OMB APPROVAL
OMB Number: 3235-0045 Estimated average burden hours per response............38

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 43

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

File No.* SR - 2018 - * 78

Amendment No. (req. for Amendments *)

Filing by Nasdaq PHLX LLC

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

Initial * ☑ Amendment * ☐ Withdrawal ☐

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

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☐ 19b-4(f)(6)

Pilot ☑

Extension of Time Period for Commission Action * ☐

Date Expires *

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

Section 806(e)(1) * ☐ Section 806(e)(2) * ☐

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

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐

Exhibit 3 Sent As Paper Document ☐

Description

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

Proposed rule change to amend the Exchange rules to (1) correct existing references in the Exchange rules to Reduced Value Nasdaq 100 Options, and (2) to permit the listing and trading of index options, including FLEX options, on the Nasdaq 100 Reduced Value Index on a twelve month pilot basis.

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 * Carla Last Name * Behnfeldt

Title * Associate General Counsel

E-mail * Carla.Behnfeldt@nasdaq.com

Telephone * (215) 496-5208 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.

Date 11/30/2018

By Edward S. Knight

(Name *)

(Title *)

Global Chief Legal and Policy Officer

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

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information * 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 proposed rule change to permit the listing and trading of options based on 1/5 the value of the Nasdaq-100 Index ("Nasdaq-100") on a twelve month pilot basis.

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 26, 2018. 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.

Carla Behnfeldt
Associate General Counsel
Nasdaq, Inc.
(215) 496-5208

---

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

[2] 17 CFR 240.19b-4.

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

a. Purpose

The purpose of the proposed rule change is to amend the Exchange's rules to (1) correct existing references in the Exchange's rules to "Reduced Value Nasdaq 100 Options,"[3] and (2) to permit the listing and trading of index options, including FLEX options,[4] on the Nasdaq 100 Reduced Value Index ("NQX") on a twelve month pilot basis. NQX options are currently listed for trading on a pilot basis on the Exchange's affiliate, Nasdaq ISE, LLC ("ISE").[5]

The NQX options contract will be the same in all respects as the current Nasdaq-100 ("NDX") options contract listed on the Exchange,[6] except that it will be based on 1/5 of the value of the Nasdaq-100, and will be P.M.-settled with an exercise settlement value

---

3 The Exchange filed a proposed rule change to permit the listing and trading of these options in 2008. That proposed rule change described the new options as options on one-tenth of the value of the Nasdaq 100 Index ("Mini Nasdaq 100 Index" or "MNX"). See Securities Exchange Act Release No. 57936 (June 6, 2008) 73 FR 33481(June 12, 2008) (SR-Phlx-2008-36). However, the amended rule text referred to these options as "Reduced Value Nasdaq 100 Options". To eliminate potential confusion the Exchange now proposes to redesignate these options as options on the Mini-Nasdaq-100 Index, or "MNX," to distinguish them from the options proposed to be listed herein, which are options on the Nasdaq 100 Reduced Value Index or "NQX".

4 Phlx Rule 1079 permits the trading of FLEX options, which are options customized to fit specific investment strategies and goals. Investors can specify the characteristics for FLEX Option contracts such as the expiration date, the strike price, and the exercise-style.

5 See Securities Exchange Act Release No. 82911 (March 20, 2018), 83 FR 12966 (March 26, 2018) (SR-ISE-2017-106) (the "ISE Approval Order").

6 See Securities Exchange Act Release No. 57936 (June 6, 2008), 73 FR 33481 (June 12, 2008) (SR-Phlx-2008-36).

based on the closing index value of the Nasdaq-100 on the day of expiration.[7] The Exchange believes that the proposed contract will be valuable for retail and other investors that wish to trade reduced value options on the Nasdaq-100, or who wish to hedge positions in the related E-mini Nasdaq 100 ("NQ") futures contract, which is also based on 1/5 the value of the Nasdaq-100.

I. Nasdaq-100 Index

The Nasdaq-100 is a modified market capitalization-weighted index that includes 100 of the largest non-financial companies listed on The Nasdaq Stock Market LLC ("Nasdaq"),[8] based on market capitalization.[9] It does not contain securities of financial companies, including investment companies. Security types generally eligible for the Nasdaq-100 include common stocks, ordinary shares, American Depository Receipts, and tracking stocks. Security or company types not included in the Nasdaq-100 are closed-end funds, convertible debentures, exchange traded funds, limited liability companies, limited partnership interests, preferred stocks, rights, shares or units of beneficial interest, warrants, units and other derivative securities.[10]

II. NQX Options Contract

Currently, the Exchange lists and trades NDX options that are based on the full value of the Nasdaq-100. In an effort to attract additional interest in index options based

---

[7] In addition to the current Nasdaq-100 index value, Nasdaq, Inc. disseminates an index value for NQX that is 1/5 of the value of the Nasdaq-100.

[8] Nasdaq is an affiliate of the Exchange.

[9] The Nasdaq-100 is a broad-based index, as defined in Rule 1000A(b)(11).

[10] A description of the Nasdaq-100 is available on Nasdaq's website at https://indexes.nasdaqomx.com/docs/methodology_NDX.pdf.

on the Nasdaq-100, the Exchange now proposes to list and trade a new reduced value option contract based on this index on a twelve month pilot basis. NQX options will trade independently of and in addition to NDX options, and the NQX options will be subject to the same rules that presently govern the trading of index options based on the Nasdaq-100, including sales practice rules, margin requirements, trading rules, and position and exercise limits. Similar to NDX, NQX options will be European-style and cash-settled, and will have a contract multiplier of 100. The contract specifications for NQX options will mirror in all respects those of the NDX options contract already listed on the Exchange, except that the Exchange proposes that NQX options will be based on 1/5 of the value of the Nasdaq-100, and will be P.M.-settled pursuant to proposed Rule 1101A(f). Similar features are available with other index options contracts listed and/or approved for trading on the Exchange and other options exchanges, including the Exchange's affiliate, Nasdaq GEMX, LLC ("GEMX"). Specifically, options contracts based on 1/10 the value of the Nasdaq-100, i.e., "MNX" options, were previously listed on the Exchange and on GEMX with limited strikes, and are also currently listed on the Chicago Board Options Exchange ("CBOE"). In addition, the Exchange recently received approval to trade P.M.-settled options on the full value of the Nasdaq-100 ("NDXPM")[11] and on broad-based index options with nonstandard expirations ("NDXP").[12]

---

[11] See Securities Exchange Act Release No. 81293 (August 2, 2017), 82 FR 37138 (August 8, 2017) (SR-Phlx-2017-04) (Approval Order). The Exchange has recently filed a proposed rule change to move the NDXPM options into the NDX options class, where they will remain P.M.-settled. See Securities Exchange Act Release No. 84034 (September 5, 2018), 83 FR 46001 (September 11, 2018) (SR-Phlx-2018-57).

[12] See Securities Exchange Act Release No. 82341 (December 15, 2017), 82 FR 60651 (December 21, 2017) (Order approving the Exchange's Nonstandard Expirations Pilot Program).

The value of the Nasdaq-100 has increased significantly in recent years such that the value of the index stood at 6890.84 as of the opening of trading on November 29, 2018. As a result of the increase in the value of the underlying Nasdaq-100 index, the premium for NDX options has also increased. The Exchange believes that this has caused NDX options to trade at a level that may be uncomfortably high for certain retail and other investors. The Exchange believes that listing options on reduced values will attract a greater source of retail customer business. The Exchange further believes that listing options on reduced values will provide an opportunity for investors to trade and hedge the market risk associated with the Nasdaq-100.

With an exercise settlement value based on 1/5 of the Nasdaq-100, the Exchange believes that retail and other investors would be able to use this trading vehicle while extending a smaller outlay of capital. Furthermore, the proposed reduced value index will have a notional value at a level that is comparable to similar products that have been successful in the market, including the S&P 500, which had an index value of 2,736.97 as of the opening of trading on November 29, 2018, and the Russell 2000, which had an index value of 1,529.70 as of the opening of trading on that date. Finally, options based on 1/5 of the value of the Nasdaq-100 will be a particularly useful hedge, as NQ futures are similarly based on the value of 1/5 of the value of the Nasdaq-100. The Exchange therefore believes that basing the proposed NQX options contract on 1/5 of the value of the Nasdaq-100 should attract additional investors, and, in turn, create a more active and liquid trading environment.

NQX options will also be P.M.-settled as the Exchange believes that market participants, and in particular, retail investors, who are the target audience for this product, prefer P.M.-settled index options. P.M.-settlement is preferred by retail investors as it allows market participants to hedge their exposure for the full week. A.M.-settled options by contrast are based on opening prices on the day of expiration and therefore stop trading on the day prior, leaving residual risk on the day of expiration. Feedback from members that handle retail order flow has indicated that P.M.-settlement is needed to garner retail investor support for this product. In this regard, the Exchange notes that there is ample precedent for P.M.-settlement of broad-based index options. As described above, the Exchange recently received approval to list NDXPM options. In addition, CBOE offers P.M.-settled index options based on both the Standard & Poor's 500 index ("SPXW"),[13] and the Standard & Poor's 100 index ("OEX").[14]

The Exchange does not believe that the introduction of a new P.M.-settled Nasdaq-100 contract will cause any market disruptions. Similar to other P.M.-settled index option products, the Exchange is proposing to list and trade NQX options contracts pursuant to a pilot, and will provide data to the Commission during the pilot period as described in Section VI below. The Exchange will monitor for any disruptions caused by P.M.-settlement of the proposed NQX options contract or the development of any factors that could cause such disruptions. P.M.-settled options predominate in the over-the-counter ("OTC") market, and the Exchange is not aware of any adverse effects in the OTC market attributable to the P.M.-settlement feature. The Exchange is merely proposing to offer a P.M.-settled product in an exchange environment, which offers the additional benefits of added transparency, price discovery, and stability.

---

[13] See Securities Exchange Act Release No. 80060 (February 17, 2017), 82 FR 11673 (February 24, 2017) (SR-CBOE-2016-091) (Approval Order).

[14] OEX has been P.M. settled since 1983.

III. Trading Hours, Minimum Increments, Expirations and Strike Prices

NQX options will be available for trading during the Exchange's standard trading hours for index options, i.e., from 9:30 a.m. to 4:15 p.m. New York time,[15] with a minimum trading increment of $0.05 for options trading below $3.00 and $0.10 for all other series.[16] NQX options will have monthly expiration dates on the third Friday of each month (i.e., Expiration Friday), and the Exchange proposes to list NQX options in expiration months consistent with those of other index option products available on the Exchange.[17] In addition, the Exchange may list long-term index options series ("LEAPS") that expire from nine (9) to sixty (60) months from the date of issuance.[18] NQX options would also be eligible to be added to the Short Term Option Series Program ("Weeklies") and/or Quarterly Options Series Program ("Quarterlies") if designated by the Exchange pursuant to Rules 1101A(b)(vi) or 1101A(b)(v), respectively.[19]

Generally, pursuant to Rule 1101A(a), index options listed on the Exchange are subject to strike price intervals of no less than $5, provided that certain classes of index options (including MNX) have strike price intervals of no less than $2.50. The Exchange proposes to amend Rule 1101A(a) to add NQX options, if the strike price is less than $200.00, to the list of classes where strike price intervals of no less than $2.50 are

---

15 See Rules 101 and 1101A, Commentary .01 as proposed to be amended.

16 See Rule 1034, Minimum Increments.

17 See Rule 1101A(b).

18 See Rule 1101A(b)(iii).

19 The Exchange expects that it will add NQX options to the Weeklies program.

permitted. In addition, Rule 1101A, Commentary .02 currently provides finer strike price intervals for MNX options as these contracts are based on a reduced value of the Nasdaq-100. Specifically, Rule 1101A.02 provides that notwithstanding Rule 1101A(a) discussed above, the interval between strike prices of series of MNX options will be $1 or greater, subject to certain conditions. The Exchange proposes to adopt the same strike price intervals for NQX options as are currently approved for MNX options. Thus, notwithstanding Rule 1101A(a), the interval between strike prices of series of NQX options will be $1 or greater, subject to the conditions described in Rule 1101A, Commentary .02, which currently apply to the listing of strikes in reduced value MNX contracts. The Exchange will not list LEAPS on NQX options at intervals less than $2.50.[20] If the Exchange determines to add NQX options to the Weeklies or Quarterlies programs such options will be listed with expirations and strike prices described in Rules 1101A(b)(v) or 1101A(b)(vi).

IV. Position and Exercise Limits; Margin

As with NDX, in determining compliance with Rule 1001A, Position Limits, and 1079, FLEX Index, Equity and Currency Options, Section (d), Position Limits, there will be no position limits for broad-based index option contracts in the NQX class. Although there will be no position limits for NQX options, the Exchange proposes to amend Rule 1001A(e) to correctly describe how positions in reduced-value options would be aggregated with full-value options. Rule 1001A(e) currently provides in relevant part that reduced value or mini-size contracts shall be aggregated with full value or full-size

---

20 Under Phlx Rule 1101A(a)(xxxviii), the Exchange may list reduced value long term options (LEAPS) at strike price intervals of $2.50. By contrast, as stated in the ISE Approval Order at footnote 9, ISE will not list LEAPS on NQX options at intervals less than $5.00.

contracts and counted by the amount by which they equal a full value contract, e.g. ten (10) one tenth (1/10th) value contracts equal one (1) full value contract. This language was consistent with other reduced-value contracts offered on the Exchange – i.e., options on MNX, which is based on 1/10 of the value of the Nasdaq-100. Since the Exchange is proposing to list a reduced-value NQX contract that is based on 1/5 of the value of the Nasdaq-100, the Exchange proposes to amend this language to state instead that reduced-value contracts will be counted consistent with their value (e.g., 5 NQX reduced-value contracts equal 1 NDX full-value contract). With this change, the rule will more accurately reflect how the Exchange would aggregate reduced-value and full-value positions for NQX. In addition, as with NDX, there would be no exercise limits for NQX.[21] Finally, the Exchange proposes to apply broad-based index margin requirements for the purchase and sale of NQX options that are the same as margin requirements currently in place for NDX options.

V. Surveillance and Capacity

The Exchange represents that it has sufficient capacity to handle additional quotations and message traffic associated with the proposed listing and trading of NQX options. In addition, index options are integrated into the Exchange's existing surveillance system architecture and are thus subject to the relevant surveillance processes. The Exchange represents that it has adequate surveillance procedures to monitor trading in NQX options thereby aiding in the maintenance of a fair and orderly market.

---

21 See Rule 1002A, which provides that exercise limits for index options products are equivalent to the position limits in place for those products.

VI. Pilot Program Reports

The Exchange proposes to list and trade NQX options on a pilot basis for period of twelve months ("Pilot Program"). If the Exchange were to propose an extension of the program or should the Exchange propose to make the program permanent, then the Exchange would submit a filing proposing such amendments to the program. The Exchange notes that any positions established under the pilot would not be impacted by the expiration of the pilot. For example, a position in an NQX options series that expires beyond the conclusion of the pilot period could be established during the pilot. If the Pilot Program were not extended, then the position could continue to exist. However, the Exchange notes that any further trading in the series would be restricted to transactions where at least one side of the trade is a closing transaction.

The Exchange proposes to submit a Pilot Program report to the Commission at least two months prior to the expiration date of the Pilot Program (the "annual report"). The annual report would contain an analysis of volume, open interest, and trading patterns. The analysis would examine trading in the proposed option product as well as trading in the securities that comprise the Nasdaq-100. In addition, for series that exceed certain minimum open interest parameters, the annual report would provide analysis of index price volatility and share trading activity. In addition to the annual report, the Exchange would provide the Commission with periodic interim reports while the pilot is in effect that would contain some, but not all, of the information contained in the annual report. The annual report would contain the following volume and open interest data:[22]

---

[22] Based on the data elements to be provided to the Commission for the NDXPM pilot. See Securities Exchange Act Release No. 81293 (August 2, 2017), 82 FR 37138 (August 8, 2017) (SR-Phlx-2017-04).

(1) monthly volume aggregated for all trades;

(2) monthly volume aggregated by expiration date;

(3) monthly volume for each individual series;

(4) month-end open interest aggregated for all series;

(5) month-end open interest for all series aggregated by expiration date; and

(6) month-end open interest for each individual series.

In addition to the annual report, the Exchange would provide the Commission with interim reports of the information listed in Items (1) through (6) above periodically as required by the Commission while the pilot is in effect.

Finally, the annual report would contain the following analysis of trading patterns in Expiration Friday, P.M.-settled NQX option series in the pilot: (1) a time series analysis of open interest; and (2) an analysis of the distribution of trade sizes. Also, for series that exceed certain minimum parameters, the annual report would contain the following analysis related to index price changes and underlying share trading volume at the close on Expiration Fridays: a comparison of index price changes at the close of trading on a given Expiration Friday with comparable price changes from a control sample. The data would include a calculation of percentage price changes for various time intervals and compare that information to the respective control sample. Raw percentage price change data as well as percentage price change data normalized for prevailing market volatility, as measured by an appropriate index as agreed by the Commission and the Exchange, would be provided. The Exchange would provide a calculation of share volume for a sample set of the component securities representing an upper limit on share trading that could be attributable to expiring in-the-money series.

The data would include a comparison of the calculated share volume for securities in the sample set to the average daily trading volumes of those securities over a sample period. The minimum open interest parameters, control sample, time intervals, method for randomly selecting the component securities, and sample periods would be determined by the Exchange and the Commission. The Exchange will make public all data and analyses submitted to the Commission under the Pilot Program.

b. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,[23] in general, and furthers the objectives of Section 6(b)(5) of the Act,[24] 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. Specifically, the Exchange believes that the listing and trading of a reduced value P.M.-settled index option contract based on the Nasdaq-100 will attract order flow to the Exchange, increase the variety of listed options, and provide a valuable hedge tool to retail and other investors.

The Exchange believes that the proposed rule change will further the Exchange's goal of introducing new and innovative products to the marketplace. Specifically, the Exchange believes that NQX options would provide additional opportunities for market participants to trade and hedge exposure to the Nasdaq-100. The proposed NQX options product is similar to NDX options that are currently listed and traded on the Exchange

---

[23] 15 U.S.C. 78f(b).

[24] 15 U.S.C. 78f(b)(5).

with two important differences: (1) NQX options will be based on 1/5 the value of the Nasdaq-100, and (2) NQX options will be P.M.-settled. These differences are based on the Exchange's experience listing NDX options, and are designed to attract additional participation from retail and other investors. Based on feedback received from members, the Exchange believes that the proposed contract specifications will be attractive to market participants, and will remove impediments to and perfect the mechanism of a free and open market and a national market system.

Currently, the Exchange believes that there is unmet market demand for exchange-listed index options on the Nasdaq-100. This unmet demand stems in part from the high value of the Nasdaq-100 and the consequently higher cost of purchasing NDX options. The value of the Nasdaq-100 was 6,890.84 as of the opening of trading on November 29, 2018, and this high value has made it more difficult for retail and other investors to comfortably purchase options on the index. The Exchange believes that a reduced value index option would allow additional participation from these investors. Specifically, the Exchange believes that basing the contract on a reduced value of the Nasdaq-100 will encourage additional participation by retail and other investors due to the reduced capital outlay needed to trade these options. While the Exchange previously listed a reduced value MNX contract, that product never attracted significant trading volume. The Exchange believes that basing NQX options on 1/5 the value of the Nasdaq-100 strikes a more appropriate balance than the MNX product that is based on 1/10 the value of this index, as this value is more similar to other competitive index option products and is also helpful for market participants that want to hedge exposure to NQ futures that are similarly based on 1/5 the value of the Nasdaq-100.

Furthermore, based on member feedback, the Exchange believes that providing P.M.-settlement will make this product more attractive to market participants and help garner additional support for this new index option product. Specifically, the Exchange believes that P.M.-settlement will be attractive to retail and other investors that want to use these options to hedge an entire week of risk without leaving residual risk on the day of expiration, and without having to actively manage these positions, for example, by rolling their hedge into the next expiration. For this reason, other popular index option products have been transitioning to P.M.-settlement. For example, due to market demand for P.M.-settlement, CBOE recently transitioned its heavily traded SPX index options to P.M.-settlement, and removed related A.M.-settled products.[25] The Exchange believes that market participants similarly desire P.M.-settlement for index options on the Nasdaq-100, and proposes to offer such a product so that it can compete effectively with similar index option products offered by CBOE.

When cash-settled index options were first introduced in the 1980s, they generally utilized closing-price settlement procedures (i.e., P.M.-settlement). Due to concerns raised by the Commission on the impact of P.M.-settlement on market volatility and the operation of fair and orderly markets on the underlying cash market at or near the close of trading on expiration day, however, exchanges moved to A.M.-settlement for these products. As discussed in the recent approval of the NDXPM product,[26] however, the Commission has recognized that these risks may be mitigated today by the enhanced closing procedures that are now employed by the primary equity markets. The Exchange

---

25 See CBOE Regulatory Circular RG10-112.

26 See Securities Exchange Act Release No. 81293 (August 2, 2017), 82 FR 37138 (August 8, 2017) (SR-Phlx-2017-04).

believes that the concerns that led to the transition to A.M.-settlement for index derivatives have been largely mitigated today. Opening procedures in the 1990s were deemed acceptable to mitigate one-sided order flow driven by index option expiration. Nasdaq now has an automated closing cross that that facilitates orderly closings by aggregating a large pool of liquidity, across a variety of order types, in a single venue. The Exchange believes that Nasdaq's closing procedures are well-equipped to mitigate imbalance pressure at the close. Furthermore, the Exchange believes that the proposed Pilot Program is designed to mitigate any potential concerns regarding P.M. settlement. Specifically, the Exchange believes that the Pilot Program will provide additional trading and hedging opportunities for investors while providing the Commission with data to monitor for and assess any potential for adverse market effects of allowing P.M.-settlement for NQX options, including on the underlying component stocks.

Finally, NQX options will be subject to the same rules that presently govern the trading of index options based on the Nasdaq-100, including sales practice rules, margin requirements, trading rules, and position and exercise limits. The Exchange therefore believes that the rules applicable to trading in NQX options are consistent with the protection of investors and the public interest. Furthermore, the Exchange represents that it has sufficient systems capacity and adequate surveillance procedures to handle trading in NQX options.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. NQX options would be available for trading to all market participants. The proposed rule change will facilitate the listing and trading of a new option product that will enhance competition among market participants, to the benefit of investors and the marketplace. The listing of NQX will enhance competition by providing investors with an additional investment vehicle, in a fully-electronic trading environment, through which investors can gain and hedge exposure to the Nasdaq-100. Furthermore, this product could offer a competitive alternative to other existing investment products that seek to allow investors to gain broad market exposure. Finally, it is possible for other exchanges to develop or license the use of a new or different index to compete with the Nasdaq-100 and seek Commission approval to list and trade options on such an index.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

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

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

Not applicable.

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

The proposed rule change is based upon the current ISE 12 month pilot program to list and trade NQX options.[27]

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

Not applicable.

---

[27] See the ISE Approval Order.

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-2018-78)

December __, 2018

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing of Proposed Rule Change to Permit the Listing and Trading of Options Based on 1/5 the Value of the Nasdaq-100 Index

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 November 30, 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 permit the listing and trading of options based on 1/5 the value of the Nasdaq-100 Index ("Nasdaq-100") on a twelve month pilot basis.

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

---

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

2 17 CFR 240.19b-4.

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 amend the Exchange's rules to (1) correct existing references in the Exchange's rules to "Reduced Value Nasdaq 100 Options,"[3] and (2) to permit the listing and trading of index options, including FLEX options,[4] on the Nasdaq 100 Reduced Value Index ("NQX") on a twelve month pilot basis. NQX options are currently listed for trading on a pilot basis on the Exchange's affiliate, Nasdaq ISE, LLC ("ISE").[5]

---

[3] The Exchange filed a proposed rule change to permit the listing and trading of these options in 2008. That proposed rule change described the new options as options on one-tenth of the value of the Nasdaq 100 Index ("Mini Nasdaq 100 Index" or "MNX"). See Securities Exchange Act Release No. 57936 (June 6, 2008) 73 FR 33481(June 12, 2008) (SR-Phlx-2008-36). However, the amended rule text referred to these options as "Reduced Value Nasdaq 100 Options". To eliminate potential confusion the Exchange now proposes to redesignate these options as options on the Mini-Nasdaq-100 Index, or "MNX," to distinguish them from the options proposed to be listed herein, which are options on the Nasdaq 100 Reduced Value Index or "NQX".

[4] Phlx Rule 1079 permits the trading of FLEX options, which are options customized to fit specific investment strategies and goals. Investors can specify the characteristics for FLEX Option contracts such as the expiration date, the strike price, and the exercise-style.

[5] See Securities Exchange Act Release No. 82911 (March 20, 2018), 83 FR 12966 (March 26, 2018) (SR-ISE-2017-106) (the "ISE Approval Order").

The NQX options contract will be the same in all respects as the current Nasdaq-100 ("NDX") options contract listed on the Exchange,[6] except that it will be based on 1/5 of the value of the Nasdaq-100, and will be P.M.-settled with an exercise settlement value based on the closing index value of the Nasdaq-100 on the day of expiration.[7] The Exchange believes that the proposed contract will be valuable for retail and other investors that wish to trade reduced value options on the Nasdaq-100, or who wish to hedge positions in the related E-mini Nasdaq 100 ("NQ") futures contract, which is also based on 1/5 the value of the Nasdaq-100.

I. Nasdaq-100 Index

The Nasdaq-100 is a modified market capitalization-weighted index that includes 100 of the largest non-financial companies listed on The Nasdaq Stock Market LLC ("Nasdaq"),[8] based on market capitalization.[9] It does not contain securities of financial companies, including investment companies. Security types generally eligible for the Nasdaq-100 include common stocks, ordinary shares, American Depository Receipts, and tracking stocks. Security or company types not included in the Nasdaq-100 are closed-end funds, convertible debentures, exchange traded funds, limited liability companies,

---

6 See Securities Exchange Act Release No. 57936 (June 6, 2008), 73 FR 33481 (June 12, 2008) (SR-Phlx-2008-36).

7 In addition to the current Nasdaq-100 index value, Nasdaq, Inc. disseminates an index value for NQX that is 1/5 of the value of the Nasdaq-100.

8 Nasdaq is an affiliate of the Exchange.

9 The Nasdaq-100 is a broad-based index, as defined in Rule 1000A(b)(11).

limited partnership interests, preferred stocks, rights, shares or units of beneficial interest, warrants, units and other derivative securities.[10]

II. NQX Options Contract

Currently, the Exchange lists and trades NDX options that are based on the full value of the Nasdaq-100. In an effort to attract additional interest in index options based on the Nasdaq-100, the Exchange now proposes to list and trade a new reduced value option contract based on this index on a twelve month pilot basis. NQX options will trade independently of and in addition to NDX options, and the NQX options will be subject to the same rules that presently govern the trading of index options based on the Nasdaq-100, including sales practice rules, margin requirements, trading rules, and position and exercise limits. Similar to NDX, NQX options will be European-style and cash-settled, and will have a contract multiplier of 100. The contract specifications for NQX options will mirror in all respects those of the NDX options contract already listed on the Exchange, except that the Exchange proposes that NQX options will be based on 1/5 of the value of the Nasdaq-100, and will be P.M.-settled pursuant to proposed Rule 1101A(f). Similar features are available with other index options contracts listed and/or approved for trading on the Exchange and other options exchanges, including the Exchange's affiliate, Nasdaq GEMX, LLC ("GEMX"). Specifically, options contracts based on 1/10 the value of the Nasdaq-100, i.e., "MNX" options, were previously listed on the Exchange and on GEMX with limited strikes, and are also currently listed on the Chicago Board Options Exchange ("CBOE"). In addition, the Exchange recently received

---

10 A description of the Nasdaq-100 is available on Nasdaq's website at https://indexes.nasdaqomx.com/docs/methodology_NDX.pdf.

approval to trade P.M.-settled options on the full value of the Nasdaq-100 (“NDXPM”)[11] and on broad-based index options with nonstandard expirations (“NDXP”).[12]

The value of the Nasdaq-100 has increased significantly in recent years such that the value of the index stood at 6890.84 as of the opening of trading on November 29, 2018. As a result of the increase in the value of the underlying Nasdaq-100 index, the premium for NDX options has also increased. The Exchange believes that this has caused NDX options to trade at a level that may be uncomfortably high for certain retail and other investors. The Exchange believes that listing options on reduced values will attract a greater source of retail customer business. The Exchange further believes that listing options on reduced values will provide an opportunity for investors to trade and hedge the market risk associated with the Nasdaq-100.

With an exercise settlement value based on 1/5 of the Nasdaq-100, the Exchange believes that retail and other investors would be able to use this trading vehicle while extending a smaller outlay of capital. Furthermore, the proposed reduced value index will have a notional value at a level that is comparable to similar products that have been successful in the market, including the S&P 500, which had an index value of 2,736.97 as of the opening of trading on November 29, 2018, and the Russell 2000, which had an index value of 1,529.70 as of the opening of trading on that date. Finally, options based

---

11 See Securities Exchange Act Release No. 81293 (August 2, 2017), 82 FR 37138 (August 8, 2017) (SR-Phlx-2017-04) (Approval Order). The Exchange has recently filed a proposed rule change to move the NDXPM options into the NDX options class, where they will remain P.M.-settled. See Securities Exchange Act Release No. 84034 (September 5, 2018), 83 FR 46001 (September 11, 2018) (SR-Phlx-2018-57).

12 See Securities Exchange Act Release No. 82341 (December 15, 2017), 82 FR 60651 (December 21, 2017) (Order approving the Exchange’s Nonstandard Expirations Pilot Program).

on 1/5 of the value of the Nasdaq-100 will be a particularly useful hedge, as NQ futures are similarly based on the value of 1/5 of the value of the Nasdaq-100. The Exchange therefore believes that basing the proposed NQX options contract on 1/5 of the value of the Nasdaq-100 should attract additional investors, and, in turn, create a more active and liquid trading environment.

NQX options will also be P.M.-settled as the Exchange believes that market participants, and in particular, retail investors, who are the target audience for this product, prefer P.M.-settled index options. P.M.-settlement is preferred by retail investors as it allows market participants to hedge their exposure for the full week. A.M.-settled options by contrast are based on opening prices on the day of expiration and therefore stop trading on the day prior, leaving residual risk on the day of expiration. Feedback from members that handle retail order flow has indicated that P.M.-settlement is needed to garner retail investor support for this product. In this regard, the Exchange notes that there is ample precedent for P.M.-settlement of broad-based index options. As described above, the Exchange recently received approval to list NDXPM options. In addition, CBOE offers P.M.-settled index options based on both the Standard & Poor's 500 index ("SPXW"),[13] and the Standard & Poor's 100 index ("OEX").[14]

The Exchange does not believe that the introduction of a new P.M.-settled Nasdaq-100 contract will cause any market disruptions. Similar to other P.M.-settled index option products, the Exchange is proposing to list and trade NQX options contracts pursuant to a pilot, and will provide data to the Commission during the pilot period as

---

13 See Securities Exchange Act Release No. 80060 (February 17, 2017), 82 FR 11673 (February 24, 2017) (SR-CBOE-2016-091) (Approval Order).

14 OEX has been P.M. settled since 1983.

described in Section VI below. The Exchange will monitor for any disruptions caused by P.M.-settlement of the proposed NQX options contract or the development of any factors that could cause such disruptions. P.M.-settled options predominate in the over-the-counter ("OTC") market, and the Exchange is not aware of any adverse effects in the OTC market attributable to the P.M.-settlement feature. The Exchange is merely proposing to offer a P.M.-settled product in an exchange environment, which offers the additional benefits of added transparency, price discovery, and stability.

III. Trading Hours, Minimum Increments, Expirations and Strike Prices

NQX options will be available for trading during the Exchange's standard trading hours for index options, i.e., from 9:30 a.m. to 4:15 p.m. New York time,[15] with a minimum trading increment of $0.05 for options trading below $3.00 and $0.10 for all other series.[16] NQX options will have monthly expiration dates on the third Friday of each month (i.e., Expiration Friday), and the Exchange proposes to list NQX options in expiration months consistent with those of other index option products available on the Exchange.[17] In addition, the Exchange may list long-term index options series ("LEAPS") that expire from nine (9) to sixty (60) months from the date of issuance.[18] NQX options would also be eligible to be added to the Short Term Option Series Program ("Weeklies") and/or Quarterly Options Series Program ("Quarterlies") if

---

15 See Rules 101 and 1101A, Commentary .01 as proposed to be amended.

16 See Rule 1034, Minimum Increments.

17 See Rule 1101A(b).

18 See Rule 1101A(b)(iii).

designated by the Exchange pursuant to Rules 1101A(b)(vi) or 1101A(b)(v), respectively.[19]

Generally, pursuant to Rule 1101A(a), index options listed on the Exchange are subject to strike price intervals of no less than $5, provided that certain classes of index options (including MNX) have strike price intervals of no less than $2.50. The Exchange proposes to amend Rule 1101A(a) to add NQX options, if the strike price is less than $200.00, to the list of classes where strike price intervals of no less than $2.50 are permitted. In addition, Rule 1101A, Commentary .02 currently provides finer strike price intervals for MNX options as these contracts are based on a reduced value of the Nasdaq-100. Specifically, Rule 1101A.02 provides that notwithstanding Rule 1101A(a) discussed above, the interval between strike prices of series of MNX options will be $1 or greater, subject to certain conditions. The Exchange proposes to adopt the same strike price intervals for NQX options as are currently approved for MNX options. Thus, notwithstanding Rule 1101A(a), the interval between strike prices of series of NQX options will be $1 or greater, subject to the conditions described in Rule 1101A, Commentary .02, which currently apply to the listing of strikes in reduced value MNX contracts. The Exchange will not list LEAPS on NQX options at intervals less than $2.50.[20] If the Exchange determines to add NQX options to the Weeklies or Quarterlies programs such options will be listed with expirations and strike prices described in Rules 1101A(b)(v) or 1101A(b)(vi).

---

[19] The Exchange expects that it will add NQX options to the Weeklies program.

[20] Under Phlx Rule 1101A(a)(xxxviii), the Exchange may list reduced value long term options (LEAPS) at strike price intervals of $2.50. By contrast, as stated in the ISE Approval Order at footnote 9, ISE will not list LEAPS on NQX options at intervals less than $5.00.

IV. Position and Exercise Limits; Margin

As with NDX, in determining compliance with Rule 1001A, Position Limits, and 1079, FLEX Index, Equity and Currency Options, Section (d), Position Limits, there will be no position limits for broad-based index option contracts in the NQX class. Although there will be no position limits for NQX options, the Exchange proposes to amend Rule 1001A(e) to correctly describe how positions in reduced-value options would be aggregated with full-value options. Rule 1001A(e) currently provides in relevant part that reduced value or mini-size contracts shall be aggregated with full value or full-size contracts and counted by the amount by which they equal a full value contract, e.g. ten (10) one tenth (1/10th) value contracts equal one (1) full value contract. This language was consistent with other reduced-value contracts offered on the Exchange – i.e., options on MNX, which is based on 1/10 of the value of the Nasdaq-100. Since the Exchange is proposing to list a reduced-value NQX contract that is based on 1/5 of the value of the Nasdaq-100, the Exchange proposes to amend this language to state instead that reduced-value contracts will be counted consistent with their value (e.g., 5 NQX reduced-value contracts equal 1 NDX full-value contract). With this change, the rule will more accurately reflect how the Exchange would aggregate reduced-value and full-value positions for NQX. In addition, as with NDX, there would be no exercise limits for NQX.[21] Finally, the Exchange proposes to apply broad-based index margin requirements for the purchase and sale of NQX options that are the same as margin requirements currently in place for NDX options.

---

[21] See Rule 1002A, which provides that exercise limits for index options products are equivalent to the position limits in place for those products.

V. Surveillance and Capacity

The Exchange represents that it has sufficient capacity to handle additional quotations and message traffic associated with the proposed listing and trading of NQX options. In addition, index options are integrated into the Exchange's existing surveillance system architecture and are thus subject to the relevant surveillance processes. The Exchange represents that it has adequate surveillance procedures to monitor trading in NQX options thereby aiding in the maintenance of a fair and orderly market.

VI. Pilot Program Reports

The Exchange proposes to list and trade NQX options on a pilot basis for period of twelve months (“Pilot Program”). If the Exchange were to propose an extension of the program or should the Exchange propose to make the program permanent, then the Exchange would submit a filing proposing such amendments to the program. The Exchange notes that any positions established under the pilot would not be impacted by the expiration of the pilot. For example, a position in an NQX options series that expires beyond the conclusion of the pilot period could be established during the pilot. If the Pilot Program were not extended, then the position could continue to exist. However, the Exchange notes that any further trading in the series would be restricted to transactions where at least one side of the trade is a closing transaction.

The Exchange proposes to submit a Pilot Program report to the Commission at least two months prior to the expiration date of the Pilot Program (the “annual report”). The annual report would contain an analysis of volume, open interest, and trading patterns. The analysis would examine trading in the proposed option product as well as trading in the securities that comprise the Nasdaq-100. In addition, for series that exceed certain minimum open interest parameters, the annual report would provide analysis of index price volatility and share trading activity. In addition to the annual report, the Exchange would provide the Commission with periodic interim reports while the pilot is in effect that would contain some, but not all, of the information contained in the annual report. The annual report would contain the following volume and open interest data:[22]

(1) monthly volume aggregated for all trades;

(2) monthly volume aggregated by expiration date;

(3) monthly volume for each individual series;

(4) month-end open interest aggregated for all series;

(5) month-end open interest for all series aggregated by expiration date; and

(6) month-end open interest for each individual series.

In addition to the annual report, the Exchange would provide the Commission with interim reports of the information listed in Items (1) through (6) above periodically as required by the Commission while the pilot is in effect.

Finally, the annual report would contain the following analysis of trading patterns in Expiration Friday, P.M.-settled NQX option series in the pilot: (1) a time series analysis of open interest; and (2) an analysis of the distribution of trade sizes. Also, for series that exceed certain minimum parameters, the annual report would contain the following analysis related to index price changes and underlying share trading volume at the close on Expiration Fridays: a comparison of index price changes at the close of trading on a given Expiration Friday with comparable price changes from a control

---

22 Based on the data elements to be provided to the Commission for the NDXPM pilot. See Securities Exchange Act Release No. 81293 (August 2, 2017), 82 FR 37138 (August 8, 2017) (SR-Phlx-2017-04).

sample. The data would include a calculation of percentage price changes for various time intervals and compare that information to the respective control sample. Raw percentage price change data as well as percentage price change data normalized for prevailing market volatility, as measured by an appropriate index as agreed by the Commission and the Exchange, would be provided. The Exchange would provide a calculation of share volume for a sample set of the component securities representing an upper limit on share trading that could be attributable to expiring in-the-money series. The data would include a comparison of the calculated share volume for securities in the sample set to the average daily trading volumes of those securities over a sample period. The minimum open interest parameters, control sample, time intervals, method for randomly selecting the component securities, and sample periods would be determined by the Exchange and the Commission. The Exchange will make public all data and analyses submitted to the Commission under the Pilot Program.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,[23] in general, and furthers the objectives of Section 6(b)(5) of the Act,[24] 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. Specifically, the Exchange believes that the listing and trading of a reduced value P.M.-settled index option contract based on the Nasdaq-100 will attract order flow to the

---

23 15 U.S.C. 78f(b).

24 15 U.S.C. 78f(b)(5).

Exchange, increase the variety of listed options, and provide a valuable hedge tool to retail and other investors.

The Exchange believes that the proposed rule change will further the Exchange's goal of introducing new and innovative products to the marketplace. Specifically, the Exchange believes that NQX options would provide additional opportunities for market participants to trade and hedge exposure to the Nasdaq-100. The proposed NQX options product is similar to NDX options that are currently listed and traded on the Exchange with two important differences: (1) NQX options will be based on 1/5 the value of the Nasdaq-100, and (2) NQX options will be P.M.-settled. These differences are based on the Exchange’s experience listing NDX options, and are designed to attract additional participation from retail and other investors. Based on feedback received from members, the Exchange believes that the proposed contract specifications will be attractive to market participants, and will remove impediments to and perfect the mechanism of a free and open market and a national market system.

Currently, the Exchange believes that there is unmet market demand for exchange-listed index options on the Nasdaq-100. This unmet demand stems in part from the high value of the Nasdaq-100 and the consequently higher cost of purchasing NDX options. The value of the Nasdaq-100 was 6,890.84 as of the opening of trading on November 29, 2018, and this high value has made it more difficult for retail and other investors to comfortably purchase options on the index. The Exchange believes that a reduced value index option would allow additional participation from these investors. Specifically, the Exchange believes that basing the contract on a reduced value of the Nasdaq-100 will encourage additional participation by retail and other investors due to the reduced capital outlay needed to trade these options. While the Exchange previously listed a reduced value MNX contract, that product never attracted significant trading volume. The Exchange believes that basing NQX options on 1/5 the value of the Nasdaq-100 strikes a more appropriate balance than the MNX product that is based on 1/10 the value of this index, as this value is more similar to other competitive index option products and is also helpful for market participants that want to hedge exposure to NQ futures that are similarly based on 1/5 the value of the Nasdaq-100.

Furthermore, based on member feedback, the Exchange believes that providing P.M.-settlement will make this product more attractive to market participants and help garner additional support for this new index option product. Specifically, the Exchange believes that P.M.-settlement will be attractive to retail and other investors that want to use these options to hedge an entire week of risk without leaving residual risk on the day of expiration, and without having to actively manage these positions, for example, by rolling their hedge into the next expiration. For this reason, other popular index option products have been transitioning to P.M.-settlement. For example, due to market demand for P.M.-settlement, CBOE recently transitioned its heavily traded SPX index options to P.M.-settlement, and removed related A.M.-settled products.[25] The Exchange believes that market participants similarly desire P.M.-settlement for index options on the Nasdaq-100, and proposes to offer such a product so that it can compete effectively with similar index option products offered by CBOE.

When cash-settled index options were first introduced in the 1980s, they generally utilized closing-price settlement procedures (i.e., P.M.-settlement). Due to concerns

25 See CBOE Regulatory Circular RG10-112.

raised by the Commission on the impact of P.M.-settlement on market volatility and the operation of fair and orderly markets on the underlying cash market at or near the close of trading on expiration day, however, exchanges moved to A.M.-settlement for these products. As discussed in the recent approval of the NDXPM product,[26] however, the Commission has recognized that these risks may be mitigated today by the enhanced closing procedures that are now employed by the primary equity markets. The Exchange believes that the concerns that led to the transition to A.M.-settlement for index derivatives have been largely mitigated today. Opening procedures in the 1990s were deemed acceptable to mitigate one-sided order flow driven by index option expiration. Nasdaq now has an automated closing cross that that facilitates orderly closings by aggregating a large pool of liquidity, across a variety of order types, in a single venue. The Exchange believes that Nasdaq's closing procedures are well-equipped to mitigate imbalance pressure at the close. Furthermore, the Exchange believes that the proposed Pilot Program is designed to mitigate any potential concerns regarding P.M. settlement. Specifically, the Exchange believes that the Pilot Program will provide additional trading and hedging opportunities for investors while providing the Commission with data to monitor for and assess any potential for adverse market effects of allowing P.M.-settlement for NQX options, including on the underlying component stocks.

Finally, NQX options will be subject to the same rules that presently govern the trading of index options based on the Nasdaq-100, including sales practice rules, margin requirements, trading rules, and position and exercise limits. The Exchange therefore believes that the rules applicable to trading in NQX options are consistent with the

---

26 See Securities Exchange Act Release No. 81293 (August 2, 2017), 82 FR 37138 (August 8, 2017) (SR-Phlx-2017-04).

protection of investors and the public interest. Furthermore, the Exchange represents that it has sufficient systems capacity and adequate surveillance procedures to handle trading in NQX options.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. NQX options would be available for trading to all market participants. The proposed rule change will facilitate the listing and trading of a new option product that will enhance competition among market participants, to the benefit of investors and the marketplace. The listing of NQX will enhance competition by providing investors with an additional investment vehicle, in a fully-electronic trading environment, through which investors can gain and hedge exposure to the Nasdaq-100. Furthermore, this product could offer a competitive alternative to other existing investment products that seek to allow investors to gain broad market exposure. Finally, it is possible for other exchanges to develop or license the use of a new or different index to compete with the Nasdaq-100 and seek Commission approval to list and trade options on such an index.

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

No written comments were either solicited or received.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2018-78 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-2018-78. 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-2018-78 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.[27]

Eduardo A. Aleman
Assistant Secretary

---

[27] 17 CFR 200.30-3(a)(12).

EXHIBIT 5

Deleted text is [bracketed]. New text is <u>underlined</u>.

Nasdaq PHLX Rules

* * * * *

Rule 1079. FLEX Index, Equity and Currency Options

A Requesting Member shall obtain quotes and execute trades in certain non-listed FLEX options at the post of the non-FLEX option on the Exchange. The term "FLEX option" means a FLEX option contract that is traded subject to this Rule. Although FLEX options are generally subject to the Rules in this section, to the extent that the provisions of this Rule are inconsistent with other applicable Exchange Rules, this Rule takes precedence with respect to FLEX options.

(a) – (c) No change.

(d) **Position Limits.**

(1) FLEX index options shall be subject to a separate position limit of 200,000 contracts on the same side of the market respecting market index options; 36,000, 48,000, or 60,000 contracts respecting industry index options, depending on the position limit tier determined pursuant to Rule 1001A(b)(i); the same number of contracts respecting Alpha Index options that would apply to such Alpha Index options if they were not FLEX; the same number of contracts respecting MSCI EM Index options that would apply to such MSCI EM Index options if they were not FLEX; and the same number of contracts respecting MSCI EAFE Index options that would apply to such MSCI EAFE Index options if they were not FLEX. Reduced value or mini-size FLEX index option contracts shall be aggregated with full value or full-size FLEX index option contracts and counted by the amount by which they equal a full value contract (e.g. ten (10) one tenth (1/10th) value contracts equal one (1) full value contract). Positions in P.M.-settled FLEX index options shall be aggregated with positions in quarterly expiring options listed pursuant to Rule 1101A(b)(iv) on the same underlying index, if the FLEX index option expires at the close of trading on or within two business days of the last day of trading in each calendar quarter. However, except as provided in subsection (4) of this section (d), positions in FLEX index options shall otherwise not be taken into account when calculating position limits for non-FLEX index options. There shall be no position limits for full value options on the Russell 2000® Index ("Full Value Russell 2000® Options") and for one tenth (1/10th) value options on the Russell 2000® Index ("Reduced Value Russell 2000® Options"). There shall be no position limits for full value options on the Nasdaq 100 Index ("Full Value Nasdaq 100 Options")<u>, for options on the Nasdaq 100 Reduced Value Index ("NQX")</u> and for <u>options on </u>the <u>Mini-Nasdaq-100 Index ("MNX")</u>[reduced value options on the Nasdaq 100 Index ("Reduced Value Nasdaq 100 Options")]. Options on the Full Value and Reduced

Value Russell Indexes for the following products (collectively "Russell U.S. Indexes"): Russell 3000® Index, Russell 3000® Value Index, Russell 3000® Growth Index, Russell 2500™ Index, Russell 2500™ Value Index, Russell 2500™ Growth Index, Russell 2000® Value Index, Russell 2000® Growth Index, Russell 1000® Index, Russell 1000® Value Index, Russell 1000® Growth Index, Russell Top 200® Index, Russell Top 200® Value Index, Russell Top 200® Growth Index, Russell MidCap® Index, Russell MidCap® Value Index, Russell MidCap® Growth Index, Russell Small Cap Completeness® Index, Russell Small Cap Completeness® Value Index and Russell Small Cap Completeness® Growth Index, are subject to an aggregate position limit of 50,000 contracts on the same side of the market, provided that no more than 30,000 of such contracts are in the nearest expiration month series.

(2) – (4) No change.

(e) –(g) No change.

• • • *Commentary:* ------------------

.01 Reserved.

* * * * *

Rule 1001A. Position Limits

(a) The position limit for a broad-based (market) index option shall be 25,000 contracts on the same side of the market except as provided below. Certain positions must be aggregated in accordance with paragraph (d) or (e) below.

(i) No change.

(ii) Respecting the Full Value Nasdaq 100 Options<u>, the Nasdaq 100 Reduced Value Index (“NQX”) Options and the Mini-Nasdaq-100 Index (“MNX”) Options</u>[and the Reduced Value Nasdaq 100 Options], there shall be no position limits.

(iii) No change.

(b) – (d) No change.

(e) *Aggregation*—Full value, reduced value, long term and quarterly expiring options based on the same index shall be aggregated. [Reduced value or mini-size contracts shall be aggregated with full value or full-size contracts and counted by the amount by which they equal a full value contract (e.g. ten (10) one tenth (1/10th) value contracts equal one (1) full value contract).]<u>For such purposes, reduced-value contracts will be counted consistent with their value (e.g., 5 NQX reduced-value contracts equal 1 NDX full-value contract).</u> Positions in Short Term Options Series and Quarterly Options Series shall be aggregated with positions in options contracts of the same index. Nonstandard Expirations (as provided for in Rule 1101A(b)(vii)) on a broad-based index shall be aggregated with option contracts on the same broad-based index and shall be subject to the overall position limit.

(f) No change.

• • • ***Commentary:*** ------------------ No change.

* * * * *

Rule 1101A. Terms of Option Contracts

(a) The Exchange shall determine fixed point intervals of exercise prices for index options (options on indexes). Generally, except as provided in Commentary .04 below, the exercise (strike) price intervals will be no less than $5, provided that the Exchange may determine to list strike prices at no less than $2.50 intervals for options on the following indexes (which may also be known as sector indexes):

(i) - (xxxvi) No change.

(xxxvii) [Reduced Value Nasdaq 100® Index (Reduced Value Nasdaq 100® Options),]Mini-Nasdaq-100 Index (“MNX”);

(xxxviii) - Reduced value long term options, also known as LEAPS;

(xxxix) - (lxxx) No change.

(lxxxi) Nasdaq 100 Reduced Value Index (“NQX”), if the strike price is less than $200.00.

The Exchange may also determine to list strike prices at no less than $2.50 intervals for options on indexes delineated in this rule in response to demonstrated customer interest or specialist request. For purposes of this paragraph, demonstrated customer interest includes institutional (firm) corporate or customer interest expressed directly to the Exchange or through the customer's floor brokerage unit, but not interest expressed by an ROT with respect to trading for the ROT's own account.

Notwithstanding any other provision regarding strike prices in this Rule 1101A, non-Short Term Options that are on an index class that has been selected to participate in the Short Term Option Series Program (referred to as a "Related non-Short Term Option series") shall be opened during the month prior to expiration of such Related non-Short Term Option series in the same manner as permitted in this Rule 1101A(b)(vi) and in the same strike price intervals that are permitted in this Rule 1101A(b)(vi).

(b) – (d) No change.

(e) A.M.-Settled Index Options. The last day of trading for A.M.-settled index options shall be the business day preceding the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, the business day preceding the last day of trading in the underlying securities prior to the expiration date. The current index value at the expiration of an A.M.-settled index option shall be determined, for all purposes under these Rules and the Rules of the Options Clearing Corporation, on the last day of trading in the underlying securities prior to expiration, by reference to the reported level of such index as derived from first reported sale (opening) prices of the underlying securities on such day, except that in the event that the primary market for an underlying security is open for trading on that day, but that particular security does not open for trading on that day, the price of that security, for the purposes of calculating the current index value at expiration, shall be the last reported sale price of the security. The following A.M.-settled index options are approved for trading on the Exchange:

(i) – (v) No change.

(vi) [Reduced Value Nasdaq 100 Options]MNX Options

(f) In addition to A.M.-settled Nasdaq-100 Index options approved for trading on the Exchange pursuant to Rule 1101A(e)(v), the Exchange may also list NQX Options whose exercise settlement value is derived from closing prices on the expiration day ("P.M.-settled"). NQX options will be listed for trading for a pilot period ending on the earlier of (1) 12 months following the date of the first listing of the options, or (2) January 31, 2020.

• • • ***Commentary:*** ------------------

.01 Transactions in broad-based (market) index options traded on the Exchange, including Full Value Russell 2000® Options and Reduced Value Russell 2000® Options, Full and Reduced Value Russell 3000® Index, Full and Reduced Value Russell 3000® Value Index, Full and Reduced Value Russell 3000® Growth Index, Full and Reduced Value Russell 2500™ Index, Full and Reduced Value Russell 2500™ Value Index, Full and Reduced Value Russell 2500™ Growth Index, Full and Reduced Value Russell 2000® Value Index, Full and Reduced Value Russell 2000® Growth Index, Full and Reduced Value Russell 1000® Index, Full and Reduced Value Russell 1000® Value Index, Full and Reduced Value Russell 1000® Growth Index, Full and Reduced Value Russell Top 200® Index, Full and Reduced Value Russell Top 200® Value Index, Full and Reduced Value Russell Top 200® Growth Index, Full and Reduced Value Russell MidCap® Index, Full and Reduced Value Russell MidCap® Value Index, Full and Reduced Value Russell MidCap® Growth Index, Full and Reduced Value Russell Small Cap Completeness® Index, Full and Reduced Value Russell Small Cap Completeness® Value Index, and Full and Reduced Value Russell Small Cap Completeness® Growth Index and Full Value Nasdaq 100 Options, [and Reduced

Value Nasdaq 100 Options]MNX Options and NQX Options may be effected on the Exchange until 4:15 P.M. each business day, through the expiration date. Transactions in Alpha Index options may also be effected on the Exchange until 4:15 P.M. each business day, through the expiration date.

.02 Notwithstanding subsection (a) to this Rule 1101A, the interval between strike prices of series of [Reduced Value Nasdaq 100 Options] MNX Options or NQX Options will be $1 or greater, subject to following conditions:

(a) Initial Series. The Exchange may list series at $1 or greater strike price intervals for [Reduced Value Nasdaq 100]MNX or NQX Options, and will list at least two strike prices above and two strike prices below the current value of the Nasdaq-100 Index at about the time a series is opened for trading on the Exchange. The Exchange shall list strike prices for [Reduced Value Nasdaq 100]MNX or NQX Options that are within 5 points from the closing value of the Nasdaq-100 Index on the preceding day.

(b) Additional Series. Additional series of the same class of [Reduced Value Nasdaq 100]MNX or NQX Options may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the underlying Nasdaq-100 Index moves substantially from the initial exercise price or prices. To the extent that any additional strike prices are listed by the Exchange, such additional strike prices shall be within thirty percent (30%) above or below the closing value of the Nasdaq-100 Index. The Exchange may also open additional strike prices that are more than 30% above or below the current Nasdaq-100 Index value provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account shall not be considered when determining customer interest under this provision. In addition to the initial listed series, the Exchange may list up to sixty (60) additional series per expiration month for each series in [Reduced Value Nasdaq 100]MNX or NQX Options.

(c) The Exchange shall not list LEAPS on [Reduced Value Nasdaq 100]MNX or NQX Options at intervals less than $2.50.

(d) (1) Delisting Policy. With respect to [Reduced Value Nasdaq 100]MNX or NQX Options added pursuant to the above paragraphs, the Exchange will, on a monthly basis, review series that are outside a range of five (5) strikes above and five (5) strikes below the current value of the Nasdaq-100 Index, and delist series with no open interest in both the put and the call series having a: (A) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (B) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

(2) Notwithstanding the above referenced delisting policy, customer requests to add strikes and/or maintain strikes in [Reduced Value Nasdaq 100]MNX or NQX Options series eligible for delisting shall be granted.

(3) In connection with the above referenced delisting policy, if the Exchange identifies series for delisting, the Exchange shall notify other options exchanges with similar delisting policies regarding eligible series for delisting, and shall work with such other exchanges to develop a uniform list of series to be delisted, so as to ensure uniform series delisting of multiply listed [Reduced Value Nasdaq 100]MNX or NQX Options.

.03 - .06 No change.

* * * * *