Required fields are shown with yellow backgrounds and asterisks.

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

File No.* SR - 2018 - * 03

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 *).

Proposal to add a new Rule 3215 and commentary thereto to codify PSX Participant risk settings in the Exchange trading system and to authorize the Exchange to share such risk settings with the clearing member that clears transactions on behalf of the PSX Participant.

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   01/03/2018

By   Edward S. Knight

(Name *)

Executive Vice President and General Counsel

edward.knight@nasdaq.com

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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

Exhibit 1 - Notice of Proposed Rule Change *

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

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

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

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

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

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document
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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 Proposed Rule Change

(a) Nasdaq PHLX LLC ("Phlx" or "Exchange"), pursuant to Section 19(b)(1) of

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

the Securities and Exchange Commission ("SEC" or "Commission") a proposal to add a

new Rule 3215 and commentary thereto to codify PSX Participant risk settings in the

Exchange's trading system and to authorize the Exchange to share such risk settings with

the clearing member that clears transactions on behalf of the PSX Participant.

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

attached hereto as Exhibit 1. The text of the proposed rule change is set forth below.

New language is underlined; deleted language is bracketed.

* * * * *

Nasdaq PHLX Rules

Rules of the Exchange

* * * * *

Nasdaq PSX

* * * * *

[Rule 3215. Reserved.]

Rule 3215. Exchange Sharing of PSX Participant Risk Settings
The Exchange may share any PSX Participant risk settings in the trading system
with the clearing member that clears transactions on behalf of the PSX
Participant. For purposes of this Rule, the term "PSX Participant" has the
meaning set forth in in Rule 3301(c).

Commentary:

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

[2]   17 CFR 240.19b-4.

The Exchange offers certain risk settings applicable to a PSX Participant's activities on the Exchange. The risk settings currently offered by the Exchange include:

(a) Share Size Control - When enabled by a PSX Participant, this optional control will allow a PSX Participant to limit the number of shares that the PSX Participant may associate with an order placed on the Exchange;

(b) ISO Control - When enabled by a PSX Participant, this optional control will prevent a PSX Participant from entering an ISO order onto the Exchange;

(c) Cancel-on-Disconnect Control - When enabled by a PSX Participant, this optional control will allow a PSX Participant, when it experiences a disruption in its connection to the Exchange, to immediately cancel all pending Exchange orders except for those designated for the Opening or Closing Crosses and Good-Till-Canceled orders (RASH & FIX only);

(d) The Phlx Kill Switch – This control is described in Rule 3316;

(e) Limit Order Protection – This control is described in Rule 3307(f);

(f) Price Collar Check – This control will automatically restrict a routed order from executing at a price that differs from the NBBO (at the time of order entry) by more than five percent or $0.25, whichever difference is greater. The system will proceed to route an order unless and until it crosses the greater of these two price collars, and if it does so, then the system will block further routings of the order that fall outside of the collars. For example, if the NBBO is $99 x $100 at the time of entry of a buy order, then the system will execute the order at prices at or below $105, but will stop doing so if the offer price rises above $105 (five percent of the NBBO).

(g) Maximum Order Volume Check – This control will automatically reject an order for routing away that exceeds a maximum volume of shares. As applied to equity orders, the default maximum order volume is set at 25,000 shares, but the PSX Participant may request that the Exchange set a higher default based on historic volume.

(h) Cumulative Order Volume Check – This control will automatically block an attempt by a PSX Participant using a particular MPID to route orders away to buy or sell equity securities that, cumulatively, exceed 9.5 million shares during a five second time period; and

(i) Duplication Control – This control will automatically reject an order that a PSX Participant submits to the Exchange the extent that it is duplicative of another order that the PSX Participant submitted to the Exchange during the prior five seconds.

2.   Procedures of the Self-Regulatory Organization

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

pursuant to authority delegated by the Board of Directors of the Exchange (the "Board")

on September 19, 2017. Exchange staff will advise the Board of any action taken

pursuant to delegated authority. No other action is necessary for the filing of the rule

change.

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

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

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

      a.   Purpose

The Exchange proposes to adopt the proposed commentary to Rule 3215, which

codifies a comprehensive list of PSX Participant risk settings in the Exchange's trading

system. The Exchange also proposes to adopt new Rule 3215 to authorize the Exchange

to share these risk settings with the clearing member that clears transactions on behalf of

the PSX Participant. For purposes of Rule 3215, the term "PSX Participant" has the

meaning set forth in Rule 3301(c).[3]

PSX Participants are required to be members of the Exchange. Rule 3218 states

that "all transactions through the facilities of PSX shall be cleared and settled through a

registered clearing agency using a continuous net settlement system." It further provides

that this requirement may be satisfied by "direct participation, use of direct clearing

services, by entry into a correspondent clearing arrangement with another member

organization that clears trades through such a clearing agency…." Further, pursuant to

Rule 4627, every clearing member acting on a PSX Participant's behalf that constitutes a

side of a system trade is responsible for honoring such trades of that PSX Participant.

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[3]   Rule 3301(c) defines a "PSX Participant" as an entity that fulfills the obligations
       contained in Rule 3211 regarding participation in the System, and includes
       Equities ECNs, PSX Market Makers, and Order Entry Firms.

All PSX Participants that are not clearing members require a clearing member's consent to clear transactions on their behalf in order to conduct business on the Exchange. Each PSX Participant that transacts through a clearing member on the Exchange must have an arrangement between the PSX Participant and the clearing member. The Exchange is provided notice of which clearing members have relationships with which PSX Participants. The clearing member that guarantees the PSX Participant's transactions on the Exchange has a financial interest in understanding the risk tolerance of the PSX Participant. The proposal would provide the Exchange with authority to directly provide clearing members with information that may otherwise be available to such clearing members by virtue of their relationship with the respective PSX Participants.[4]

The proposed commentary to Rule 3215 would codify a list of risk settings that are currently offered by the Exchange and would be covered by proposed Rule 3215. This list is comprehensive with respect to the risk settings that the Exchange presently offers. Certain of these risk settings are mandatory for PSX Participants, meaning that the Exchange either imposes specific risk tolerances that are uniform for all PSX Participants or it sets default risk tolerances, but it affords flexibility to PSX Participants to select their own risk tolerance levels. In certain instances, the Exchange does not require PSX Participants to utilize risk settings, but instead makes them available for use at the option of PSX Participants. The risk settings set forth in the proposed commentary to Rule 3215 comprise the following:

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4   The Exchange notes that its proposal would cover Sponsored Participants, as set forth in Rule 1094, meaning that the proposal would authorize the Exchange to share the risk settings of Sponsored Participants with clearing members that clear trades on their behalf.

- <u>Share Size Control</u> - When enabled by a PSX Participant, this optional control will allow a PSX Participant to limit the number of shares that the PSX Participant may associate with an order placed on the Exchange;

- <u>ISO Control</u> – When enabled by a PSX Participant, this optional control will prevent a PSX Participant from entering an ISO order onto the Exchange;

- <u>Cancel-on-Disconnect Control</u> – When enabled by a PSX Participant, this optional control will allow a PSX Participant, when it experiences a disruption in its connection to the Exchange, to immediately cancel all pending Exchange orders except for those designated for the Opening or Closing Crosses, and Good-Till-Canceled orders (RASH & FIX only);

- <u>The Phlx Kill Switch</u> – This control is described in Rule 3216;

- <u>Limit Order Protection</u> – This control is described in Rule 3307(f);

- <u>Price Collar Check</u> –This control will automatically restrict a routed order from executing at a price that differs from the NBBO (at the time of order entry) by more than five percent or $0.25, whichever difference is greater. The system will proceed to route an order unless and until it crosses the greater of these two price collars, and if it does so, then the system will block further routings of the order that fall outside of the collars. For example, if the NBBO is $99 x $100 at the time of entry of a buy order, then the system will route the order at prices at or below $105, but will stop doing so if the offer price rises above $105 (five percent of the NBO).

- <u>Maximum Order Volume Check</u> – This control will automatically reject an order for routing away that exceeds a maximum volume of shares. As applied to equity orders, the default maximum order volume is set at 25,000 shares,

but the PSX Participant may request that the Exchange set a higher default

based on historic volume.

- Cumulative Order Volume Check – This control will automatically block an
  attempt by a PSX Participant using a particular MPID to route orders away to
  buy or sell equity securities that, cumulatively, exceed 9.5 million shares
  during a five second time period; and

- Duplication Control – This control will automatically reject an order that a
  PSX Participant submits to the Exchange to the extent that it is duplicative of
  another order that the PSX Participant submitted to the Exchange during the
  prior five seconds.

As set forth above, the proposal to authorize the Exchange to share any of the

PSX Participant's risk settings with the clearing member that clears transactions on

behalf of the PSX Participant would be limited to the risk settings specified in the

proposed commentary. The Exchange notes that use by a PSX Participant of the risk

settings offered by the Exchange is optional for share size, ISO, and cancel-on disconnect

controls, and is required in other instances.[5] By using the optional risk settings,

following this proposed Rule change a PSX Participant therefore also opts-in to the

Exchange sharing its risk settings with its clearing member. The Exchange notes that any

PSX Participant that does not wish to share its mandatory risk settings with its clearing

member could avoid sharing such settings by becoming a clearing member.

To the extent that a clearing member might reasonably require a PSX Participant

to provide access to its risk settings as a prerequisite to continuing to clear trades on the

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[5]   As noted above, for the Maximum Order Volume Check, the Exchange sets a
        default order volume but PSX Participants have flexibility to adjust this level.

PSX Participant's behalf, the Exchange's proposal to share those risk settings directly

reduces the administrative burden on PSX Participants and ensures that clearing members

are receiving information that is up-to-date and conforms to the settings active in the

Exchange's trading system. Further, the Exchange believes that the proposal will help

such clearing members to better monitor and manage the potential risks that they assume

when clearing for PSX Participants of the Exchange.

b.   Statutory Basis

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

Act,[6] in general, and furthers the objectives of Section 6(b)(5) of the Act,[7] in particular,

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

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

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

The proposed rule change will allow the Exchange to directly provide a PSX

Participant's risk settings to the clearing member that clears trades on behalf of the PSX

Participant. A clearing member guarantees transactions cleared at PSX for members with

whom it has entered into a clearing arrangement, and therefore bears the risk associated

with those transactions. The Exchange believes that it is appropriate for the clearing

member to have knowledge of what risk settings the PSX Participant may utilize within

the Exchange's trading system. The proposal will permit clearing members who have a

financial interest in the risk settings of PSX Participants with whom the PSX Participants

have entered into clearing arrangements to better monitor and manage the potential risks

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[6]   15 U.S.C. 78f(b).

[7]   15 U.S.C. 78f(b)(5).

assumed by clearing members, thereby providing clearing members with greater control and flexibility over setting their own risk tolerance and exposure and aiding clearing members in complying with the Act. To the extent a clearing member might reasonably require a PSX Participant to provide access to its risk settings as a prerequisite to continuing to clear trades on the PSX Participant's behalf, the Exchange's proposal to share those risk settings directly reduces the administrative burden on PSX Participants and ensures that clearing members are receiving information that is up-to-date and conforms to the settings active in the Exchange's trading system. Moreover, the proposal will foster cooperation and coordination with persons engaged in facilitating transactions in securities and more generally, will protect investors and the public interest, by reducing administrative burden on both clearing members and other PSX Participants and by allowing clearing members to better monitor their risk exposure.

The Exchange further believes that codifying the risk settings described above in the proposed commentary is consistent with the Act. These settings assist PSX Participants in managing and controlling the risks associated with their access to and activity on the Exchange, both for the benefit of PSX Participants and investors. The Exchange's risk settings, moreover, are consistent with risk settings employed by other exchanges, such as Cboe BYX. Although the Exchange presently offers these risk settings, codifying them will provide additional transparency to PSX Participants regarding the risk settings offered by the Exchange. It will also foster cooperation and coordination with persons engaged in facilitating transactions in securities and more generally, will protect investors and the public interest, by providing additional transparency regarding risk settings offered by the Exchange.

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 that is not necessary or appropriate in furtherance of the purposes

of the Act, as amended. Moreover, the proposal to share risk settings with clearing

members will not burden competition among clearing members because it will apply to

all clearing members equally and regardless of size. The Exchange notes that this

proposal will not affect competition among PSX Participants because the proposal

provides for sharing of all of PSX Participants' risk settings set forth in the commentary

to Rule 3215. Any PSX Participant that does not wish to share its risk settings with its

clearing member could avoid sharing such settings by becoming a clearing member.

Lastly, the proposal to codify the Exchange's risk settings will not burden competition

among PSX Participants because the risk settings are already available to or required of

PSX Participants and will continue to be available or required of all PSX Participants

going forward.

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

Written comments were neither solicited nor received.

6.   Extension of Time Period for Commission Action

Not applicable.

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

The foregoing rule change has become effective pursuant to Section

19(b)(3)(A)(iii)[8] of the Act and Rule 19b-4(f)(6) thereunder[9] in that it effects a change

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[8]   15 U.S.C. 78s(b)(3)(A)(iii).

[9]   17 CFR 240.19b-4(f)(6).

that: (i) does not significantly affect the protection of investors or the public interest; (ii)

does not impose any significant burden on competition; and (iii) by its terms, does not

become operative for 30 days after the date of the filing, or such shorter time as the

Commission may designate if consistent with the protection of investors and the public

interest.

Phlx believes that the proposed rule change does not significantly affect the

protection of investors or the public interest and does not impose any significant burden

on competition. The Exchange notes that the proposed risk settings are substantially

similar to those offered by Cboe BYX.[10] Moreover, the proposal to share these risk

settings is substantially similar to a rule that Cboe BYX recently adopted.[11] It also

mirrors an existing rule applicable to the Exchange's options market. Rule 1016

authorizes the Exchange to share any Phlx XL Participant risk settings in the trading

system with the clearing member that clears the transactions on behalf of the Phlx XL

Participant. The proposed Rule 3215 will merely apply to the Exchange's equities

market the same information sharing authority that exists in its options market.

In addition, the proposed rule change does not significantly affect the protection

of investors or the public interest because the proposal will permit clearing members,

who have a financial interest in the risk settings of PSX Participants to better monitor and

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[10]   See Cboe BYX Rule 11.13, Interpretations and Policies .01.

[11]   See Securities Exchange Act Release No. 34-80612 (May 5, 2017), 82 FR 22024
         (May 11, 2017) (SR-BatsBYX-2017-07). The Exchange notes that unlike Cboe
         BYX, certain of its proposed risk settings will be mandatory. Therefore, a PSX
         Participant may avoid sharing such mandatory risk settings only by becoming a
         clearing member.

manage the potential risks assumed by PSX Participants, thereby aiding clearing

members in complying with the Act.

Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give

the Commission written notice of its intent to file a proposed rule change under that

subsection at least five business days prior to the date of filing, or such shorter time as

designated by the Commission. The Exchange has provided such notice.

At any time within 60 days of the filing of the proposed rule change, the

Commission summarily may temporarily suspend such rule change if it appears to the

Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for

the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If

the Commission takes such action, the Commission shall institute proceedings to

determine whether the proposed rule should be approved or disapproved.

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

The proposed rule change is based on PHLX Rule 1016 and Cboe BYX Rule

11.13, Interpretation and Policy .01, and Rule 11.15.   However, the risk settings that the

Exchange proposes to designate for sharing with clearing members differs from those risk

settings that Cboe BYX has designated for sharing in its rules in that all of the Cboe BYX

risk settings are optional, whereas certain of the Exchange's proposed risk settings are

optional and others are mandatory. Thus, whereas Cboe BYX participants may avoid

sharing their risk settings with clearing members altogether by either becoming clearing

members themselves or by declining to use risk settings, PSX Participants may only

avoid sharing mandatory risk settings by becoming clearing members.

9.   Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

        Not applicable.

10.   Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and
        Settlement Supervision Act

        Not applicable.

11.   Exhibits

        1. Notice of Proposed Rule Change for publication in the Federal Register.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No.   ; File No. SR-Phlx-2018-03)

January__, 2018

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate
Effectiveness of Proposed Rule Change to Add a New Rule 3215 and Commentary
Thereto to Codify PSX Participant Risk Settings in PSX and to Authorize the Exchange
to Share those Settings with the Clearing Member that Clears Transactions on behalf of
the PSX Participant.

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 January 3, 2018, Nasdaq PHLX

LLC ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC"

or "Commission") the proposed rule change as described in Items I, II, and III, below,

which Items have been prepared by the Exchange. The Commission is publishing this

notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to add a new Rule 3215 and commentary thereto to

codify PSX Participant risk settings in PSX and to authorize the Exchange to share those

settings with the clearing member that clears transactions on behalf of the PSX

Participant.

The text of the proposed rule change is set forth below. Proposed new language is

underlined; deleted text is in brackets.

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Nasdaq PHLX Rules

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

[2]   17 CFR 240.19b-4.

Rules of the Exchange

* * * * *

Nasdaq PSX

* * * * *

[Rule 3215. Reserved.]

Rule 3215. Exchange Sharing of PSX Participant Risk Settings

The Exchange may share any PSX Participant risk settings in the trading system

with the clearing member that clears transactions on behalf of the PSX

Participant. For purposes of this Rule, the term "PSX Participant" has the

meaning set forth in in Rule 3301(c).

Commentary:

The Exchange offers certain risk settings applicable to a PSX Participant's

activities on the Exchange. The risk settings currently offered by the Exchange

include:

(a) Share Size Control - When enabled by a PSX Participant, this optional control

     will allow a PSX Participant to limit the number of shares that the PSX

     Participant may associate with an order placed on the Exchange;

(b) ISO Control - When enabled by a PSX Participant, this optional control will

     prevent a PSX Participant from entering an ISO order onto the Exchange;

(c) Cancel-on-Disconnect Control - When enabled by a PSX Participant, this

     optional control will allow a PSX Participant, when it experiences a disruption

in its connection to the Exchange, to immediately cancel all pending

Exchange orders except for those designated for the Opening or Closing

Crosses and Good-Till-Canceled orders (RASH & FIX only);

(d) The Phlx Kill Switch – This control is described in Rule 3316;

(e) Limit Order Protection – This control is described in Rule 3307(f);

(f) Price Collar Check – This control will automatically restrict a routed order

from executing at a price that differs from the NBBO (at the time of order

entry) by more than five percent or $0.25, whichever difference is

greater. The system will proceed to route an order unless and until it crosses

the greater of these two price collars, and if it does so, then the system will

block further routings of the order that fall outside of the collars. For

example, if the NBBO is $99 x $100 at the time of entry of a buy order, then

the system will execute the order at prices at or below $105, but will stop

doing so if the offer price rises above $105 (five percent of the NBBO).

(g) Maximum Order Volume Check – This control will automatically reject an

order for routing away that exceeds a maximum volume of shares. As applied

to equity orders, the default maximum order volume is set at 25,000 shares,

but the PSX Participant may request that the Exchange set a higher default

based on historic volume.

(h) Cumulative Order Volume Check – This control will automatically block an

attempt by a PSX Participant using a particular MPID to route orders away to

buy or sell equity securities that, cumulatively, exceed 9.5 million shares

during a five second time period; and

(i) <u>Duplication Control – This control will automatically reject an order that a
PSX Participant submits to the Exchange the extent that it is duplicative of
another order that the PSX Participant submitted to the Exchange during the
prior five seconds.</u>

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

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.   <u>Self-Regulatory Organization's Statement of the Purpose of, and Statutory
Basis for, the Proposed Rule Change</u>

1.   <u>Purpose</u>

The Exchange proposes to adopt the proposed commentary to Rule 3215, which

codifies a comprehensive list of PSX Participant risk settings in the Exchange's trading

system. The Exchange also proposes to adopt new Rule 3215 to authorize the Exchange

to share these risk settings with the clearing member that clears transactions on behalf of

the PSX Participant. For purposes of Rule 3215, the term "PSX Participant" has the

meaning set forth in Rule 3301(c).[3]

PSX Participants are required to be members of the Exchange. Rule 3218 states

that "all transactions through the facilities of PSX shall be cleared and settled through a

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[3]   Rule 3301(c) defines a "PSX Participant" as an entity that fulfills the obligations
contained in Rule 3211 regarding participation in the System, and includes Equities
ECNs, PSX Market Makers, and Order Entry Firms.

registered clearing agency using a continuous net settlement system." It further provides that this requirement may be satisfied by "direct participation, use of direct clearing services, by entry into a correspondent clearing arrangement with another member organization that clears trades through such a clearing agency…." Further, pursuant to Rule 4627, every clearing member acting on a PSX Participant's behalf that constitutes a side of a system trade is responsible for honoring such trades of that PSX Participant.

All PSX Participants that are not clearing members require a clearing member's consent to clear transactions on their behalf in order to conduct business on the Exchange. Each PSX Participant that transacts through a clearing member on the Exchange must have an arrangement between the PSX Participant and the clearing member. The Exchange is provided notice of which clearing members have relationships with which PSX Participants. The clearing member that guarantees the PSX Participant's transactions on the Exchange has a financial interest in understanding the risk tolerance of the PSX Participant. The proposal would provide the Exchange with authority to directly provide clearing members with information that may otherwise be available to such clearing members by virtue of their relationship with the respective PSX Participants.[4]

The proposed commentary to Rule 3215 would codify a list of risk settings that are currently offered by the Exchange and would be covered by proposed Rule 3215. This list is comprehensive with respect to the risk settings that the Exchange presently offers. Certain of these risk settings are mandatory for PSX Participants, meaning that

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[4]   The Exchange notes that its proposal would cover Sponsored Participants, as set forth in Rule 1094, meaning that the proposal would authorize the Exchange to share the risk settings of Sponsored Participants with clearing members that clear trades on their behalf.

the Exchange either imposes specific risk tolerances that are uniform for all PSX

Participants or it sets default risk tolerances, but it affords flexibility to PSX Participants

to select their own risk tolerance levels. In certain instances, the Exchange does not

require PSX Participants to utilize risk settings, but instead makes them available for use

at the option of PSX Participants. The risk settings set forth in the proposed commentary

to Rule 3215 comprise the following:

- Share Size Control – When enabled by a PSX Participant, this optional control
  will allow a PSX Participant to limit the number of shares that the PSX
  Participant may associate with an order placed on the Exchange;

- ISO Control – When enabled by a PSX Participant, this optional control will
  prevent a PSX Participant from entering an ISO order onto the Exchange;

- Cancel-on-Disconnect Control - When enabled by a PSX Participant, this
  optional control will allow a PSX Participant, when it experiences a disruption
  in its connection to the Exchange, to immediately cancel all pending
  Exchange orders except for those designated for the Opening or Closing
  Crosses, and Good-Till-Canceled orders (RASH & FIX only);

- The Phlx Kill Switch – This control is described in Rule 3216;

- Limit Order Protection – This control is described in Rule 3307(f);

- Price Collar Check –This control will automatically restrict a routed order
  from executing at a price that differs from the NBBO (at the time of order
  entry) by more than five percent or $0.25, whichever difference is
  greater. The system will proceed to route an order unless and until it crosses
  the greater of these two price collars, and if it does so, then the system will

block further routings of the order that fall outside of the collars. For

example, if the NBBO is $99 x $100 at the time of entry of a buy order, then

the system will route the order at prices at or below $105, but will stop doing

so if the offer price rises above $105 (five percent of the NBO).

- Maximum Order Volume Check – This control will automatically reject an

  order for routing away that exceeds a maximum volume of shares. As applied

  to equity orders, the default maximum order volume is set at 25,000 shares,

  but the PSX Participant may request that the Exchange set a higher default

  based on historic volume.

- Cumulative Order Volume Check – This control will automatically block an

  attempt by a PSX Participant using a particular MPID to route orders away to

  buy or sell equity securities that, cumulatively, exceed 9.5 million shares

  during a five second time period; and

- Duplication Control – This control will automatically reject an order that a

  PSX Participant submits to the Exchange to the extent that it is duplicative of

  another order that the PSX Participant submitted to the Exchange during the

  prior five seconds.

As set forth above, the proposal to authorize the Exchange to share any of the

PSX Participant's risk settings with the clearing member that clears transactions on

behalf of the PSX Participant would be limited to the risk settings specified in the

proposed commentary. The Exchange notes that use by a PSX Participant of the risk

settings offered by the Exchange is optional for share size, ISO, and cancel-on disconnect

controls, and is required in other instances.[5] By using the optional risk settings,

following this proposed Rule change a PSX Participant therefore also opts-in to the

Exchange sharing its risk settings with its clearing member. The Exchange notes that any

PSX Participant that does not wish to share its mandatory risk settings with its clearing

member could avoid sharing such settings by becoming a clearing member.

To the extent that a clearing member might reasonably require a PSX Participant

to provide access to its risk settings as a prerequisite to continuing to clear trades on the

PSX Participant's behalf, the Exchange's proposal to share those risk settings directly

reduces the administrative burden on PSX Participants and ensures that clearing members

are receiving information that is up-to-date and conforms to the settings active in the

Exchange's trading system. Further, the Exchange believes that the proposal will help

such clearing members to better monitor and manage the potential risks that they assume

when clearing for PSX Participants of the Exchange.

2.   Statutory Basis

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

Act,[6] in general, and furthers the objectives of Section 6(b)(5) of the Act,[7] in particular,

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

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

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

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[5]   As noted above, for the Maximum Order Volume Check, the Exchange sets a default
order volume but PSX Participants have flexibility to adjust this level.

[6]   15 U.S.C. 78f(b).

[7]   15 U.S.C. 78f(b)(5).

The proposed rule change will allow the Exchange to directly provide a PSX Participant's risk settings to the clearing member that clears trades on behalf of the PSX Participant. A clearing member guarantees transactions cleared at PSX for members with whom it has entered into a clearing arrangement, and therefore bears the risk associated with those transactions. The Exchange believes that it is appropriate for the clearing member to have knowledge of what risk settings the PSX Participant may utilize within the Exchange's trading system. The proposal will permit clearing members who have a financial interest in the risk settings of PSX Participants with whom the PSX Participants have entered into clearing arrangements to better monitor and manage the potential risks assumed by clearing members, thereby providing clearing members with greater control and flexibility over setting their own risk tolerance and exposure and aiding clearing members in complying with the Act. To the extent a clearing member might reasonably require a PSX Participant to provide access to its risk settings as a prerequisite to continuing to clear trades on the PSX Participant's behalf, the Exchange's proposal to share those risk settings directly reduces the administrative burden on PSX Participants and ensures that clearing members are receiving information that is up-to-date and conforms to the settings active in the Exchange's trading system. Moreover, the proposal will foster cooperation and coordination with persons engaged in facilitating transactions in securities and more generally, will protect investors and the public interest, by reducing administrative burden on both clearing members and other PSX Participants and by allowing clearing members to better monitor their risk exposure.

The Exchange further believes that codifying the risk settings described above in the proposed commentary is consistent with the Act. These settings assist PSX

Participants in managing and controlling the risks associated with their access to and

activity on the Exchange, both for the benefit of PSX Participants and investors. The

Exchange's risk settings, moreover, are consistent with risk settings employed by other

exchanges, such as Cboe BYX. Although the Exchange presently offers these risk

settings, codifying them will provide additional transparency to PSX Participants

regarding the risk settings offered by the Exchange. It will also foster cooperation and

coordination with persons engaged in facilitating transactions in securities and more

generally, will protect investors and the public interest, by providing additional

transparency regarding risk settings offered by the Exchange.

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 that is not necessary or appropriate in furtherance of the purposes

of the Act, as amended. Moreover, the proposal to share risk settings with clearing

members will not burden competition among clearing members because it will apply to

all clearing members equally and regardless of size. The Exchange notes that this

proposal will not affect competition among PSX Participants because the proposal

provides for sharing of all of PSX Participants' risk settings set forth in the commentary

to Rule 3215. Any PSX Participant that does not wish to share its risk settings with its

clearing member could avoid sharing such settings by becoming a clearing member.

Lastly, the proposal to codify the Exchange's risk settings will not burden competition

among PSX Participants because the risk settings are already available to or required of

PSX Participants and will continue to be available or required of all PSX Participants

going forward.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the

protection of investors or the public interest; (ii) impose any significant burden on

competition; and (iii) become operative for 30 days from the date on which it was filed,

or such shorter time as the Commission may designate, it has become effective pursuant

to Section 19(b)(3)(A)(iii) of the Act[8] and subparagraph (f)(6) of Rule 19b-4 thereunder.[9]

At any time within 60 days of the filing of the proposed rule change, the

Commission summarily may temporarily suspend such rule change if it appears to the

Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for

the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If

the Commission takes such action, the Commission shall institute proceedings to

determine whether the proposed rule should be approved or disapproved.

IV.   Solicitation of Comments

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

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

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

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[8]   15 U.S.C. 78s(b)(3)(A)(iii).

[9]   17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory
        organization to give the Commission written notice of its intent to file the
        proposed rule change at least five business days prior to the date of filing of the
        proposed rule change, or such shorter time as designated by the Commission. The
        Exchange has satisfied this requirement.

Electronic comments:

- Use the Commission's Internet comment form

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

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

  Phlx-2018-03 on the subject line.

  Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange

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

All submissions should refer to File Number SR-Phlx-2018-03. This file number

should be included on the subject line if e-mail is used. To help the Commission process

and review your comments more efficiently, please use only one method. The

Commission will post all comments on the Commission's Internet Web site

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

Copies of the submission, all subsequent amendments, all written statements with

respect to the proposed rule change that are filed with the Commission, and all written

communications relating to the proposed rule change between the Commission and any

person, other than those that may be withheld from the public in accordance with the

provisions of 5 U.S.C. 552, will be available for website viewing and printing in the

Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on

official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing

also will be available for inspection and copying at the principal office of the Exchange.

All comments received will be posted without change; the Commission does not edit

personal identifying information from submissions. You should submit only information

that you wish to make available publicly.

All submissions should refer to File Number SR-Phlx-2018-03 and should be submitted on or before [insert date 21 days from publication in the <u>Federal Register</u>].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[10]

> Eduardo A. Aleman
> Assistant Secretary

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[10]   17 CFR 200.30-3(a)(12).