for the Jan 100 calls change back to $1.00 bid

and $1.15 offer. He re-announces the trade, receives no interest, and then clicks the

Snapshot button again to record the change in the market and receives a new 15 second

window in which to open the Complex Calculator, enter the terms of the trade into the

Complex Calculator, and submit the trade to the Trading System for execution.

A second example where a Floor Broker may utilize the Snapshot feature and find

it necessary to re-click the Snapshot could occur when the Floor Broker enters the trading

crowd with a multi-Legged Customer Order to buy 819 contracts of Leg 1, sell 912

contracts of Leg 2, and buy 1011 contacts of Leg 3 – all for a net price of $2.00. In the

trading crowd, the Floor Broker receives interest from several Market Makers who

provide $2.00 offers with a net offer size greater than his order size (providing an over

subscription of size). Because the Floor Broker has sufficient interest to execute the trade

at $2.00, he clicks Snapshot, but he then finds himself unable, before the Snapshot

expires, to finalize the volumes that each Market Maker will agree to trade (given that

each Market Maker desired to trade more contracts than the order size). Accordingly, the

Floor Broker re-confirms the terms of the trade and then refreshes the Snapshot.

The Exchange does not believe that Floor Brokers have an incentive to abuse the

Snapshot "refresh" functionality to take advantage of favorable market moves.

Nevertheless, in an abundance of caution, the Exchange proposes to limit to three the

number of Snapshots that Floor Brokers may take with respect to any single order,

regardless of whether each such Snapshot persists for the full 15 seconds or for a shorter period.

2.   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[12] in general, and furthers the objectives of Section 6(b)(5) of the Act[13] 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 to protect investors and the public interest.

Snapshot promotes just and equitable principles of trade and serves the interests of investors and the public by increasing the likelihood that investors will be able to execute their orders and do so in line with their expectations and needs. Similarly, Snapshot mitigates the risk that the Trading System will unfairly reject a trade due to a change in market conditions that occurs between the time when the parties negotiate a lawful and valid trade on the Floor and the time when the Trading System receives it.

Snapshot also renders the Exchange Floor more competitive with off-floor electronic trading venues because it compensates for the inefficiencies and delays inherent in a floor trading system that depends upon the inputs and interactions of human beings; such inefficiencies and delays do not exist in fully-electronic trading environments, where computers and algorithms interact on a near instantaneous basis. Additionally, Snapshot will render the Floor more competitive with other floor-based trading venues at which the Exchange observes trade executions occurring seconds or

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[12]   15 U.S.C. 78f(b).

[13]   15 U.S.C. 78f(b)(5).

even minutes after verifications occur, but on trading terms that existed as of the time of verification.

The Exchange believes that it is consistent with the Act to specifically exempt multi-leg orders and simple orders in options on Options Penny Pilot ETFs from the general rule set forth Rule 1000(f)(iii) that Floor Brokers may not execute orders in the options trading crowd. As noted previously, the complex calculations that are often involved in multi-leg orders and the fast-moving nature of the markets for options on Penny Pilot ETFs render these two categories of options particularly appropriate for exceptional treatment using Snapshot. Enabling Floor Brokers to provisionally execute these two categories of options on the Options Floor (using Snapshot), rather than execute them in the Trading System, will not adversely impact investors or the quality of the market due to the controls that the Exchange proposes on the circumstances in which Floor Brokers may use Snapshot and on the manner in which they may use it. In fact, the proposal will protect investors and the public interest by improving Floor Brokers' ability to execute multi-leg orders and simple options on Penny Options Pilot ETFs while continuing to ensure that all priority and trade through rules are systematically enforced.

Moreover, this proposal is consistent with Rule 611 of Regulation NMS,[14] which requires the Exchange to establish policies and procedures that are reasonably designed to prevent trade-throughs of protected quotations. Presently, the Exchange verifies that a proposed trade complies with the trade-through rule as of the time when the Trading System receives the trade from FBMS; if the trade complies, then the Trading System executes the trade and reports it to the consolidated tape. However, the proposal would

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[14]   12 CFR 242.611.

serve as an exception to this practice. It would permit Floor Brokers, upon reaching a

meeting of the minds in the trading crowd regarding the terms of a trade, to take a

Snapshot that provisionally executes the trade on the Floor. When the Floor Broker

submits the trade to the Trading System using Snapshot, the Trading System will verify

that the provisionally executed trade complied with the trade-through rule as of the time

of its execution – i.e., the time when the crowd agreed to the terms of the trade and

Snapshot was taken – rather than at the time when the Trading System receives the trade.

If the Trading System determines that the provisionally executed trade complied with the

trade-through rule, then it will report the trade to the consolidated tape. If, however, the

Trading System determines that the provisionally executed trade was non-compliant with

the trade-through rule as of the time when the Snapshot was taken, then it will reject the

trade. In other words, even though the proposal will change the time of execution of a

trade for purposes of verifying compliance with the trade-through rule, the automated

compliance verification process will otherwise be unchanged and will still apply to

systematically prevent trade-throughs for all trades, including those utilizing Snapshot.[15]

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[15]   The Exchange notes that the SEC has published analogous guidance indicating
        that a broker-dealer that individually negotiates the terms of a block trade among
        multiple parties would have policies and procedures reasonably designed to
        prevent a trade-through even where the individually negotiated price is not at or
        within the best protected quotations at the time when the transaction terms are
        entered into the broker-dealer's automated system if the broker-dealer takes steps
        to verify that the transaction price of the trade was at or within the best protected
        quotations at some point during a 20 second period up to and including the time
        when the transaction terms are entered into the broker-dealer's order entry system.
        See SEC, Responses to Frequently Asked Questions Concerning Rule 611 and
        Rule 610 or Regulation NMS, Question 3.23: Agency Block Transactions with
        Non-Trade-Through Prices that are Individually Negotiated, at
        https://www.sec.gov/divisions/marketreg/nmsfaq610-11.htm.

Finally, the Exchange's proposal accomplishes the above in a manner that: (1) continues to provide automated and verifiable enforcement of applicable trade-through and priority rules; (2) is documented in writing and transparent, in contrast to the practices of other exchanges; (3) provides for trade reporting to occur in a timely fashion, even for the most complex trades, and within a 15 second time frame that is far less than the maximum 90 second reporting period allowable; and (4) imposes surveillance and responsible limitations upon Snapshot that ensure appropriate usage and prevents violations and abuse.

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.

In fact, the proposal is pro-competitive for several reasons. The Exchange believes that the Snapshot feature will result in the Exchange's Floor operating more efficiently, which will help it compete with other floor-based exchanges.

Moreover, the proposal helps the Exchange compete by ensuring the robustness of its regulatory program, ensuring Floor Brokers' compliance with that program, and by enhancing Customer protections through further utilization of electronic tools by members. The Exchange considers all of these things to be differentiators in attracting participants and order flow.

Lastly, the proposal does not impose a burden on intra-market competition not necessary or appropriate in furtherance of the purposes of the Act. Although the benefits of Snapshot will apply initially only to Floor Brokers, the Exchange plans to extend its

availability to Registered Options Traders and Specialists once it receives authority to

allow them to utilize FBMS.

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

No written comments were either solicited or received.

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

       Within 45 days of the date of publication of this notice in the Federal Register or

within such longer period (i) as the Commission may designate up to 90 days of such date

if it finds such longer period to be appropriate and publishes its reasons for so finding or

(ii) as to which the Exchange consents, the Commission shall: (a) by order approve or

disapprove such proposed rule change, or (b) institute proceedings to determine whether

the proposed rule change should be disapproved.

IV.   Solicitation of Comments

       Interested persons are invited to submit written data, views, and arguments

concerning the foregoing, including whether the proposed rule change is consistent with

the Act. Comments may be submitted by any of the following methods:

       Electronic comments:

   •   Use the Commission's Internet comment form

       (http://www.sec.gov/rules/sro.shtml); or

   •   Send an e-mail to rule-comments@sec.gov. Please include File Number SR-

       Phlx-2017-34 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-2017-34. 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-2017-34 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.[16]

> Eduardo A. Aleman
> Assistant Secretary

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[16]   17 CFR 200.30-3(a)(12).

EXHIBIT 5

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

NASDAQ PHLX Rules

Rules of the Exchange

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Options Rules

Rules Applicable to Trading of Options on Stocks, Exchange-Traded Fund Shares and Foreign Currencies (Rules 1000—1098)

Rule 1000. Applicability, Definitions and References

(a) – (e)   No change.

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

> (i)   No change.
>
> (ii)   No change.
>
> (iii)   through the Options Floor Broker Management System for trades involving at least one Floor Broker. Although Floor Brokers may represent orders in the trading crowd, Floor Brokers are not permitted to execute orders in the Exchange's options trading crowd, except as follows:
>
> > (A) – (D)   No change.
> >
> > (E) As set forth in Rule 1063(e)(v), Floor Brokers may use the Snapshot feature of the Options Floor Broker Management System to provisionally execute, in the options trading crowd, multi-leg orders (as defined in Rule 1066(f)) and simple orders in options on ETFs that are included in the Options Penny Pilot.
>
> Surveillance staff must approve all executions submitted under this Rule 1000(f)(iii)(A)-(D) to validate that each abides by applicable priority and trade through rules. Under subsection (f)(iii)(D), the rounding of prices may be used only where necessary to execute the trade at the MPV, and only to the benefit of a customer order or, where multiple customers' orders are involved, for the customer order that is earliest in time. If no customer order is involved, rounding of prices is available to the non-customer order that is earliest in time.

 (g)   No change.

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Rule 1063. Responsibilities of Floor Brokers

(a) – (d)   No change.

(e)

(i) – (iv) No change.

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

A.   *Availability*.

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

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

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

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

B.   *Snapshot Timer*. After triggering the Snapshot feature, the Floor Broker will have no more than 15 seconds to submit the provisionally executed trade along with the Snapshot into the System. The Snapshot will automatically become unavailable and expire if the Floor Broker fails to submit a provisionally executed trade along with the Snapshot within 15 seconds after triggering the Snapshot.

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

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

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

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

D.   ***Refreshing a Snapshot***

1. If a Snapshot expires before a Floor Broker submits a provisional execution to the Trading System or a Floor Broker reasonably anticipates that a Snapshot will expire before he can finish entering and submitting a provisional execution, then the Floor Broker may take a new Snapshot and trigger a new 15-second timer as described in paragraphs (A) through (C) above, provided that the Floor Broker first re-confirms the terms of the provisional execution with the existing participant(s) based on the then-current market conditions.
2. If the Trading System rejects a provisional execution subject to a Snapshot or a Floor Broker reasonably anticipates that the Trading System will reject a provisional execution that is subject to a Snapshot before he submits it, then the Floor Broker may take a new Snapshot and trigger a new 15-second timer as described in paragraphs (A) through (C) above, provided that the Floor Broker first re-announces and provisionally re-executes the trade in the crowd.
3. Notwithstanding paragraphs 1 and 2 above, a Floor Broker may take no more than three Snapshots with respect to a single order. If the Floor Broker takes multiple Snapshots for the same order, the System automatically uses the most recent Snapshot.

(f) No change.

••• **_Commentary:_** ------------------

.01 - **.02** No change.

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OPTION FLOOR PROCEDURE ADVICES AND ORDER & DECORUM REGULATIONS

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C. FLOOR BROKERS

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C-2 Options Floor Broker Management System

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

Pursuant to Rule 1000(f), Floor Brokers are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event of a malfunction in the Options Floor Broker Management System or in the event that the Exchange determines that Floor Brokers are permitted to execute orders in the Exchange's options trading crowd for a specific reason pursuant to Rule 1000(f)(iii), 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 shall be time stamped upon the execution of such an order. Floor Brokers or their employees shall either enter the required information that

is recorded on such trade tickets into the Exchange's electronic trading system or ensure that such information is entered for inclusion in the electronic audit trail.

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

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

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

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

1st Occurrence	$500.00
2nd Occurrence	$1,000.00
3rd Occurrence	$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Business Conduct Committee

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