

Required fields are shown with yellow backgrounds and asterisks.

Filing by Nasdaq PHLX LLC  
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input type="checkbox"/>	Amendment * <input checked="" type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule		
			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
	Section 3C(b)(2) * <input type="checkbox"/>

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

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

Proposal to adopt new order type protections, Butterfly and Box Spread protections, for Complex Order strategy trades.

**Contact Information**

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

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

**Signature**

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

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

(Title \*)  
 Executive Vice President and General Counsel

Date 02/21/2018  
 By Edward S. Knight  
 (Name \*)

edward.knight@nasdaq.com

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

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information \***

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

**Exhibit 1 - Notice of Proposed Rule Change \***

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

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

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

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

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Exhibit Sent As Paper Document

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

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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

**Partial Amendment**

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

1. Text of the Proposed Rule Change

(a) Nasdaq PHLX LLC (“Phlx” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to adopt new order type protections, Butterfly and Box Spread protections, for Complex Order<sup>3</sup> strategy trades. This rule change replaces and supersedes SR-Phlx-2018-14.

A notice of the proposed rule change for publication in the Federal Register is at Exhibit 1 and the text of the amended Exchange Rule is at Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Directors of the Exchange on January 22, 2018. No other action is necessary for the filing of the rule change.

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

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

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

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

<sup>3</sup> A Complex Order is an order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, priced as a net debit or credit based on the relative prices of the individual components, for the same account, for the purpose of executing a particular investment strategy. See Phlx Rule 1098(a)(i).

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

a. Purpose

The purpose of the proposed rule change is to adopt Complex Order protections for butterfly and box spreads, which are Complex Order strategies. Today, Phlx members may submit butterfly and box spreads into the Phlx System. Phlx proposes to define a butterfly spread as a three legged Complex Order with certain characteristics.<sup>4</sup> The Exchange is proposing to reject butterfly spreads which are outside of certain parameters to avoid potential executions at prices that exceed the minimum and maximum possible intrinsic value of the spread by a specified amount. Additionally, Phlx proposes to define a box spread as a four legged Complex Order with certain characteristics.<sup>5</sup> The Exchange is proposing to reject box spreads which are outside of certain parameters to avoid potential executions at prices that exceed the minimum and maximum possible intrinsic value of the spread by a specified amount. Today, the Exchange offers similar order protection features for Complex Orders such as Strategy Price Protection<sup>6</sup> and Acceptable Complex Execution<sup>7</sup> to avoid erroneous trades. Each protection will be discussed in more detail below.

Butterfly Spread Protection

As noted above, the Exchange proposes to adopt a Butterfly Spread Protection. A

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<sup>4</sup> This strategy utilizes a combination of either all calls or all puts of the same expiration date in the same underlying to limit risk.

<sup>5</sup> This strategy utilizes a combination of put/call pairs of options with the same expiration date in the same underlying to limit risk.

<sup>6</sup> See Phlx Rule 1098(g).

<sup>7</sup> See Phlx Rule 1098(h)(i).

butterfly spread is a three legged Complex Order with the following: (1) two legs to buy (sell) the same number of calls (puts); (2) one leg to sell (buy) twice the number of calls (puts) with a strike price at mid-point of the two legs to buy (sell); (3) all legs have the same expiration; and (4) each leg strike price is equidistant from the next sequential strike price. With this protection, a Complex Order, including auction and auction responses, that is priced higher than the Maximum Value (defined below) or lower than the Minimum Value (defined below) will be cancelled. A Complex Market Order will be accepted, but will be restricted from trading at a price higher than the Maximum Value or lower than the Minimum Value.

The Initial Maximum Value shall be the distance between the leg with the mid-point strike price and either of the outer leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to members. The Exchange intends to set the Maximum Value Buffer at zero initially. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

The Initial Minimum Value shall be zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Exchange intends to set the Minimum Value Buffer at zero initially. The Exchange would monitor the zero value, including feedback from market participants, in determining whether the value is set at the appropriate level. The concern would set from market participants who are unable to close out positions. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero. There are circumstances where the Minimum Value Buffer may be less than zero.

For example, market participants who desire to trade out of positions at intrinsic value may not find a contra-side willing to trade without a premium. A small incremental allowance outside of the minimum/maximum value allows for a small premium to offset commissions associated with trading and may incentivize participants to take the other side of spreads trading at intrinsic value. For the participant looking to close out their position, it may be financially beneficial to pay a small premium and close out the position rather than carry such position to expiration and take delivery. The Butterfly Spread Protection would apply throughout the trading day, including pre-market, during the Opening Process and during Halts. Below is an example of the application of this protection.

#### Example 1

Assume the following Complex Order legs for a butterfly spread:

1. Buy 1 NDX 6960 Jan 26 Call (33.70 x 34.60)
2. Sell 2 NDX 6970 Jan 26 Calls (27.00 x 27.90)
3. Buy 1 NDX 6980 Jan 26 Call (28.40 x 29.50)

The derived net Phlx complex market (“cPBBO”) is 6.30 x 10.10

Assume both the Maximum Value Buffer and Minimum Value Buffer are 0

Minimum Value = 0

- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.00
- Minimum Value: 0.00 – 0.00 = 0.00

Maximum Value = 10

- Initial Maximum Value: 6970 (middle leg strike price) – 6960 (outer leg strike price) = 10.00
- Maximum Value Buffer: 0.00
- Maximum Value: 10.00 (Initial Maximum Value) + 0.00 (Maximum Value Buffer) = 10.00

An incoming order to buy the spread defined above for 10.10 will be cancelled because the purchase price of 10.10 is greater than the Maximum Value of 10.00.

### Example 2

Assume the following Complex Order legs for a butterfly spread:

1. Buy 1 NDX 6960 Jan 26 Call (33.70 x 34.60)
2. Sell 2 NDX 6970 Jan 26 Calls (27.00 x 27.90)
3. Buy 1 NDX 6980 Jan 26 Call (28.40 x 29.45)

The derived net Phlx complex market (“cPBBO”) is 6.30 x 10.05

Assume both the Maximum Value Buffer and Minimum Value Buffer are 0.05

Minimum Value = -0.05

- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.05
- Minimum Value:  $0.00 - 0.05 = -0.05$

Maximum Value = 10.05

- Initial Maximum Value:  $6970$  (middle leg strike price) –  $6960$  (outer leg strike price) =  $10.00$
- Maximum Value Buffer: 0.05
- Maximum Value:  $10.00$  (Initial Maximum Value) +  $0.05$  (Maximum Value Buffer) =  $10.05$

An incoming order to buy the spread defined above for 10.05 will be accepted and executed against the simple market because the purchase price of 10.05 is equal to the Maximum Value 10.05.

### Box Spread Protection

As noted above, the Exchange proposes to adopt a Box Spread Protection. A box spread is a four legged Complex Order with the following: (1) one pair of legs with the same strike price with one leg to buy a call (put) and one leg to sell a put (call); (2) a second pair of legs with a different strike price from the pair described in (1) with one leg to sell a call (put) and one leg to buy a put (call); (3) all legs have the same expiration; and (4) all legs have equal volume. With this protection, Complex Orders, including auction and auction responses that are priced higher than the Maximum Value or lower

than the Minimum Value, will be cancelled. A Complex Market Order will be accepted but will be restricted from trading at a price higher than the Maximum Value or lower than the Minimum Value.

The Initial Maximum Value shall be the distance between the strike prices of each pair of leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to members. The Exchange intends to set the Maximum Value Buffer at zero initially. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

The Initial Minimum Value shall be zero. The Initial Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Exchange intends to set the Minimum Value Buffer at zero initially. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

The Box Spread Protection would apply throughout the trading day, including pre-market, during the Opening Process and during Halts. Below is an example of the application of this protection.

#### Example 1

Assume the following Complex Order pairs for a box spread:

1. Pair A:
  - a. Buy 1 NDX 6960 Jan 26 Call (30.80 x 34.05)
  - b. Sell 1 NDX 6960 Jan 26 Put (33.50 x 36.00)
2. Pair B:
  - a. Sell 1 NDX 6970 Jan 26 Call (27.50 x 29.00)
  - b. Buy 1 NDX 6970 Jan 26 Put (36.40 x 37.05)

The derived net Phlx complex market (“cPBBO”) is 2.20 x 10.10



Assume both Maximum Value Buffer and Minimum Value Buffer are 0.00

Minimum Value = 0.00

- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.00
- Minimum Value:  $0.00 - 0.00 = 0.00$

Maximum Value = 10.00

- Initial Maximum Value:  $6970$  (Pair A strike price) –  $6960$  (Pair B strike price) =  $10.00$
- Maximum Value Buffer: 0.00
- Maximum Value:  $10.00$  (Initial Maximum Value) +  $0.00$  (Maximum Value Buffer) =  $10.00$

An incoming order to buy the spread defined above for 10.10 will be cancelled because the purchase price of 10.10 is greater than the Maximum Value of 10.00.

### Example 2

Assume the following Complex Order pairs for a box spread:

1. Pair A:
  - a. Buy 1 NDX 6960 Jan 26 Call (30.80 x 34.05)
  - b. Sell 1 NDX 6960 Jan 26 Put (33.50 x 36.50)
2. Pair B
  - a. Sell 1 NDX 6970 Jan 26 Call (27.50 x 30.75)
  - b. Buy 1 NDX 6970 Jan 26 Put (36.40 x 37.05)

The derived net Phlx complex market (“cPBBO”) is  $-0.05 \times 10.10$

Assume both Maximum Value Buffer and Minimum Value Buffer are 0.05

Minimum Value = -0.05

- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.05
- Minimum Value:  $0.00 - 0.05 = -0.05$

Maximum Value = 10.05

- Initial Maximum Value:  $6970$  (Pair A strike price) –  $6960$  (Pair B strike price) =  $10.00$
- Maximum Value Buffer: 0.05
- Maximum Value:  $10.00$  (Initial Maximum Value) +  $0.05$  (Maximum Value Buffer) =  $10.05$

An incoming order to sell the spread defined above for -0.05 will be accepted and executed against the simple market because the purchase price of -0.05 is equal than the Minimum Value of -0.05.

#### Implementation

The Exchange would implement these new protections no later than August 30, 2018. The Exchange would notify members of the exact implementation date by issuing a notice to members.

#### b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>8</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>9</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by offering protections for certain Complex Orders which restrict executions that exceed the intrinsic value of the spread by a specified (or configurable) amount. Further, the Exchange believes that its proposal will mitigate risks to market participants. Specifically, Phlx believes that the change, which is responsive to member input, will facilitate transactions in securities and perfect the mechanism of a free and open market by providing its members with additional functionality that will assist them with managing their risk by checking each Complex Order that is either a butterfly or box spread against certain parameters described within the filing before accepting the Complex Orders into the

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

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

order book.

The Exchange believes that the parameters described herein, including parameters which will be configured by the Exchange, will protect members from executing orders too far outside the Minimum Value and Maximum Value which considers the intrinsic value of the strategy, thereby promoting fair and orderly markets and the protection of investors. The Exchange intends to offer a buffer allowance from the minimum/maximum values permitted for the execution of these strategy orders to allow market participants flexibility to manage their business and accommodate executions outside of this range. The Exchange would monitor the zero value, including feedback from market participants, in determining whether the value is set at the appropriate level. The concern would set from market participants who are unable to close out positions. There are circumstances where the Minimum Value Buffer may be less than zero. For example, market participants who desire to trade out of positions at intrinsic value may not find a contra-side willing to trade without a premium. A small incremental allowance outside of the minimum/maximum value allows for a small premium to offset commissions associated with trading and may incentivize participants to take the other side of spreads trading at intrinsic value. For the participant looking to close out their position, it may be financially beneficial to pay a small premium and close out the position rather than carry such position to expiration and take delivery. The purpose of this rule change is not to impede current order handling but to ensure execution prices are within a reasonable range of minimum and maximum values. These parameters are consistent with order protection features for Strategy Price Protection in that Strategy

Price Protection offers a buffer allowance from the permitted values.<sup>10</sup>

4. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the proposal does not impose an intra-market burden on competition, because it will apply to all Complex Orders which are either butterfly or box spreads entered by any Phlx member. Further, the proposal will not impose an undue burden on inter-market competition, rather the proposal will assist the Exchange in remaining competitive in light of protections offered by other options exchanges.<sup>11</sup> The Exchange competes with many other options exchanges which offer Complex Orders. In this highly competitive market, market participants can easily and readily direct order flow to competing venues.

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.

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<sup>10</sup> See Phlx Rule 1098(g).

<sup>11</sup> See CBOE Rule 6.53C, *Interpretations and Policies* .08.

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

Not applicable.

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

Not applicable.

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

Not applicable.

11. Exhibits

1. Notice of Proposed Rule Change for publication in the Federal Register.
5. Text of the proposed rule change.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-Phlx-2018-14)

February \_\_, 2018

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing of Proposed Rule Change to Adopt New Order Type Protections, Butterfly and Box Spread Protections for Complex Order Strategy Trades

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on February 21, 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 adopt new order type protections, Butterfly and Box Spread protections, for Complex Order<sup>3</sup> strategy trades. This rule change replaces and supersedes SR-Phlx-2018-14.

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

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

<sup>3</sup> A Complex Order is an order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, priced as a net debit or credit based on the relative prices of the individual components, for the same account, for the purpose of executing a particular investment strategy. See Phlx Rule 1098(a)(i).

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

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

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

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

1. Purpose

The purpose of the proposed rule change is to adopt Complex Order protections for butterfly and box spreads, which are Complex Order strategies. Today, Phlx members may submit butterfly and box spreads into the Phlx System. Phlx proposes to define a butterfly spread as a three legged Complex Order with certain characteristics.<sup>4</sup> The Exchange is proposing to reject butterfly spreads which are outside of certain parameters to avoid potential executions at prices that exceed the minimum and maximum possible intrinsic value of the spread by a specified amount. Additionally, Phlx proposes to define a box spread as a four legged Complex Order with certain

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<sup>4</sup> This strategy utilizes a combination of either all calls or all puts of the same expiration date in the same underlying to limit risk.

characteristics.<sup>5</sup> The Exchange is proposing to reject box spreads which are outside of certain parameters to avoid potential executions at prices that exceed the minimum and maximum possible intrinsic value of the spread by a specified amount. Today, the Exchange offers similar order protection features for Complex Orders such as Strategy Price Protection<sup>6</sup> and Acceptable Complex Execution<sup>7</sup> to avoid erroneous trades. Each protection will be discussed in more detail below.

#### Butterfly Spread Protection

As noted above, the Exchange proposes to adopt a Butterfly Spread Protection. A butterfly spread is a three legged Complex Order with the following: (1) two legs to buy (sell) the same number of calls (puts); (2) one leg to sell (buy) twice the number of calls (puts) with a strike price at mid-point of the two legs to buy (sell); (3) all legs have the same expiration; and (4) each leg strike price is equidistant from the next sequential strike price. With this protection, a Complex Order, including auction and auction responses, that is priced higher than the Maximum Value (defined below) or lower than the Minimum Value (defined below) will be cancelled. A Complex Market Order will be accepted, but will be restricted from trading at a price higher than the Maximum Value or lower than the Minimum Value.

The Initial Maximum Value shall be the distance between the leg with the mid-point strike price and either of the outer leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum

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<sup>5</sup> This strategy utilizes a combination of put/call pairs of options with the same expiration date in the same underlying to limit risk.

<sup>6</sup> See Phlx Rule 1098(g).

<sup>7</sup> See Phlx Rule 1098(h)(i).



Value set by the Exchange and announced via a notice to members. The Exchange intends to set the Maximum Value Buffer at zero initially. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

The Initial Minimum Value shall be zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Exchange intends to set the Minimum Value Buffer at zero initially. The Exchange would monitor the zero value, including feedback from market participants, in determining whether the value is set at the appropriate level. The concern would set from market participants who are unable to close out positions. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero. There are circumstances where the Minimum Value Buffer may be less than zero. For example, market participants who desire to trade out of positions at intrinsic value may not find a contra-side willing to trade without a premium. A small incremental allowance outside of the minimum/maximum value allows for a small premium to offset commissions associated with trading and may incentivize participants to take the other side of spreads trading at intrinsic value. For the participant looking to close out their position, it may be financially beneficial to pay a small premium and close out the position rather than carry such position to expiration and take delivery. The Butterfly Spread Protection would apply throughout the trading day, including pre-market, during the Opening Process and during Halts. Below is an example of the application of this protection.

#### Example 1

Assume the following Complex Order legs for a butterfly spread:

1. Buy 1 NDX 6960 Jan 26 Call (33.70 x 34.60)
2. Sell 2 NDX 6970 Jan 26 Calls (27.00 x 27.90)
3. Buy 1 NDX 6980 Jan 26 Call (28.40 x 29.50)

The derived net Phlx complex market (“cPBBO”) is 6.30 x 10.10

Assume both the Maximum Value Buffer and Minimum Value Buffer are 0

Minimum Value = 0

- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.00
- Minimum Value:  $0.00 - 0.00 = 0.00$

Maximum Value = 10

- Initial Maximum Value:  $6970$  (middle leg strike price) –  $6960$  (outer leg strike price)  
= 10.00
- Maximum Value Buffer: 0.00
- Maximum Value:  $10.00$  (Initial Maximum Value) +  $0.00$  (Maximum Value Buffer) =  
10.00

An incoming order to buy the spread defined above for 10.10 will be cancelled because the purchase price of 10.10 is greater than the Maximum Value of 10.00.

### Example 2

Assume the following Complex Order legs for a butterfly spread:

1. Buy 1 NDX 6960 Jan 26 Call (33.70 x 34.60)
2. Sell 2 NDX 6970 Jan 26 Calls (27.00 x 27.90)
3. Buy 1 NDX 6980 Jan 26 Call (28.40 x 29.45)

The derived net Phlx complex market (“cPBBO”) is 6.30 x 10.05

Assume both the Maximum Value Buffer and Minimum Value Buffer are 0.05

Minimum Value = -0.05

- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.05
- Minimum Value:  $0.00 - 0.05 = -0.05$

Maximum Value = 10.05

- Initial Maximum Value:  $6970$  (middle leg strike price) –  $6960$  (outer leg strike price) =  $10.00$
- Maximum Value Buffer: 0.05
- Maximum Value:  $10.00$  (Initial Maximum Value) +  $0.05$  (Maximum Value Buffer) =  $10.05$

An incoming order to buy the spread defined above for 10.05 will be accepted and executed against the simple market because the purchase price of 10.05 is equal to the Maximum Value 10.05.

#### Box Spread Protection

As noted above, the Exchange proposes to adopt a Box Spread Protection. A box spread is a four legged Complex Order with the following: (1) one pair of legs with the same strike price with one leg to buy a call (put) and one leg to sell a put (call); (2) a second pair of legs with a different strike price from the pair described in (1) with one leg to sell a call (put) and one leg to buy a put (call); (3) all legs have the same expiration; and (4) all legs have equal volume. With this protection, Complex Orders, including auction and auction responses that are priced higher than the Maximum Value or lower than the Minimum Value, will be cancelled. A Complex Market Order will be accepted

but will be restricted from trading at a price higher than the Maximum Value or lower than the Minimum Value.

The Initial Maximum Value shall be the distance between the strike prices of each pair of leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to members. The Exchange intends to set the Maximum Value Buffer at zero initially. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

The Initial Minimum Value shall be zero. The Initial Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Exchange intends to set the Minimum Value Buffer at zero initially. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

The Box Spread Protection would apply throughout the trading day, including pre-market, during the Opening Process and during Halts. Below is an example of the application of this protection.

Example 1

Assume the following Complex Order pairs for a box spread:

1. Pair A:
  - a. Buy 1 NDX 6960 Jan 26 Call (30.80 x 34.05)
  - b. Sell 1 NDX 6960 Jan 26 Put (33.50 x 36.00)
2. Pair B
  - a. Sell 1 NDX 6970 Jan 26 Call (27.50 x 29.00)

b. Buy 1 NDX 6970 Jan 26 Put (36.40 x 37.05)

The derived net Phlx complex market (“cPBBO”) is 2.20 x 10.10

Assume both Maximum Value Buffer and Minimum Value Buffer are 0.00

Minimum Value = 0.00

- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.00
- Minimum Value:  $0.00 - 0.00 = 0.00$

Maximum Value = 10.00

- Initial Maximum Value:  $6970$  (Pair A strike price) –  $6960$  (Pair B strike price) =  
10.00
- Maximum Value Buffer: 0.00
- Maximum Value:  $10.00$  (Initial Maximum Value) +  $0.00$  (Maximum Value Buffer) =  
10.00

An incoming order to buy the spread defined above for 10.10 will be cancelled because the purchase price of 10.10 is greater than the Maximum Value of 10.00.

### Example 2

Assume the following Complex Order pairs for a box spread:

1. Pair A:

- a. Buy 1 NDX 6960 Jan 26 Call (30.80 x 34.05)
- b. Sell 1 NDX 6960 Jan 26 Put (33.50 x 36.50)

2. Pair B

- a. Sell 1 NDX 6970 Jan 26 Call (27.50 x 30.75)
- b. Buy 1 NDX 6970 Jan 26 Put (36.40 x 37.05)

The derived net Phlx complex market (“cPBBO”) is  $-0.05 \times 10.10$

Assume both Maximum Value Buffer and Minimum Value Buffer are 0.05

Minimum Value =  $-0.05$

- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.05
- Minimum Value:  $0.00 - 0.05 = -0.05$

Maximum Value = 10.05

- Initial Maximum Value:  $6970$  (Pair A strike price) –  $6960$  (Pair B strike price) =  
10.00
- Maximum Value Buffer: 0.05
- Maximum Value:  $10.00$  (Initial Maximum Value) +  $0.05$  (Maximum Value Buffer) =  
10.05

An incoming order to sell the spread defined above for  $-0.05$  will be accepted and executed against the simple market because the purchase price of  $-0.05$  is equal than the Minimum Value of  $-0.05$ .

### Implementation

The Exchange would implement these new protections no later than August 30, 2018. The Exchange would notify members of the exact implementation date by issuing a notice to members.

## 2. Statutory Basis

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

Act,<sup>8</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>9</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by offering protections for certain Complex Orders which restrict executions that exceed the intrinsic value of the spread by a specified (or configurable) amount. Further, the Exchange believes that its proposal will mitigate risks to market participants. Specifically, Phlx believes that the change, which is responsive to member input, will facilitate transactions in securities and perfect the mechanism of a free and open market by providing its members with additional functionality that will assist them with managing their risk by checking each Complex Order that is either a butterfly or box spread against certain parameters described within the filing before accepting the Complex Orders into the order book.

The Exchange believes that the parameters described herein, including parameters which will be configured by the Exchange, will protect members from executing orders too far outside the Minimum Value and Maximum Value which considers the intrinsic value of the strategy, thereby promoting fair and orderly markets and the protection of investors. The Exchange intends to offer a buffer allowance from the minimum/maximum values permitted for the execution of these strategy orders to allow market participants flexibility to manage their business and accommodate executions outside of this range. The Exchange would monitor the zero value, including feedback

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

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

from market participants, in determining whether the value is set at the appropriate level. The concern would set from market participants who are unable to close out positions. There are circumstances where the Minimum Value Buffer may be less than zero. For example, market participants who desire to trade out of positions at intrinsic value may not find a contra-side willing to trade without a premium. A small incremental allowance outside of the minimum/maximum value allows for a small premium to offset commissions associated with trading and may incentivize participants to take the other side of spreads trading at intrinsic value. For the participant looking to close out their position, it may be financially beneficial to pay a small premium and close out the position rather than carry such position to expiration and take delivery. The purpose of this rule change is not to impede current order handling but to ensure execution prices are within a reasonable range of minimum and maximum values. These parameters are consistent with order protection features for Strategy Price Protection in that Strategy Price Protection offers a buffer allowance from the permitted values.<sup>10</sup>

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the proposal does not impose an intra-market burden on competition, because it will apply to all Complex Orders which are either butterfly or box spreads entered by any Phlx member. Further, the proposal will not impose an undue burden on inter-market competition, rather the proposal will assist the Exchange in remaining

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<sup>10</sup> See Phlx Rule 1098(g).



competitive in light of protections offered by other options exchanges.<sup>11</sup> The Exchange competes with many other options exchanges which offer Complex Orders. In this highly competitive market, market participants can easily and readily direct order flow to competing venues.

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

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<sup>11</sup> See CBOE Rule 6.53C, *Interpretations and Policies* .08.

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2018-14 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-2018-14. 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-2018-14 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>12</sup>

Eduardo A. Aleman  
Assistant Secretary

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

**EXHIBIT 5**

New text is underlined; deleted text is in brackets.

**Nasdaq PHLX Rules**

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**Rule 1098. Complex Orders on the System**

(a) – (h) No change.

(i) Butterfly Spread Protection. The Butterfly Spread Protection will apply to a butterfly spread. A butterfly spread is a three legged Complex Order with the following: (1) two legs to buy (sell) the same number of calls (puts); (2) one leg to sell (buy) twice the number of calls (puts) with a strike price at mid-point of the two legs to buy (sell); (3) all legs have the same expiration; and (4) each leg strike price is equidistant from the next sequential strike price.

(i) A Complex Order, including auction and auction responses, that is priced higher than the Maximum Value or lower than the Minimum Value will be cancelled. A Complex Market Order will be accepted but will be restricted from trading at a price higher than the Maximum Value or lower than the Minimum Value.

(a) The Initial Maximum Value is the distance between the leg with the mid-point strike price and either of the outer leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to members. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

(b) The Initial Minimum Value is zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

(ii) The Butterfly Spread Protection applies throughout the trading day, including pre-market, during the Opening Process and during Halts.

(j) Box Spread Protection. The Box Spread Protection will apply to a box spread. A box spread is a four legged Complex Order with the following: (1) one pair of legs with the same strike price with one leg to buy a call (put) and one leg to sell a put (call); (2) a second pair of legs with a different strike price from the pair described in (1) with one leg to sell a call (put) and one leg to buy a put (call); (3) all legs have the same expiration; and (4) all legs have equal volume.

(i) A Complex Order, including auction and auction responses that is priced higher than the Maximum Value or lower than the Minimum Value will be cancelled. A Complex Market Order will be accepted but will be restricted from trading at a price higher than the Maximum Value or lower than the Minimum Value.

(a) The Initial Maximum Value is the distance between the strike prices of each pair of leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum value set by the Exchange and announced via a notice to members. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

(b) The Initial Minimum Value spread is zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

(ii) The Box Spread Protection applies throughout the trading day, including pre-market, during the Opening Process and during Halts.

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