

Required fields are shown with yellow backgrounds and asterisks.

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

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

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

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

Description

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

Proposed Rule Change to Add Definitions to Rule 1000, Amend Rule 1090, and Amend Rule 1099

Contact Information

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

First Name * Angela Last Name * Dunn

Title * Principal Associate General Counsel

E-mail * angela.dunn@nasdaq.com

Telephone * (215) 496-5692 Fax

Signature

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

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

(Title *)

Date 10/29/2018 Global Chief Legal & Policy Officer

By Edward S. Knight

(Name *)

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.

edward.knight@nasdaq.com

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

Add Remove View

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

Exhibit 1 - Notice of Proposed Rule Change *

Add Remove View

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

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

Add Remove View

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

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

Add Remove View

Exhibit Sent As Paper Document

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

Exhibit 3 - Form, Report, or Questionnaire

Add Remove View

Exhibit Sent As Paper Document

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

Exhibit 4 - Marked Copies

Add Remove View

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

Exhibit 5 - Proposed Rule Text

Add Remove View

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

Partial Amendment

Add Remove View

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

1. Text of the Proposed Rule Change

(a) Nasdaq PHLX LLC (“Phlx” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to add definitions to Rule 1000, titled “Applicability, Definitions and References,” amend Rule 1090, titled “Clerks” and amend Rule 1099, titled, “Risk Protections.”

The Exchange requests that the Commission waive the 30-day operative delay period contained in Exchange Act Rule 19b-4(f)(6)(iii).³

A notice of the proposed rule change for publication in the Federal Register is attached as Exhibit 1. The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6)(iii).

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

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

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

a. Purpose

The purpose of this rule change is to adopt certain definitions within Rule 1000(b), amend Rule 1090, titled "Clerks" and amend Rule 1099, titled, "Risk Protections." Each change is described in more detail below.

Definitions

The Exchange proposes to amend Rule 1000(b) to add three new definitions into its Rulebook. These definitions are utilized in technical documents issued by the Exchange and will provide an ease of reference for understanding these terms. Specifically, Rule 1000(b)(51) would define an account number as a number assigned to a member organization. Member organizations may have more than one account number. Rule 1000(b)(52) would define a badge as an account number, which may contain letters and/or numbers, assigned to Specialists and Registered Options Traders. A Specialist or Registered Options Trader account may be associated with multiple badges. Finally, Rule 1000(b)(53) would define a mnemonic as an acronym comprised of letters and/or numbers assigned to member organizations. A member organization account may be associated with multiple mnemonics.

Risk Protections

Order Price Protection

The Exchange proposes to amend Rule 1099(a)(1) relating to the Order Price Protection or “OPP.” The Exchange proposes to remove the example within Rule 1099(a)(1)(B)(i) which states, “ For example, if the Reference BBO on the offer side is \$1.10, an order to buy options for more than \$1.65 would be rejected. Similarly, if the Reference BBO on the bid side is \$1.10, an order to sell options for less than \$0.55 will be rejected.” The Exchange also proposes to remove the example within Rule 1099(a)(1)(B)(ii) which states, “For example, if the Reference BBO on the offer side is \$1.00, an order to buy options for more than \$2.00 would be rejected. However, if the Reference BBO of the bid side of an incoming order to sell is less than or equal to \$1.00, the OPP limits set forth above will result in all incoming sell orders being accepted regardless of their limit. To illustrate, if the Reference BBO on the bid side is equal to \$1.00, the OPP limits provide protection such that all orders to sell with a limit less than \$0.00 would be rejected.” The Exchange notes that while the examples remain accurate, the Exchange proposes to remove the text to conform the rule text to other risk protections. The Exchange does not believe it is necessary to have these examples within the rule text.

Market Order Spread Protection

The Exchange proposes to add language to the Market Order Spread Protection Rule in 1099(a)(2). First, Phlx proposes to add the word “trading” before the word “halt” within Rule in 1099(a)(2) for consistency. In the OPP rule text halts are referred to as “trading halts.” This will avoid confusion as to the use of this term. Second, at the time Phlx filed to amend Market Order Spread Protection on Phlx, it noted in that rule change

that this mandatory risk protection protects Market Orders⁴ from being executed in very wide markets.⁵ Specifically, it noted within footnote 11 that the Exchange may establish differences other than the referenced threshold for one or more series or classes of options.⁶ At this time, the Exchange proposes to memorialize this capability within Rule 1099(a)(2) by stating, “The Exchange may establish different thresholds for one or more series or classes of options.” The Exchange believes that adding this provision to the rule will provide an easy reference as to the Exchange’s capability to establish different thresholds per options series or class.

Anti-Internalization

First, the Exchange also proposes to add a new sentence to Anti-Internalization at Rule 1099(c)(1) to provide that Anti-Internalization functionality shall not apply in any auction or with respect to Complex Order transactions. This is the current practice today. With respect to an auction,⁷ the Exchange notes that Anti-Internalization functionality is difficult to apply during auctions, and there is limited benefit in doing so. There is limited benefit because, generally speaking, auctions do not raise the same policy concerns for wash sales and ERISA⁸ due to the semi-random manner in which trades are

⁴ Market Orders are orders to buy or sell at the best price available at the time of execution.

⁵ Securities Exchange Act Release No. 83141 (May 1, 2018), 83 FR 20123 (May 7, 2018)(SR-Phlx-2018-32).

⁶ Id.

⁷ PIXL is the Exchange’s Price Improvement XL auction. See Phlx Rule 1087.

⁸ AIQ is designed to assist market participants in complying with certain rules and regulations of the Employee Retirement Income Security Act (“ERISA”) that preclude and/or limit managing broker-dealers of such accounts from trading as principal with orders generated for those accounts. It can also assist Market

matched. Also, the Exchange notes that with respect to entering quotes in an auction, a Specialist or ROT could not start an auction in symbols in which they are assigned. With respect to orders, Specialists and ROTs can only commence a PIXL in a non-assigned symbol.⁹ It is not common for a Specialist or ROT to commence such an auction. With respect to Complex Orders, AIQ is unnecessary with respect to Complex Orders due to the highly specialized nature of such orders and the high level of control that market participants exercise over complex orders. Also, the Exchange notes there is no quoting in Complex Orders. Finally, the Exchange notes that Nasdaq ISE, LLC Rule 714(b)(3)(A) contains the same constraint in that it does not apply the Anti-Internalization protection in any auction or with respect to Complex Order transactions.

Second, the Exchange proposes to replace the word “Exchange badge” with “market participant identifier” to more specifically describe this functionality. Also the Exchange is adding “...quotes and orders entered on the opposite side of the market **by the same Specialist or Registered Options Trader** using the same identifier” and is again replacing “badge” with “identifier.” The Exchange is identifying Specialists and Registered Options Traders in the System and preventing quotes and orders from the same Specialists or Registered Options Traders from executing.

Clerks

In order to avoid any confusion because the Exchange defined the term “badge,” the Exchange proposes to amend Rule 1090, which applies to Clerks on the Exchange’s

Makers in reducing trading costs from unwanted executions potentially resulting from the interaction of executable buy and sell trading interest from the same firm when performing the same market making function.

⁹ Specialists and ROTs can only quote in symbols in which they are assigned.

trading floor. This use of the word badge was meant to indicate a physical identifier that is worn on the trading floor to identify members. Therefore, the Exchange is replacing the term “badge” with “identification” in Rule 1090.

Automated Removal of Quotes

Finally, the Exchange proposes to amend the title of Rule 1099(c)(2) from “Automated Removal of Quotes” to “Quotation Adjustments” to conform the title across Nasdaq markets.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹⁰ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹¹ in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest by bringing greater transparency to its rules.

Amendments to remove examples from the OPP rule text and add “trading” before the word “halt” within the Market Order Spread Protection rule text will bring conformity to Rule 1090. The Exchange’s proposal to add definitions to Rule 1000(b) will bring greater clarity to the Anti-Internalization functionality and to the Rulebook. Also noting the limitations of the Anti-Internalization protection with respect to auctions will also provide market participants with greater information as to this risk protection. The Exchange’s proposal to amend Rule 1090 to clarify its identification requirements for Clerks will also provide more clarity to that rule.

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(5).

The Exchange's proposal to memorialize the ability of the Exchange to establish different Market Order Spread Protection thresholds per options series or class will also bring greater clarity to the rule. Today, the Exchange has this ability, it is simply adding that text to the rule.

The Exchange's proposal to make clear that the Anti-Internalization functionality will not apply in any auction or with respect to Complex Order transactions will also bring greater transparency to the rules and the limitation of this functionality. With respect to an auction,¹² the Exchange notes that Anti-Internalization functionality is difficult to apply during auctions, and there is limited benefit in doing so. There is limited benefit because, generally speaking, auctions do not raise the same policy concerns for wash sales and ERISA¹³ due to the semi-random manner in which trades are matched. Also, the Exchange notes that with respect to entering quotes in an auction, a Specialist or ROT could not start an auction in symbols in which they are assigned. With respect to orders, Specialists and ROTs can only commence a PIXL in a non-assigned symbol. It is not common for a Specialist or ROT to commence such an auction. With respect to Complex Orders, AIQ is unnecessary with respect to Complex Orders due to the highly specialized nature of such orders and the high level of control that market participants exercise over complex orders. Also, the Exchange notes there is no quoting in Complex Orders.

¹² PIXL is the Exchange's Price Improvement XL auction. See Phlx Rule 1087.

¹³ See note 8 above.

Finally, the Exchange's proposal to amend the title of Rule 1099(c)(2) from "Automated Removal of Quotes" to "Quotation Adjustments" should better describe the rule and conform the title to other Nasdaq affiliate markets.

The proposals noted herein are consistent with the Act because they provide more detail and transparency to the Exchange's rules noted herein to the benefit of market participants.

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. The Exchange believes that the proposed amendments do not impose an undue burden on competition because the definitions and amendments to conform the rule text will provide greater clarity as to the meaning of those terms. Memorializing the ability of the Exchange to establish different Market Order Spread Protection thresholds per options series or class will also bring greater clarity to the rule. Clarifying that the Anti-Internalization functionality will not apply in any auction or with respect to Complex Order transactions will also bring greater transparency to the rules and the limitations of this functionality. With respect to an auction, the Exchange notes that Anti-Internalization functionality is difficult to apply during auctions, and there is limited benefit in doing so. There is limited benefit because, generally speaking, auctions do not raise the same policy concerns for wash sales and ERISA¹⁴ due to the semi-random manner in which trades are matched. AIQ is unnecessary with respect to Complex Orders due to the highly specialized nature of such orders and the high level of control

¹⁴ See note 8 above.

that market participants exercise over complex orders. Finally, the Exchange's proposal to amend the title of Rule 1099(c)(2) from "Automated Removal of Quotes" to "Quotation Adjustments" is non-substantive.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

Not Applicable.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)¹⁵ of the Act and Rule 19b-4(f)(6) thereunder¹⁶ in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

The Exchange believes that this proposal does not significantly affect the protection of investors or the public interest because the rule changes are intended to bring greater transparency to the Exchange's rules. The proposed rule change does not impose any significant burden on competition because the rule changes are non-substantive in nature and intended to bring clarity to the rule. With respect to noting that

¹⁵ 15 U.S.C. 78s(b)(3)(A)(iii).

¹⁶ 17 CFR 240.19b-4(f)(6).

Anti-Internalization functionality will not apply in any auction or with respect to Complex Orders, this amendment serves to provide market participants with greater information as to the manner in which this protection is applied. With respect to an auction, the Exchange notes that Anti-Internalization functionality is difficult to apply during auctions, and there is limited benefit in doing so. There is limited benefit because, generally speaking, auctions do not raise the same policy concerns for wash sales and ERISA¹⁷ due to the semi-random manner in which trades are matched. AIQ is unnecessary with respect to Complex Orders due to the highly specialized nature of such orders and the high level of control that market participants exercise over complex orders.

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.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection

¹⁷ See note 8 above.

of investors and the public interest. The Exchange requests that the Commission waive the operative delay to permit the Exchange to immediately reflect the definitions, remove inconsistent language within the rulebook as well as the clarifying changes which further expand on the rule relating to order protections. The Exchange believes that the proposed rule changes will bring greater transparency to the risk protections offered by Phlx. The Exchange believes that the risk protections offered by the Exchange will continue to protect investors and the public interest because the risk protections are intended to ensure that orders and quotes are executed at reasonable prices on Phlx. The risk protections serve to protect investors and the general public by offering market participants the ability to control certain risks when submitting quotes and orders on Phlx. The proposed changes seek to offer market participants greater transparency regarding those protections.

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

Nasdaq ISE, LLC Rule 714(b)(3)(A) does not apply the Anti-Internalization protection in any auction or with respect to Complex Order transactions.

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-2018-69)

October __, 2018

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Add Definitions to Rule 1000, Amend Rule 1090, and Amend Rule 1099

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 October 29, 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 definitions to Rule 1000, titled “Applicability, Definitions and References,” amend Rule 1090, titled “Clerks” and amend Rule 1099, titled, “Risk Protections.”

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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

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

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

1. Purpose

The purpose of this rule change is to adopt certain definitions within Rule 1000(b), amend Rule 1090, titled "Clerks" and amend Rule 1099, titled, "Risk Protections." Each change is described in more detail below.

Definitions

The Exchange proposes to amend Rule 1000(b) to add three new definitions into its Rulebook. These definitions are utilized in technical documents issued by the Exchange and will provide an ease of reference for understanding these terms. Specifically, Rule 1000(b)(51) would define an account number as a number assigned to a member organization. Member organizations may have more than one account number. Rule 1000(b)(52) would define a badge as an account number, which may contain letters and/or numbers, assigned to Specialists and Registered Options Traders. A Specialist or Registered Options Trader account may be associated with multiple badges. Finally, Rule 1000(b)(53) would define a mnemonic as an acronym comprised of letters and/or numbers assigned to member organizations. A member organization account may be associated with multiple mnemonics.

Risk Protections

Order Price Protection

The Exchange proposes to amend Rule 1099(a)(1) relating to the Order Price Protection or “OPP.” The Exchange proposes to remove the example within Rule 1099(a)(1)(B)(i) which states, “ For example, if the Reference BBO on the offer side is \$1.10, an order to buy options for more than \$1.65 would be rejected. Similarly, if the Reference BBO on the bid side is \$1.10, an order to sell options for less than \$0.55 will be rejected.” The Exchange also proposes to remove the example within Rule 1099(a)(1)(B)(ii) which states, “For example, if the Reference BBO on the offer side is \$1.00, an order to buy options for more than \$2.00 would be rejected. However, if the Reference BBO of the bid side of an incoming order to sell is less than or equal to \$1.00, the OPP limits set forth above will result in all incoming sell orders being accepted regardless of their limit. To illustrate, if the Reference BBO on the bid side is equal to \$1.00, the OPP limits provide protection such that all orders to sell with a limit less than \$0.00 would be rejected.” The Exchange notes that while the examples remain accurate, the Exchange proposes to remove the text to conform the rule text to other risk protections. The Exchange does not believe it is necessary to have these examples within the rule text.

Market Order Spread Protection

The Exchange proposes to add language to the Market Order Spread Protection Rule in 1099(a)(2). First, Phlx proposes to add the word “trading” before the word “halt” within Rule in 1099(a)(2) for consistency. In the OPP rule text halts are referred to as “trading halts.” This will avoid confusion as to the use of this term. Second, at the time Phlx filed to amend Market Order Spread Protection on Phlx, it noted in that rule change

that this mandatory risk protection protects Market Orders³ from being executed in very wide markets.⁴ Specifically, it noted within footnote 11 that the Exchange may establish differences other than the referenced threshold for one or more series or classes of options.⁵ At this time, the Exchange proposes to memorialize this capability within Rule 1099(a)(2) by stating, “The Exchange may establish different thresholds for one or more series or classes of options.” The Exchange believes that adding this provision to the rule will provide an easy reference as to the Exchange’s capability to establish different thresholds per options series or class.

Anti-Internalization

First, the Exchange also proposes to add a new sentence to Anti-Internalization at Rule 1099(c)(1) to provide that Anti-Internalization functionality shall not apply in any auction or with respect to Complex Order transactions. This is the current practice today. With respect to an auction,⁶ the Exchange notes that Anti-Internalization functionality is difficult to apply during auctions, and there is limited benefit in doing so. There is limited benefit because, generally speaking, auctions do not raise the same policy concerns for wash sales and ERISA⁷ due to the semi-random manner in which trades are

³ Market Orders are orders to buy or sell at the best price available at the time of execution.

⁴ Securities Exchange Act Release No. 83141 (May 1, 2018), 83 FR 20123 (May 7, 2018)(SR-Phlx-2018-32).

⁵ Id.

⁶ PIXL is the Exchange’s Price Improvement XL auction. See Phlx Rule 1087.

⁷ AIQ is designed to assist market participants in complying with certain rules and regulations of the Employee Retirement Income Security Act (“ERISA”) that preclude and/or limit managing broker-dealers of such accounts from trading as principal with orders generated for those accounts. It can also assist Market

matched. Also, the Exchange notes that with respect to entering quotes in an auction, a Specialist or ROT could not start an auction in symbols in which they are assigned. With respect to orders, Specialists and ROTs can only commence a PIXL in a non-assigned symbol.⁸ It is not common for a Specialist or ROT to commence such an auction. With respect to Complex Orders, AIQ is unnecessary with respect to Complex Orders due to the highly specialized nature of such orders and the high level of control that market participants exercise over complex orders. Also, the Exchange notes there is no quoting in Complex Orders. Finally, the Exchange notes that Nasdaq ISE, LLC Rule 714(b)(3)(A) contains the same constraint in that it does not apply the Anti-Internalization protection in any auction or with respect to Complex Order transactions.

Second, the Exchange proposes to replace the word “Exchange badge” with “market participant identifier” to more specifically describe this functionality. Also the Exchange is adding “...quotes and orders entered on the opposite side of the market **by the same Specialist or Registered Options Trader** using the same identifier” and is again replacing “badge” with “identifier.” The Exchange is identifying Specialists and Registered Options Traders in the System and preventing quotes and orders from the same Specialists or Registered Options Traders from executing.

Clerks

In order to avoid any confusion because the Exchange defined the term “badge,” the Exchange proposes to amend Rule 1090, which applies to Clerks on the Exchange’s

Makers in reducing trading costs from unwanted executions potentially resulting from the interaction of executable buy and sell trading interest from the same firm when performing the same market making function.

⁸ Specialists and ROTs can only quote in symbols in which they are assigned.

trading floor. This use of the word badge was meant to indicate a physical identifier that is worn on the trading floor to identify members. Therefore, the Exchange is replacing the term “badge” with “identification” in Rule 1090.

Automated Removal of Quotes

Finally, the Exchange proposes to amend the title of Rule 1099(c)(2) from “Automated Removal of Quotes” to “Quotation Adjustments” to conform the title across Nasdaq markets.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁹ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁰ in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest by bringing greater transparency to its rules.

Amendments to remove examples from the OPP rule text and add “trading” before the word “halt” within the Market Order Spread Protection rule text will bring conformity to Rule 1090. The Exchange’s proposal to add definitions to Rule 1000(b) will bring greater clarity to the Anti-Internalization functionality and to the Rulebook. Also noting the limitations of the Anti-Internalization protection with respect to auctions will also provide market participants with greater information as to this risk protection. The Exchange’s proposal to amend Rule 1090 to clarify its identification requirements for Clerks will also provide more clarity to that rule.

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

The Exchange's proposal to memorialize the ability of the Exchange to establish different Market Order Spread Protection thresholds per options series or class will also bring greater clarity to the rule. Today, the Exchange has this ability, it is simply adding that text to the rule.

The Exchange's proposal to make clear that the Anti-Internalization functionality will not apply in any auction or with respect to Complex Order transactions will also bring greater transparency to the rules and the limitation of this functionality. With respect to an auction,¹¹ the Exchange notes that Anti-Internalization functionality is difficult to apply during auctions, and there is limited benefit in doing so. There is limited benefit because, generally speaking, auctions do not raise the same policy concerns for wash sales and ERISA¹² due to the semi-random manner in which trades are matched. Also, the Exchange notes that with respect to entering quotes in an auction, a Specialist or ROT could not start an auction in symbols in which they are assigned. With respect to orders, Specialists and ROTs can only commence a PIXL in a non-assigned symbol. It is not common for a Specialist or ROT to commence such an auction. With respect to Complex Orders, AIQ is unnecessary with respect to Complex Orders due to the highly specialized nature of such orders and the high level of control that market participants exercise over complex orders. Also, the Exchange notes there is no quoting in Complex Orders.

¹¹ PIXL is the Exchange's Price Improvement XL auction. See Phlx Rule 1087.

¹² See note 7 above.

Finally, the Exchange's proposal to amend the title of Rule 1099(c)(2) from "Automated Removal of Quotes" to "Quotation Adjustments" should better describe the rule and conform the title to other Nasdaq affiliate markets.

The proposals noted herein are consistent with the Act because they provide more detail and transparency to the Exchange's rules noted herein to the benefit of market participants.

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. The Exchange believes that the proposed amendments do not impose an undue burden on competition because the definitions and amendments to conform the rule text will provide greater clarity as to the meaning of those terms. Memorializing the ability of the Exchange to establish different Market Order Spread Protection thresholds per options series or class will also bring greater clarity to the rule. Clarifying that the Anti-Internalization functionality will not apply in any auction or with respect to Complex Order transactions will also bring greater transparency to the rules and the limitations of this functionality. With respect to an auction, the Exchange notes that Anti-Internalization functionality is difficult to apply during auctions, and there is limited benefit in doing so. There is limited benefit because, generally speaking, auctions do not raise the same policy concerns for wash sales and ERISA¹³ due to the semi-random manner in which trades are matched. AIQ is unnecessary with respect to Complex Orders due to the highly specialized nature of such orders and the high level of control

¹³ See note 7 above.

that market participants exercise over complex orders. Finally, the Exchange's proposal to amend the title of Rule 1099(c)(2) from "Automated Removal of Quotes" to "Quotation Adjustments" is non-substantive.

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 Act¹⁴ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹⁵

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

¹⁴ 15 U.S.C. 78s(b)(3)(A)(iii).

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

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2018-69 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-2018-69. 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-2018-69 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁶

Eduardo A. Aleman
Assistant Secretary

¹⁶ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

New text is underlined; deleted text is in brackets.

Nasdaq PHLX Rules

* * * * *

Rule 1000. Applicability, Definitions and References

(a) No change.

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

* * * * *

(51) An “**account number**” shall mean a number assigned to a member organization. Member organizations may have more than one account number.

(52) A “**badge**” shall mean an account number, which may contain letters and/or numbers, assigned to Specialists and Registered Options Traders. A Specialist or Registered Options Trader account may be associated with multiple badges.

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

* * * * *

Rule 1090. Clerks

The term “Clerk” means any registered on-floor person employed by or associated with a member or member organization who is not a member and is not eligible to effect transactions on the Options Floor as a Specialist, Registered Options Trader, or Floor Broker. For purposes of this Rule, an Inactive Nominee shall be deemed a Clerk.

(a) Badges. While on the trading floor, Clerks shall display prominently at all times the [badge(s)]identification supplied to them by the Exchange.

(b) – (e) No change.

Rule 1099. Risk Protections

The following order protections apply to simple orders.

(a) The following are order protections on Phlx:

(1) No change.

(A) No change.

(B) OPP will reject incoming orders that exceed certain parameters according to the following algorithm.

(i) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than \$1.00, orders with a limit more than 50% through such contra-side Reference BBO will be rejected by the System upon receipt. [For example, if the Reference BBO on the offer side is \$1.10, an order to buy options for more than \$1.65 would be rejected. Similarly, if the Reference BBO on the bid side is \$1.10, an order to sell options for less than \$0.55 will be rejected.]

(ii) If the Reference BBO on the contra-side of an incoming order is less than or equal to \$1.00, orders with a limit more than 100% through such contra-side Reference BBO will be rejected by the System upon receipt. [For example, if the Reference BBO on the offer side is \$1.00, an order to buy options for more than \$2.00 would be rejected. However, if the Reference BBO of the bid side of an incoming order to sell is less than or equal to \$1.00, the OPP limits set forth above will result in all incoming sell orders being accepted regardless of their limit. To illustrate, if the Reference BBO on the bid side is equal to \$1.00, the OPP limits provide protection such that all orders to sell with a limit less than \$0.00 would be rejected.]

(C) No change.

(2) **Market Order Spread Protection.** Market Orders will be rejected if the best of the NBBO and the internal market PBBO (the "Reference PBBO") is wider than a preset threshold at the time the Market Order is received by the System. Market Order Spread Protection shall not apply to the Opening Process or during a trading halt. The Exchange may establish different thresholds for one or more series or classes of options.

(b) No change.

(c) The following protections apply to Specialists and Registered Options Traders on Phlx:

(1) **Anti-Internalization** - Quotes and orders entered by Specialists and Registered Options Traders (as defined in Rule 1014) using the same market participant identifier [Exchange badge] will not be executed against quotes and orders entered on the opposite side of the market by the same Specialist or Registered Options Trader using the same identifier [badge]. In such a case, the System will cancel the resting quote or order back to the entering party prior to execution. This functionality shall not apply in any auction

or with respect to complex transactions. This functionality shall not apply in any auction or with respect to Complex Order transactions.

Quotes and orders entered by Options Market Makers using the same market participant identifier will not be executed against quotes and orders entered on the opposite side of the market by the same Market Maker using the same identifier

(2) **Automated [Removal of Quotes]Quotation Adjustments.**

(A) – (G) No change.

* * * * *