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

File No.* SR - 2019 - * 56

Amendment No. (req. for Amendments *)

Filing by Nasdaq PHLX LLC

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

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

Rule

Pilot	Extension of Time Period for Commission Action *	Date Expires *	
☐	☐		

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

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

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

Section 806(e)(1) *	Section 806(e)(2) *	Section 3C(b)(2) *
☐	☐	☐

Exhibit 2 Sent As Paper Document
▣

Exhibit 3 Sent As Paper Document
▣

Description

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

Proposal to amend Rules 1000, 1014, 1034, 1068, 1080, 1087, 1090, and 1093

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 12/19/2019

By John Zecca

EVP and Chief Legal Officer

(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.

john.zecca@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

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

Exhibit 3 - Form, Report, or Questionnaire

[Add] [Remove] [View]

Exhibit Sent As Paper Document

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

Exhibit 4 - Marked Copies

[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 ("Commission") a proposal to amend Rule 1000, "Applicability, Definitions and References," Rule 1014, "Obligations of Market Makers," Rule 1034, "Minimum Increments," Rule 1068, "Directed Orders," Rule 1080, "Electronic Acceptance of Quotes and Orders," Rule 1087, "Price Improvement XL ("PIXL")," Rule 1090, "Mass Cancellation of Trading Interest," and Rule 1093 titled "Away Markets and Order Routing."

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 25, 2019. Exchange staff will advise the Board of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

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

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

[2]   17 CFR 240.19b-4.

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 Exchange proposes to amend Rule 1000, "Applicability, Definitions and References," Rule 1014, "Obligations of Market Makers," Rule 1034, "Minimum Increments," Rule 1068, "Directed Orders," Rule 1080, "Electronic Acceptance of Quotes and Orders," Rule 1087, "Price Improvement XL ("PIXL")," Rule 1090, "Mass Cancellation of Trading Interest," and Rule 1093 titled "Away Markets and Order Routing." Each rule change will be discussed below.

        Applicability, Definitions and References

The Exchange proposes to define a "bid" and an "offer" within Phlx Rule 1000(b). The Exchange proposes to state the term "bid" means a quote or limit order to buy one or more options contracts within Rule 1000(b)(62). The Exchange proposes to state, the term "offer" means a quote or limit order to sell one or more options contracts within Rule 1000(b)(63). The Exchange believes that the addition of these definitions will bring greater transparency to the Exchange's Rules.

        Minimum Increments

The Exchange proposes to amend Rule 1034 regarding minimum increments. The Exchange proposes to reorganize and update the rule. The Exchange proposes to create a Commentary section to Rule 1034 and relocate all exceptions to Rule 1034(a) in the Commentary. The Exchange would amend Rule 1034(a) to state, except as provided in the Commentary and then also amend the words "quoting" to "trading" and eliminate

the word "decimals." The Exchange notes that executions are considered when

determining the minimum price variations of options which have prices at $3.00 or higher

or are priced under $3.00. The word "quoting" is not as precise as word "trading." The

Exchange utilizes executions to enforce minimum increments submitted by the member.

While the word "quoting" is not incorrect, the Exchange believes "trading" is more

understandable and is similarly utilized by Nasdaq ISE, LLC ("ISE"), Nasdaq GEMX,

LLC ("GEMX") and Nasdaq MRX, LLC ("MRX") at Options 3, Section 3 of those

Rulebooks. Similarly, the Exchange is removing the word "decimals" and similar to ISE,

GEMX and MRX at Options 3, Section 3, stating "at a price" because the Exchange

believes this language makes clear the intent. These changes do not result in a System

change, rather they represent the Exchange's current System operation.

The Exchange proposes to renumber current Rule 1034(a)(i)(A) as Rule

1034(a)(1), without change. The Exchange proposes to renumber current Rule

1034(a)(i)(C) as Rule 1034(a)(2) and change the words "Phlx XL II system" to simply

the defined term "System." The Exchange proposes to renumber current Rule 1034(a)(v)

as Rule 1034(a)(3) and remove the text "However" and instead add language to exclude

paragraph (a) similar to ISE, GEMX and MRX Rules at Options 3, Section 3. The

Exchange proposes to relocate current Rule 1034(a)(i)(b) as Commentary .01 and add the

title "Penny Pilot Program" before the rule text. The Exchange proposes to relocate

current Rules 1034(a)(ii), (iii), and (iv) as Commentary .02, .03 and .04, respectively.

The Exchange believes that these rule changes will bring greater clarity to the

Rule.

Directed Orders

The Exchange proposes to remove rule text within Rule 1068(a)(i)(A) with respect

to Directed Orders. The current rule text provides, "The term "Directed Order" means

any order (other than a stop or stop-limit order as defined in Options 8, Section 32) to buy

or sell which has been directed to a particular Specialist, RSQT, or SQT by an Order

Flow Provider, as defined below. To qualify as a Directed Order, an order must be

delivered to the Exchange via the System." The Exchange proposes to remove the

limitation for a stop or stop-limit order. The System will allow any order to be

considered a Directed Order. Today, Nasdaq ISE, LLC permits all order types to be

Preferenced.[3]

Price Improvement XL ("PIXL")

The Exchange proposes to amend Rule 1087 to make clear at the beginning of the

Rule which provisions apply to Public Customer-to-Public Customer Cross Orders.

Today, Phlx Rule 1087(a)[4] and (f)[5] permit Public Customer-to-Public Customer Cross

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[3]   See Nasdaq ISE, LLC Rules at Options 2, Section 10.

[4]   Phlx Rule 1087(a) provides, "Auction Eligibility Requirements. All options
          traded on the Exchange are eligible for PIXL. A member (the "Initiating
          Member") may initiate an Auction provided all of the following are met:"…
          Pursuant to Rule 1087(f), the Exchange will allow a Public Customer-to-Public
          Customer PIXL Order to trade on either the bid or offer, if the NBBO is $0.01
          wide, provided (1) the execution price is equal to or within the NBBO, (2) there is
          no resting Public Customer at the execution price, and (3) $0.01 is the Minimum
          Price Variation (MPV) of the option. The Exchange will continue to reject a
          PIXL Order to buy (sell) if the NBBO is only $0.01 wide and the Agency order is
          stopped on the bid (offer) if there is a resting order on the bid (offer)."

[5]   Phlx Rule 1087(f) provides, "In lieu of the procedures in paragraphs (a) - (b)
          above, an Initiating Member may enter a PIXL Order for the account of a Public
          Customer paired with an order for the account of a Public Customer and such
          paired orders will be automatically executed without a PIXL Auction, provided
          there is not currently an Auction in progress in the same series or same strategy,

Orders to be entered into PIXL. Today Public Customer-to-Public Customer Cross

Orders may only be entered into PIXL. This new sentence makes clear which provisions

govern Public Customer-to-Public Customer Cross Orders. The Exchange proposes to

capitalize the term "Public Customer-to-Public Customer Cross Orders" within Rules

1014(e) and Rule 1080(e) to conform to the proposed defined term.

Mass Cancellation of Trading Interest

The Exchange proposes to adopt a new Rule 1090 titled "Mass Cancellation of

Trading Interest." The Nasdaq Options Market LLC ("NOM") and Nasdaq BX, Inc.

("BX") Rules at Chapter VII, Section 11 permit Participants on those markets to contact

market operations and manually request cancellation of interest. The Exchange proposes

to adopt a rule which also permits members to contact market operations and request the

Exchange to manually cancel interest. The proposed new rule would state, "A member

may cancel any bids, offers, and orders in any series of options by requesting Phlx

Market Operations[6] staff to effect such cancellation as per the instructions of the

Member." This new rule reflects the Exchange's current practice of allowing members to

contact Phlx Market Operations and request the Exchange to cancel any bid, offer or

order in any series of options. The Exchange would cancel such bid, offer or order

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in which case the orders will be rejected. The execution price for such a PIXL
Order (except if it is a Complex Order) must be expressed in the quoting
increment applicable to the affected series. Such an execution may not trade
through the better of the NBBO or Reference BBO or at the same price as any
resting Public Customer order. The execution price for such a Complex Order
PIXL may be in .01 increments and may not trade at a price equal to or through
the cPBBO or at the same price as a resting Public Customer Complex Order."

[6]   The request to Market Operations is a manual request which is made
         telephonically.

pursuant to the member's instruction. The Exchange desires to memorialize the availability of this service.

Routing

The Exchange filed a proposal to amend Rule 1093[7] as "Away Markets and Order Routing" in April 2019.[8] At this time the Exchange proposes further amendment to this rule to mirror changes that were proposed to NOM's Rule at Chapter VI, Section 11.[9] The changes proposed herein are not changes to the System, rather the Exchange proposes to add other scenarios that may be possible during Routing and make the current rule text more clear to provide market participants with clear expectations regarding orders that are marked "DNR" and orders that route.

Currently, Rule 1093(a) states, "When checking the Order Book, the System will seek to execute at the price at which it would send the order to an away market." The Exchange proposes to remove this sentence because the price at which the order would route in explained in greater detail within Rule 1093(a)(iii). Also, this sentence is confusing because the price at which an order would execute is dependent on the scenario within which an order would route. Removing this sentence will remove any confusion related to the price at which the order would route.

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[7]   The Exchange notes that the amendments to Rule 1093 reflect the current operation of the System. The purpose of the amendment is to align the rule to the specific operation of the routing functionality on Phlx.

[8]   See Securities Exchange Act Release No. 85655 (April 16, 2019), 77 FR 16709 (April 22, 2019) (SR-Phlx-2019-06).

[9]   See Securities Exchange Act Release No. 87030 (September 19, 2019), 84 FR 50495 (September 25, 2019) (SR-NASDAQ-2019-077).

The Exchange proposes to amend rule text within Rule 1093(a)(iii)(A) related to DNR Orders. Today, current rule text provides, "Any incoming order interacting with such a resting DNR order will execute at the ABBO price, unless the ABBO is improved to a price which crosses the DNR's displayed price, in which case the incoming order will execute at the previous ABBO price." The Exchange proposes to amend this language to: (1) clarify the current scenario to more accurately capture the order of events; and (2) add another scenario that is not contemplated by the current rule text.

The Exchange proposes to clarify the current rule text to provide, "Any incoming order interacting with such a resting DNR Order will execute at the ABBO price, unless (1) the ABBO is improved to a price which crosses the DNR Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price …". This proposed new text intends to make clear that if the Exchange's System is executing an incoming order against a resting DNR Order which is displayed, it would not consider an updated ABBO which crossed the displayed DNR Order. The System would not take into account the away market order or quote which crossed the DNR Order's displayed price. The Exchange is not trading-through an away market in this scenario, rather an away market is crossing Phlx's displayed market and therefore that market has the obligation not to trade-through Phlx's displayed price. A similar change is being made to the last sentence of Rule 1093(a)(iii)(B)(5) for FIND Orders and the last sentence Rule 1093(a)(iii)(C)(6) for SRCH Orders. By way of example, consider the following sequence of events in the System:

9:45:00:00:00 - MIAX Quote 0.95 x 1.20

9:45:00:00:10 – OPRA updates MIAX BBO 0.95 x 1.20

9:45:00:00:20 - Phlx Local BBO Quote 1.00 x 1.15

9:45:00:00:30 - OPRA disseminates PHLX BBO updates: 1.10 x 1.15

9:45:00:00:35: CBOE Quote 1.00 x 1.12

9:45:00:00:45 – OPRA disseminates CBOE BBO 1.00 x 1.12

9:45:00:00:50 - DNR Order: Buy 5 @ 1.15 (exposes @ ABBO of 1.12, displays 1 MPV from ABBO @ 1.11)

9:45:00:00:51 – OPRA disseminates PHLX BBO updates: 1.11 x 1.15 (1.11 being the DNR Order displaying 1 MPV from ABBO)

9:45:00:00:60 - MIAX Quote updates to 1.00 x 1.10 (1.10 crosses the displayed DNR Order price, violating locked/crossed market rules; henceforth, we need not protect this price)

9:45:00:00:65 – OPRA disseminates MIAX BBO 1.00 x 1.10
9:45:00:00:75 - Phlx Market Maker Order to Sell 5 @ 1.09
9:45:00:00:76 – Market Maker Order immediately executes against DNR Order 5 contracts @ 1.12 (1.12 being the 'previous' ABBO price disseminated by CBOE before the receipt of the DNR Order that was subsequently and illegally crossed by MIAX's 2nd quote)

9:45:00:00:77 - OPRA disseminates PHLX BBO updates: 1.10 x 1.15 (reverts back to BBO set by Phlx Local Quote since the DNR Order has executed)

The Exchange also proposes to add a new scenario to the above-referenced sentence to state, "or (2) the ABBO is improved to a price which locks the DNR Order's displayed price, in which case the incoming order will execute at the DNR Order's displayed price." The Exchange is adding the scenario where the ABBO is improved to a price which locks the DNR Order's displayed price. In this added scenario, the incoming order will execute at the DNR Order's displayed price. The Exchange notes that this scenario is not contained in the current rule text. Adding this scenario is consistent with

the Act because it will bring greater transparency to the routing rule and inform members about this potential outcome if a member elects to mark their order as "DNR."

The Exchange also proposes to amend the next sentence within Rule 1093(a)(iii)(A) which currently provides, "Should the best away market change its price to an inferior price level, the DNR Order will automatically re-price from its one minimum price variation inferior to the original away best bid/offer price to one minimum trading increment away from the new away best bid/offer price or its original limit price, and expose such orders at the ABBO to participants only if the re-priced order locks or crosses the ABBO. Once priced at its original limit price, it will remain at that price until executed or cancelled." The Exchange proposes to amend this rule text to provide, "Should the best away market move to an inferior price level, the DNR Order will automatically re-price from its one MPV inferior to the original ABBO and display one MPV away from the new ABBO or its original limit price, and expose such orders at the new ABBO only if the re-priced order locks or crosses the new ABBO." The Exchange is amending the current rule text to replace the phrase "change its price" with "move" and use the defined term "MPV." The Exchange is further amending this sentence to expand on the re-pricing. In this scenario, the Exchange has already re-priced the DNR Order and is re-pricing the DNR Order again because the best away market moved to an inferior price level. In this situation, the DNR Order will automatically re-price from its one MPV inferior to the original ABBO and display one MPV away from the new ABBO price or its original limit price. The DNR Order will also expose such orders at the new ABBO, only if the re-priced order locks or crosses the new ABBO. Once booked at its original limit price, it will remain at that price until executed or

cancelled. The Exchange believes that this language provides more context to the manner in which a DNR Order will be handled by the Exchange's System. The Exchange believes that this additional rule text is consistent with the Act as the DNR Order is exposed at the re-priced price if the Order locked or crossed the ABBO. Additionally, orders marked "DNR" would book at their original limit price and remain on the Order Book. Providing this additional transparency will assist members in determining if they want their orders routed.

As noted above, these changes to the DNR Orders represent current System functionality. The Exchange also proposes to capitalize the term "Order" within Rule 1093(a)(iii)(A).

With respect to FIND Orders within Rule 1093(a)(iii)(B) as well as SRCH Orders within Rule 1093(a)(iii)(C) the Exchange proposes to add a scenario that is not currently contemplated within the Rule. Specifically, the Exchange proposes to add a scenario that provides, if during the Route Timer, the ABBO markets move such that the FIND Order or SRCH Order is no longer marketable against the ABBO it provides the various scenarios that may occur. The FIND Order or SRCH Order may: (i) trade at the next PBBO price (or prices) if the FIND Order SRCH Order price is locking or crossing that price (or prices), and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the PBBO. A FIND Order or SRCH Order will be included in the displayed PBBO at its limit price, unless the FIND Order or SRCH Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. Further, the Exchange proposes a scenario where there exists a locked ABBO when the FIND Order or SRCH Order is entered onto

the Order Book, the FIND Order or SRCH Order will be entered into the Order Book at

the ABBO price and displayed one MPV inferior to the ABBO. If during the Route

Timer any new interest arrives opposite the FIND Order or SRCH Order that is

marketable against the FIND Order or SRCH Order such interest will trade against the

FIND Order or SRCH Order at the ABBO price unless the ABBO is improved to a price

which crosses the FIND Order's or SRCH Order's displayed price, in which case the

incoming order will execute at the previous ABBO price as the away market crossed a

displayed price. The above example for a DNR Order is applicable to the FIND Order

and SRCH Order as well.

The Exchange offers the following example when there exists a locked ABBO at

the time the FIND Order or SRCH Order is entered into the Order Book to demonstrate

the manner in which Phlx posts and displays a FIND Order or SRCH Order. In this

example, assume Away Market A has displayed its market at 1.00 x 1.20. Subsequent to

Away Market A displaying it market, Away Market B displays its market at .80 x 1.00.

The option series is now locked at 1.00. Next, assume Phlx receives a FIND Order or

SRCH Order at $2.00 to buy. In this example, Phlx would post the FIND Order or SRCH

Order into the Phlx Order Book at $1.00 to buy and display the FIND Order at $0.95 to

avoid locking the market in this option series.

The addition of this language to the FIND Order and SRCH Order rule text

represents current System functionality. This scenario is not currently described within

the current routing rule with respect to either a FIND Order or a SRCH Order that is not

marketable after a Route Timer has commenced. The Exchange's rule seeks to provide

members with the specific handling of a routable order in various scenarios during intra-

day trading. The Exchange believes that the addition of this scenario is consistent with

the Act. The FIND Order or SRCH Order, once it is not marketable against the ABBO,

will trade at the next PBBO if the order is locked or crossed. The FIND Order or SRCH

Order would book at its limit price, provided it is not locking or crossing the PBBO. The

Exchange's rule must account for trade-through and will consider potential executions for

the order consistent with routing instructions. The proposed rule text describes scenarios

where it will be displayed at one MPV inferior to the ABBO or display at the locked

ABBO price, as described in the above example. This rule text also is intended to

demonstrate that if the ABBO is improved to a price which crosses the FIND Order's

displayed price, the incoming order will execute at the previous ABBO price. The

Exchange believes that this rule text will bring greater clarity to the Exchange's Rules.

Other Amendment

The Exchange also proposes to amend Rule 1096, Entry and Display of Orders, to

correct the citation of Rule 1099 to Rule 1070.

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 because the Exchange is adding more detail to its routing

rule to provide market participants with greater transparency. The Exchange believes the

added scenarios will provide more context to routing in general and for the specific

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[10]   15 U.S.C. 78f(b).

[11]   15 U.S.C. 78f(b)(5).

routing strategies for the benefit of investors and the public interest. The Exchange

continues to offer various choices to its market participants with respect to routing.

Applicability, Definitions and References

The Exchange's proposal to define a "bid" and an "offer" within Phlx Rule

1000(b) is consistent with the Act as these terms will bring greater transparency to the

Exchange's Rules.

Minimum Increments

The Exchange's proposal to amend Rule 1034 to reorganize and update the rule is

consistent with the Act because the change to the rule text as well as reorganized format

should make clear the standards for minimum increments. The amendment to Rule

1034(a) to replace the word "quoting" to "trading" will make the rule text more precise

as executions are considered for enforcement of minimum increments. Removing the

word "decimals" and discussing price is also more precise rule text. The Exchange also

notes that the proposed rule text conforms the wording to similar wording within Nasdaq

ISE, LLC, Nasdaq GEMX, LLC and Nasdaq MRX, LLC Options 3, Section 3. These

changes do not result in a System change, rather they represent the Exchange's current

System operation. The remainder of the amendments to reorganize and renumber the

Rule are non-substantive. The Exchange believes that these amendments will bring

greater clarity to the Rule.

Directed Orders

The Exchange's proposal to remove rule text within Rule 1068(a)(i)(A) will make

clear that, today, both stop and stop-limit orders can be directed to a particular Specialist,

RSQT, or SQT by an Order Flow Provider. The rule text limitation is not accurate

because the System permits a stop and stop-limit order to be directed. Removing the

limitation and allowing all order types to be directed allows members greater flexibility

in choosing how to submit their orders. The Exchange notes that this amendment is

consistent with the Act because the Exchange is not limiting the use of the stop order as a

Directed Order. Today, Nasdaq ISE, LLC permits all order types to be Preferenced.[12]

Price Improvement XL ("PIXL")

The Exchange's proposal to amend Rule 1087 to point out at the top of the Rule

which provisions apply to Public Customer-to-Public Customer Cross Orders will make

the Rule clear. Today, Phlx Rule 1087(a)[13] and (f)[14] permit Public Customer-to-Public

Customer Cross Orders to be entered into PIXL. This amendment is consistent with the

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[12]   See Nasdaq ISE, LLC Options 2, Section 10.

[13]   Phlx Rule 1087(a) provides, "Auction Eligibility Requirements. All options
         traded on the Exchange are eligible for PIXL. A member (the "Initiating
         Member") may initiate an Auction provided all of the following are met:"…
         Pursuant to Rule 1087(f), the Exchange will allow a Public Customer-to-Public
         Customer PIXL Order to trade on either the bid or offer, if the NBBO is $0.01
         wide, provided (1) the execution price is equal to or within the NBBO, (2) there is
         no resting Public Customer at the execution price, and (3) $0.01 is the Minimum
         Price Variation (MPV) of the option. The Exchange will continue to reject a
         PIXL Order to buy (sell) if the NBBO is only $0.01 wide and the Agency order is
         stopped on the bid (offer) if there is a resting order on the bid (offer)."

[14]   Phlx Rule 1087(f) provides, "In lieu of the procedures in paragraphs (a) - (b)
         above, an Initiating Member may enter a PIXL Order for the account of a Public
         Customer paired with an order for the account of a Public Customer and such
         paired orders will be automatically executed without a PIXL Auction, provided
         there is not currently an Auction in progress in the same series or same strategy,
         in which case the orders will be rejected. The execution price for such a PIXL
         Order (except if it is a Complex Order) must be expressed in the quoting
         increment applicable to the affected series. Such an execution may not trade
         through the better of the NBBO or Reference BBO or at the same price as any
         resting Public Customer order. The execution price for such a Complex Order
         PIXL may be in .01 increments and may not trade at a price equal to or through
         the cPBBO or at the same price as a resting Public Customer Complex Order."

Act because market participants will be more aware of which provisions govern Public

Customer-to-Public Customer Cross Orders.

        Mass Cancellation of Trading Interest

    The Exchange's proposal to memorialize the Mass Cancellation of Trading Interest

rule within Options 3, Section 19 is consistent with the Act because permitting Members

to contact Market Operations as a manual alternative to automated functionality which

similarly allows Members to cancel interest provides Members experiencing their own

system issues with a means to manage risk. Today, Members are able to cancel interest,

in an automated fashion through protocols[15] and the Kill Switch.[16] This is a voluntary

services offered to all members.

    The Exchange notes that offering this service, which permits members to cancel

interest, will not diminish a Registered Options Trader's obligation with respect to

providing two-sided quotations and this rule is not inconsistent with other firm quote

obligations of the Registered Options Trader. Upon the request of a member, Phlx

Market Operations will manually input a mass cancellation message into the System

consistent with the member's instruction to cancel trading interest. Once the mass

cancellation message is entered into the System by Phlx Market Operations, the message

will be accepted by the System in the order of receipt in the queue such that the interest

that was already accepted into the System will be processed prior to the mass cancellation

message. In addition, mass cancellation messages entered into the System by Phlx

Market Operations are handled by the System through the same queuing mechanism that

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[15]   See Options 3 at Supplementary Material .03 to Section 7.

[16]   See Rule 1073.

a quote or order message is handled by the System. The Exchange notes its processing of

a mass cancellation message inputted by Phlx Market Operations and handled by the

System is consistent with firm quote and order handling rules.

As noted above, NOM and BX Rules at Chapter VII, Section 11 allow NOM and BX

Participants to also contact market operations and request cancellations of interest. This

new rule reflects the Exchange's current practice.

Routing

The Exchange's proposal to remove the following sentence from Rule 1093(a),

"When checking the Order Book, the System will seek to execute at the price at which it

would send the order to an away market," is consistent with the Act because this sentence

is vague. The price at which an order would execute is dependent on the scenario within

which an order would route. Removing this sentence will remove any confusion related

to the price at which the order would route. The proposed rule would also add additional

detail about the scenarios under which an order would route away.

The Exchange's proposal to amend the sentence within Rule 1093(a)(iii)(A)

related to DNR Orders which provides, "Any incoming order interacting with such a

resting DNR order will execute at the ABBO price, unless the ABBO is improved to a

price which crosses the DNR's displayed price, in which case the incoming order will

execute at the previous ABBO price," is consistent with the Act. The Exchange proposes

to amend this rule text to clarify the current rule text and add another scenario that is not

currently within the rule text. The Exchange proposes to state, "Any incoming order

interacting with such a resting DNR order will execute at the ABBO price, unless (1)

prior to execution, while the incoming order is matched with the resting DNR Order, the

ABBO is improved to a price which crosses the DNR's displayed price, in which case the

incoming order will execute at the ABBO price which was available upon arrival of the

incoming order which matched with the DNR Order; or (2) the ABBO is improved to a

price which locks the DNR's displayed price, in which case the incoming order will

execute at the DNR's displayed price." The System would not take into account the

away market order or quote which crossed the DNR's displayed price. The Exchange is

not trading-through an away market in this scenario, rather an away market is crossing

Phlx's displayed market and therefore that market has the obligation not to trade-through

Phlx's displayed price.

The Exchange is also adding a scenario where the ABBO is improved to a price

which locks the DNR's displayed price. In this added scenario, the incoming order will

execute at the DNR's displayed price. The Exchange notes that this scenario is not

contained in the current rule text. Adding this scenario is consistent with the Act because

it will bring greater transparency to the routing rule and inform members about this

potential outcome if a member elects to mark their order as DNR. Additionally,

amending a sentence[17] within Rule 1093(a)(iii)(A) to provide, "Should the best away

market move to an inferior price level, the DNR Order will automatically re-price from

its one MPV inferior to the original ABBO and display one MPV away from the new

ABBO or its original limit price, and expose such orders at the new ABBO only if the re-

priced order locks or crosses the new ABBO" is consistent with the Act because the

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[17]   The current sentence within Rule 1093(a)(iii)(A) states, "Should the best away
         market change its price to an inferior price level, the DNR Order will
         automatically re-price from its one minimum price variation inferior to the
         original away best bid/offer price to one minimum trading increment away from
         the new away best bid/offer price or its original limit price, and expose such
         orders at the ABBO to participants only if the re-priced order locks or crosses the
         ABBO."

additional language expands on the current re-pricing that exists today. The Exchange

believes that this language provides more context to the manner in which a DNR Order

will be handled by the Exchange's System. The Exchange believes that this additional

rule text is consistent with the Act as the DNR Order would re-price again from its one

MPV inferior to the original ABBO because the best away market moved to an inferior

price level. The DNR Order would display one MPV away from the new ABBO price or

its original limit price. Also, the DNR Order would expose such orders at the new

ABBO, only if the re-priced order locks or crosses the new ABBO. Once booked at its

original limit price, it will remain on the Order Book at that price until executed or

cancelled. Providing this additional transparency will assist members in determining if

they want their orders routed.

    With respect to FIND Orders within Rule 1093(a)(iii)(B) as well as SRCH Orders

within Rule 1093(a)(iii)(C) the amendments are consistent with the Act as they propose a

scenario that is not currently within the Rules. The Exchange proposes to add a scenario

that provides, if during the Route Timer, the ABBO markets move such that the FIND

Order or SRCH Order is no longer marketable against the ABBO it provides the various

scenarios that may occur. Also, if there exists a locked ABBO when the FIND Order or

SRCH Order is entered onto the Order Book and if during the Route Timer any new

interest arrives opposite the FIND Order or SRCH Order that is marketable against the

FIND Order or SRCH Order. Scenarios are provided for each of these situations within

the new rule text. The new text seeks to clearly provide a member with the specific

handling of a routable order for various scenarios during intra-day trading. The

Exchange believes that the addition of these scenarios is consistent with the Act as the

order, which was marked routable as either a FIND Order or SRCH Order, once it is not

marketable against the ABBO, will either trade at the next PBBO, if the order locks or

crosses the FIND Order or SRCH Order, or it would be booked at its limit price,

providing it is not locking or crossing the PBBO. The Exchange's rule must account for

trade-through and will consider potential executions for an order consistent with routing

instructions. The Exchange believes that this rule text will bring greater clarity to the

Exchange's Rules.

The amendments to Phlx Rule 1093 represent current System functionality.

These rules are similar to current rule text on NOM at Chapter VI, Section 11.[18]

 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.

Applicability, Definitions and References

The Exchange's proposal to define a "bid" and an "offer" within Phlx Rule

1000(b) does not impose an undue burden on competition, rather these terms will bring

greater transparency to the Exchange's Rules.

Minimum Increments

The Exchange's proposal to amend Rule 1034 to reorganize and update the rule

does not impose an undue burden on competition because all market participants are

subject to Rule 1034. The language will properly reflect that the standard for submitting

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[18]   See Securities Exchange Act Release No. 87030 (September 19, 2019), 84 FR
         50495 (September 25, 2019) (SR-NASDAQ-2019-077).

orders with minimum increments into the System. The remainder of the amendments to reorganize and renumber the Rule are non-substantive.

Directed Orders

The Exchange's proposal to remove rule text within Rule 1068(a)(i)(A) does not impose an undue burden on competition as Stop Order and Stop-Limit Orders may be Directed Orders similar to all other order types. Removing the limitation and allowing all order types to be directed allows members greater flexibility in choosing how to submit their orders.

Price Improvement XL ("PIXL")

The Exchange's proposal to amend Rule 1087 to point out at the top of the Rule which provisions apply to Public Customer-to-Public Customer Cross Orders does not impose an undue burden on competition. This rule change will make market participants more aware of which provisions govern Public Customer-to-Public Customer Cross Orders.

Mass Cancellation of Trading Interest

The Exchange's proposal to memorialize the Mass Cancellation of Trading Interest rule within Rule 1090 does not impose an undue burden on competition because all members may utilize this service. This new rule reflects the Exchange's current practice.

Routing

The Exchange believes that adding greater detail to its rules concerning routing of orders does not impose an undue burden on competition, rather it provides greater transparency as to the potential outcomes when utilizing different routing strategies. Further, the Exchange notes that market participants may elect not to route their orders.

The Exchange continues to offer various options to its market participants with respect to

routing.

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)[19] of the Act and Rule 19b-4(f)(6) thereunder[20] 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. The Exchange's proposal to define a "bid" and an

"offer" within Phlx Rule 1000(b) will bring greater transparency to the Exchange's

Rules. Amending Rule 1034 to reorganize and update the rule should make clear the

standards for minimum increments. The amendment to Rule 1034(a) to amend the words

"quoting" to "trading" will make the rule text more precise by properly reflecting the

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[19]   15 U.S.C. 78s(b)(3)(A)(iii).

[20]   17 CFR 240.19b-4(f)(6).

standard for enforcement of minimum increments. The Exchange's other changes are

merely changes to make the terminology clear. The Exchange also notes that this rule

text conforms the wording to rule text within Nasdaq ISE, LLC, Nasdaq GEMX, LLC

and Nasdaq MRX, LLC Rules at Options 3, Section 3. The Exchange's amendments to

the minimum increments rule are consistent with current System operation. The

Exchange's proposal to remove rule text within Rule 1068(a)(i)(A) will make clear that,

today, both Stop Order and Stop-Limit Orders can be directed to a particular Specialist,

RSQT, or SQT by an Order Flow Provider. Removing the limitation and allowing all

order types to be directed allows members greater flexibility in choosing how to submit

their orders. Today, Nasdaq ISE, LLC permits all order types to be Preferenced.[21] The

Exchange's proposal to amend Rule 1087 will apprise market participants of the

provisions which govern Public Customer-to-Public Customer Cross Orders. The

Exchange's proposal to memorialize the Mass Cancellation of Trading Interest rule

within Options 3, Section 19 permits members to contact Phlx Market Operations as a

manual alternative to cancelling interest in an automated fashion thereby allowing

members experiencing their own system issues with a means to a manage risk. Today,

NOM and BX Rules at Chapter VII, Section 11 permit NOM and BX Participants to

cancel interest in a similar fashion. This new rule reflects the Exchange's current

practice. The Exchange believes that this proposal does not significantly affect the

protection of investors or the public interest because the proposal will add clarity and

detail to the current rules that does not exist today. With respect to the amendments to

Routing, the proposal does not significantly affect the protection of investors or the

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[21]   See Nasdaq ISE, LLC Options 2, Section 10.

public interest, the rule text amends the current rule by adding scenarios which demonstrate the manner in which Phlx routes. Removing the following sentence from Rule 1093(a), "When checking the Order Book, the System will seek to execute at the price at which it would send the order to an away market," does not significantly affect the protection of investors or the public interest because this sentence is vague. The price at which an order would execute is dependent on the scenario within which an order would route. Amending this sentence, which makes clear that the System would not take into account the away market order or quote which crossed the DNR Order's displayed price, adds greater transparency to the current Rule. The Exchange is not trading-through an away market in this scenario, rather an away market is crossing Phlx's displayed market and therefore that market has the obligation not to trade-through Phlx's displayed price. The Exchange's proposal to amend the sentence within Rule 1093(a)(iii)(A) to add another scenario where the ABBO is improved to a price which locks the DNR Order's displayed price does not significantly affect the protection of investors or the public interest. In this added scenario, the incoming order will execute at the DNR Order's displayed price. The Exchange notes that this scenario is not contained in the current rule text. Additionally, amending Rule 1093(a)(iii)(A) to provide more context to the manner in which a DNR Order will be handled by the Exchange's System does not significantly affect the protection of investors or the public interest. The Exchange believes that this additional rule text does not significantly affect the protection of investors or the public interest as the DNR Order would re-price again from its one MPV inferior to the original ABBO because the best away market moved to an inferior price level. The DNR Order would display one MPV away from the new ABBO price or its original limit price. Also,

the DNR Order would expose such orders at the new ABBO, only if the re-priced order

locks or crosses the new ABBO. Additionally, orders market "DNR" would book at their

original limit price and remain on the Order Book. Providing this additional transparency

will assist members in determining if they want their orders routed. With respect to the

amendments to the FIND Orders within Rule 1093(a)(iii)(B) as well as SRCH Orders

within Rule 1093(a)(iii)(C) these amendments do not significantly affect the protection of

investors or the public interest as they propose a scenario that is not currently within the

Rules. The new text seeks to clearly provide a member with the specific handling of a

routable order for various scenarios during intra-day trading. The Exchange's rule must

account for trade-through and will consider potential executions for the order consistent

with routing instructions. The Exchange believes that this rule text will bring greater

clarity to the Exchange's Rules. The Exchange notes the proposed rule text provides

market participants with an expected outcome. The Exchange's proposal to define a

"bid" and an "offer" within Phlx Rule 1000(b) does not impose a significant burden on

competition, rather the terms will bring greater transparency to the Exchange's Rules.

Amending Rule 1034 to reorganize and update the rule is non-substantive. Amending the

rule text to properly reflect that the standard for minimum increments applies to all

market participants. The Exchange's proposal to remove the limitation within Rule

1068(a)(i)(A) and allowing all order types to be marked as Directed Orders allows

members greater flexibility in choosing how to submit their orders. Amending Rule 1087

will make market participants more aware of which provisions govern Public Customer-

to-Public Customer Cross Orders. The Exchange's proposal to memorialize the Mass

Cancellation of Trading Interest rule within Options 3, Section 19 does not impose any

significant burden on competition because all members may utilize this voluntary service. This new rule reflects the Exchange's current practice. The amendments to the routing rule do not impose any significant burden on competition, rather the amendments provide greater transparency as to the potential outcomes when utilizing different routing strategies. Further, the Exchange notes that market participants may elect not to route their orders. The Exchange continues to offer various options to its market participants with respect to routing.

Furthermore, Rule 19b-4(f)(6)(iii)[22] 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 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.

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 of investors and the public interest. The Exchange requests that the Commission waive the 30-day operative delay contained in Rule 19b-4(f)(6)(iii) so that it may adopt the

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[22]   17 CFR 240.19b-4(f)(6)(iii).

terms "bid" and "offer," thereby adding greater transparency to its rules. The Mass

Cancellation rule will inform members that they may contact Market Operations to cancel

any interest. NOM and BX have rules today which permit NOM and BX Participants to

cancel interest.[23] The Exchange's amendment to the routing rules reflect the current

operation of its System. The Exchange believes that this additional detail will provide

market participants with greater information for each potential order routing strategy and

in general provide greater transparency.

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

        NOM and BX Rules at Chapter VII, Section 11 permit NOM and BX Participants

to contact market operations and cancel interest. The rule text of the NOM and BX Rules

are not the same as proposed herein. NOM and BX will file to conform the rule text of

those rules to mirror the rule text proposed herein. The Rules of NOM and BX operate

the same as proposed within these rules. Further NOM's Rule at Chapter VI, Section 11

is similar to the proposed routing rule text. Memorializing the Mass Cancellation service

within the Rules will provide clarity for market participants. Adding these amendments

within the Rules will provide clarity for market participants.

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.

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[23]   See NOM and BX Rules at Chapter VII, Section 11.

11.   <u>Exhibits</u>

1.   Notice of Proposed Rule Change for publication in the <u>Federal Register</u>.

5.   Text of the proposed rule change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No.   ; File No. SR-Phlx-2019-56)

December __, 2019

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rules 1000, 1014, 1034, 1068, 1080, 1087, 1090, and 1093

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 December 19, 2019, 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 amend Rule 1000, "Applicability, Definitions and

References," Rule 1014, "Obligations of Market Makers," Rule 1034, "Minimum

Increments," Rule 1068, "Directed Orders," Rule 1080, "Electronic Acceptance of

Quotes and Orders," Rule 1087, "Price Improvement XL ("PIXL")," Rule 1090, "Mass

Cancellation of Trading Interest," and Rule 1093 titled "Away Markets and Order

Routing.

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

[2]   17 CFR 240.19b-4.

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

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

Commission's Public Reference Room.

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

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

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

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

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

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

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

                1.   Purpose

The Exchange proposes to amend Rule 1000, "Applicability, Definitions and

References," Rule 1014, "Obligations of Market Makers," Rule 1034, "Minimum

Increments," Rule 1068, "Directed Orders," Rule 1080, "Electronic Acceptance of

Quotes and Orders," Rule 1087, "Price Improvement XL ("PIXL")," Rule 1090, "Mass

Cancellation of Trading Interest," and Rule 1093 titled "Away Markets and Order

Routing." Each rule change will be discussed below.

         Applicability, Definitions and References

The Exchange proposes to define a "bid" and an "offer" within Phlx Rule

1000(b). The Exchange proposes to state the term "bid" means a quote or limit order to

buy one or more options contracts within Rule 1000(b)(62). The Exchange proposes to

state, the term "offer" means a quote or limit order to sell one or more options contracts

within Rule 1000(b)(63). The Exchange believes that the addition of these definitions

will bring greater transparency to the Exchange's Rules.

Minimum Increments

The Exchange proposes to amend Rule 1034 regarding minimum increments.

The Exchange proposes to reorganize and update the rule. The Exchange proposes to

create a Commentary section to Rule 1034 and relocate all exceptions to Rule 1034(a) in

the Commentary. The Exchange would amend Rule 1034(a) to state, except as provided

in the Commentary and then also amend the words "quoting" to "trading" and eliminate

the word "decimals." The Exchange notes that executions are considered when

determining the minimum price variations of options which have prices at $3.00 or higher

or are priced under $3.00. The word "quoting" is not as precise as word "trading." The

Exchange utilizes executions to enforce minimum increments submitted by the member.

While the word "quoting" is not incorrect, the Exchange believes "trading" is more

understandable and is similarly utilized by Nasdaq ISE, LLC ("ISE"), Nasdaq GEMX,

LLC ("GEMX") and Nasdaq MRX, LLC ("MRX") at Options 3, Section 3 of those

Rulebooks. Similarly, the Exchange is removing the word "decimals" and similar to ISE,

GEMX and MRX at Options 3, Section 3, stating "at a price" because the Exchange

believes this language makes clear the intent. These changes do not result in a System

change, rather they represent the Exchange's current System operation.

The Exchange proposes to renumber current Rule 1034(a)(i)(A) as Rule

1034(a)(1), without change. The Exchange proposes to renumber current Rule

1034(a)(i)(C) as Rule 1034(a)(2) and change the words "Phlx XL II system" to simply

the defined term "System." The Exchange proposes to renumber current Rule 1034(a)(v)

as Rule 1034(a)(3) and remove the text "However" and instead add language to exclude

paragraph (a) similar to ISE, GEMX and MRX Rules at Options 3, Section 3. The

Exchange proposes to relocate current Rule 1034(a)(i)(b) as Commentary .01 and add the

title "Penny Pilot Program" before the rule text. The Exchange proposes to relocate

current Rules 1034(a)(ii), (iii), and (iv) as Commentary .02, .03 and .04, respectively.

The Exchange believes that these rule changes will bring greater clarity to the

Rule.

Directed Orders

   The Exchange proposes to remove rule text within Rule 1068(a)(i)(A) with respect

to Directed Orders. The current rule text provides, "The term "Directed Order" means

any order (other than a stop or stop-limit order as defined in Options 8, Section 32) to buy

or sell which has been directed to a particular Specialist, RSQT, or SQT by an Order

Flow Provider, as defined below. To qualify as a Directed Order, an order must be

delivered to the Exchange via the System." The Exchange proposes to remove the

limitation for a stop or stop-limit order. The System will allow any order to be

considered a Directed Order. Today, Nasdaq ISE, LLC permits all order types to be

Preferred.[3]

Price Improvement XL ("PIXL")

The Exchange proposes to amend Rule 1087 to make clear at the beginning of the

Rule which provisions apply to Public Customer-to-Public Customer Cross Orders.

Today, Phlx Rule 1087(a)[4] and (f)[5] permit Public Customer-to-Public Customer Cross

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[3]   See Nasdaq ISE, LLC Rules at Options 2, Section 10.

[4]   Phlx Rule 1087(a) provides, "Auction Eligibility Requirements. All options
        traded on the Exchange are eligible for PIXL. A member (the "Initiating

Orders to be entered into PIXL. Today Public Customer-to-Public Customer Cross

Orders may only be entered into PIXL. This new sentence makes clear which provisions

govern Public Customer-to-Public Customer Cross Orders. The Exchange proposes to

capitalize the term "Public Customer-to-Public Customer Cross Orders" within Rules

1014(e) and Rule 1080(e) to conform to the proposed defined term.

Mass Cancellation of Trading Interest

The Exchange proposes to adopt a new Rule 1090 titled "Mass Cancellation of

Trading Interest." The Nasdaq Options Market LLC ("NOM") and Nasdaq BX, Inc.

("BX") Rules at Chapter VII, Section 11 permit Participants on those markets to contact

market operations and manually request cancellation of interest. The Exchange proposes

to adopt a rule which also permits members to contact market operations and request the

Exchange to manually cancel interest. The proposed new rule would state, "A member

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Member") may initiate an Auction provided all of the following are met:"…
Pursuant to Rule 1087(f), the Exchange will allow a Public Customer-to-Public
Customer PIXL Order to trade on either the bid or offer, if the NBBO is $0.01
wide, provided (1) the execution price is equal to or within the NBBO, (2) there is
no resting Public Customer at the execution price, and (3) $0.01 is the Minimum
Price Variation (MPV) of the option. The Exchange will continue to reject a
PIXL Order to buy (sell) if the NBBO is only $0.01 wide and the Agency order is
stopped on the bid (offer) if there is a resting order on the bid (offer)."

[5]   Phlx Rule 1087(f) provides, "In lieu of the procedures in paragraphs (a) - (b)
above, an Initiating Member may enter a PIXL Order for the account of a Public
Customer paired with an order for the account of a Public Customer and such
paired orders will be automatically executed without a PIXL Auction, provided
there is not currently an Auction in progress in the same series or same strategy,
in which case the orders will be rejected. The execution price for such a PIXL
Order (except if it is a Complex Order) must be expressed in the quoting
increment applicable to the affected series. Such an execution may not trade
through the better of the NBBO or Reference BBO or at the same price as any
resting Public Customer order. The execution price for such a Complex Order
PIXL may be in .01 increments and may not trade at a price equal to or through
the cPBBO or at the same price as a resting Public Customer Complex Order."

may cancel any bids, offers, and orders in any series of options by requesting Phlx

Market Operations[6] staff to effect such cancellation as per the instructions of the

Member." This new rule reflects the Exchange's current practice of allowing members to

contact Phlx Market Operations and request the Exchange to cancel any bid, offer or

order in any series of options. The Exchange would cancel such bid, offer or order

pursuant to the member's instruction. The Exchange desires to memorialize the

availability of this service.

> Routing

The Exchange filed a proposal to amend Rule 1093[7] as "Away Markets and Order

Routing" in April 2019.[8] At this time the Exchange proposes further amendment to this

rule to mirror changes that were proposed to NOM's Rule at Chapter VI, Section 11.[9]

The changes proposed herein are not changes to the System, rather the Exchange

proposes to add other scenarios that may be possible during Routing and make the current

rule text more clear to provide market participants with clear expectations regarding

orders that are marked "DNR" and orders that route.

Currently, Rule 1093(a) states, "When checking the Order Book, the System will

seek to execute at the price at which it would send the order to an away market." The

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[6]   The request to Market Operations is a manual request which is made
        telephonically.

[7]   The Exchange notes that the amendments to Rule 1093 reflect the current
        operation of the System. The purpose of the amendment is to align the rule to the
        specific operation of the routing functionality on Phlx.

[8]   See Securities Exchange Act Release No. 85655 (April 16, 2019), 77 FR 16709
        (April 22, 2019) (SR-Phlx-2019-06).

[9]   See Securities Exchange Act Release No. 87030 (September 19, 2019), 84 FR
        50495 (September 25, 2019) (SR-NASDAQ-2019-077).

Exchange proposes to remove this sentence because the price at which the order would route in explained in greater detail within Rule 1093(a)(iii). Also, this sentence is confusing because the price at which an order would execute is dependent on the scenario within which an order would route. Removing this sentence will remove any confusion related to the price at which the order would route.

The Exchange proposes to amend rule text within Rule 1093(a)(iii)(A) related to DNR Orders. Today, current rule text provides, "Any incoming order interacting with such a resting DNR order will execute at the ABBO price, unless the ABBO is improved to a price which crosses the DNR's displayed price, in which case the incoming order will execute at the previous ABBO price." The Exchange proposes to amend this language to: (1) clarify the current scenario to more accurately capture the order of events; and (2) add another scenario that is not contemplated by the current rule text.

The Exchange proposes to clarify the current rule text to provide, "Any incoming order interacting with such a resting DNR Order will execute at the ABBO price, unless (1) the ABBO is improved to a price which crosses the DNR Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price …". This proposed new text intends to make clear that if the Exchange's System is executing an incoming order against a resting DNR Order which is displayed, it would not consider an updated ABBO which crossed the displayed DNR Order. The System would not take into account the away market order or quote which crossed the DNR Order's displayed price. The Exchange is not trading-through an away market in this scenario, rather an away market is crossing Phlx's displayed market and therefore that market has the obligation not to trade-through Phlx's

displayed price. A similar change is being made to the last sentence of Rule

1093(a)(iii)(B)(5) for FIND Orders and the last sentence Rule 1093(a)(iii)(C)(6) for

SRCH Orders. By way of example, consider the following sequence of events in the

System:

> 9:45:00:00:00 - MIAX Quote 0.95 x 1.20
>
> 9:45:00:00:10 – OPRA updates MIAX BBO 0.95 x 1.20
>
> 9:45:00:00:20 - Phlx Local BBO Quote 1.00 x 1.15
>
> 9:45:00:00:30 - OPRA disseminates PHLX BBO updates: 1.10 x 1.15
>
> 9:45:00:00:35: CBOE Quote 1.00 x 1.12
>
> 9:45:00:00:45 – OPRA disseminates CBOE BBO 1.00 x 1.12
>
> 9:45:00:00:50 - DNR Order: Buy 5 @ 1.15 (exposes @ ABBO of 1.12, displays 1 MPV from ABBO @ 1.11)
>
> 9:45:00:00:51 – OPRA disseminates PHLX BBO updates: 1.11 x 1.15 (1.11 being the DNR Order displaying 1 MPV from ABBO)
>
> 9:45:00:00:60 - MIAX Quote updates to 1.00 x 1.10 (1.10 crosses the displayed DNR Order price, violating locked/crossed market rules; henceforth, we need not protect this price)
>
> 9:45:00:00:65 – OPRA disseminates MIAX BBO 1.00 x 1.10
> 9:45:00:00:75 - Phlx Market Maker Order to Sell 5 @ 1.09
> 9:45:00:00:76 – Market Maker Order immediately executes against DNR Order 5 contracts @ 1.12 (1.12 being the 'previous' ABBO price disseminated by CBOE before the receipt of the DNR Order that was subsequently and illegally crossed by MIAX's 2nd quote)
>
> 9:45:00:00:77 - OPRA disseminates PHLX BBO updates: 1.10 x 1.15 (reverts back to BBO set by Phlx Local Quote since the DNR Order has executed)

The Exchange also proposes to add a new scenario to the above-referenced

sentence to state, "or (2) the ABBO is improved to a price which locks the DNR Order's

displayed price, in which case the incoming order will execute at the DNR Order's

displayed price." The Exchange is adding the scenario where the ABBO is improved to a price which locks the DNR Order's displayed price. In this added scenario, the incoming order will execute at the DNR Order's displayed price. The Exchange notes that this scenario is not contained in the current rule text. Adding this scenario is consistent with the Act because it will bring greater transparency to the routing rule and inform members about this potential outcome if a member elects to mark their order as "DNR."

The Exchange also proposes to amend the next sentence within Rule 1093(a)(iii)(A) which currently provides, "Should the best away market change its price to an inferior price level, the DNR Order will automatically re-price from its one minimum price variation inferior to the original away best bid/offer price to one minimum trading increment away from the new away best bid/offer price or its original limit price, and expose such orders at the ABBO to participants only if the re-priced order locks or crosses the ABBO. Once priced at its original limit price, it will remain at that price until executed or cancelled." The Exchange proposes to amend this rule text to provide, "Should the best away market move to an inferior price level, the DNR Order will automatically re-price from its one MPV inferior to the original ABBO and display one MPV away from the new ABBO or its original limit price, and expose such orders at the new ABBO only if the re-priced order locks or crosses the new ABBO." The Exchange is amending the current rule text to replace the phrase "change its price" with "move" and use the defined term "MPV." The Exchange is further amending this sentence to expand on the re-pricing. In this scenario, the Exchange has already re-priced the DNR Order and is re-pricing the DNR Order again because the best away market moved to an inferior price level. In this situation, the DNR Order will automatically re-

price from its one MPV inferior to the original ABBO and display one MPV away from the new ABBO price or its original limit price. The DNR Order will also expose such orders at the new ABBO, only if the re-priced order locks or crosses the new ABBO. Once booked at its original limit price, it will remain at that price until executed or cancelled. The Exchange believes that this language provides more context to the manner in which a DNR Order will be handled by the Exchange's System. The Exchange believes that this additional rule text is consistent with the Act as the DNR Order is exposed at the re-priced price if the Order locked or crossed the ABBO. Additionally, orders marked "DNR" would book at their original limit price and remain on the Order Book. Providing this additional transparency will assist members in determining if they want their orders routed.

As noted above, these changes to the DNR Orders represent current System functionality. The Exchange also proposes to capitalize the term "Order" within Rule 1093(a)(iii)(A).

With respect to FIND Orders within Rule 1093(a)(iii)(B) as well as SRCH Orders within Rule 1093(a)(iii)(C) the Exchange proposes to add a scenario that is not currently contemplated within the Rule. Specifically, the Exchange proposes to add a scenario that provides, if during the Route Timer, the ABBO markets move such that the FIND Order or SRCH Order is no longer marketable against the ABBO it provides the various scenarios that may occur. The FIND Order or SRCH Order may: (i) trade at the next PBBO price (or prices) if the FIND Order SRCH Order price is locking or crossing that price (or prices), and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the PBBO. A FIND Order or SRCH Order will be included in the displayed

PBBO at its limit price, unless the FIND Order or SRCH Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. Further, the Exchange proposes a scenario where there exists a locked ABBO when the FIND Order or SRCH Order is entered onto the Order Book, the FIND Order or SRCH Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If during the Route Timer any new interest arrives opposite the FIND Order or SRCH Order that is marketable against the FIND Order or SRCH Order such interest will trade against the FIND Order or SRCH Order at the ABBO price unless the ABBO is improved to a price which crosses the FIND Order's or SRCH Order's displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price. The above example for a DNR Order is applicable to the FIND Order and SRCH Order as well.

The Exchange offers the following example when there exists a locked ABBO at the time the FIND Order or SRCH Order is entered into the Order Book to demonstrate the manner in which Phlx posts and displays a FIND Order or SRCH Order. In this example, assume Away Market A has displayed its market at 1.00 x 1.20. Subsequent to Away Market A displaying it market, Away Market B displays its market at .80 x 1.00. The option series is now locked at 1.00. Next, assume Phlx receives a FIND Order or SRCH Order at $2.00 to buy. In this example, Phlx would post the FIND Order or SRCH Order into the Phlx Order Book at $1.00 to buy and display the FIND Order at $0.95 to avoid locking the market in this option series.

The addition of this language to the FIND Order and SRCH Order rule text

represents current System functionality. This scenario is not currently described within

the current routing rule with respect to either a FIND Order or a SRCH Order that is not

marketable after a Route Timer has commenced. The Exchange's rule seeks to provide

members with the specific handling of a routable order in various scenarios during intra-

day trading. The Exchange believes that the addition of this scenario is consistent with

the Act. The FIND Order or SRCH Order, once it is not marketable against the ABBO,

will trade at the next PBBO if the order is locked or crossed. The FIND Order or SRCH

Order would book at its limit price, provided it is not locking or crossing the PBBO. The

Exchange's rule must account for trade-through and will consider potential executions for

the order consistent with routing instructions. The proposed rule text describes scenarios

where it will be displayed at one MPV inferior to the ABBO or display at the locked

ABBO price, as described in the above example. This rule text also is intended to

demonstrate that if the ABBO is improved to a price which crosses the FIND Order's

displayed price, the incoming order will execute at the previous ABBO price. The

Exchange believes that this rule text will bring greater clarity to the Exchange's Rules.

Other Amendment

The Exchange also proposes to amend Rule 1096, Entry and Display of Orders, to

correct the citation of Rule 1099 to Rule 1070.

2.   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,

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[10]   15 U.S.C. 78f(b).

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

investors and the public interest because the Exchange is adding more detail to its routing

rule to provide market participants with greater transparency. The Exchange believes the

added scenarios will provide more context to routing in general and for the specific

routing strategies for the benefit of investors and the public interest. The Exchange

continues to offer various choices to its market participants with respect to routing.

Applicability, Definitions and References

The Exchange's proposal to define a "bid" and an "offer" within Phlx Rule

1000(b) is consistent with the Act as these terms will bring greater transparency to the

Exchange's Rules.

Minimum Increments

The Exchange's proposal to amend Rule 1034 to reorganize and update the rule is

consistent with the Act because the change to the rule text as well as reorganized format

should make clear the standards for minimum increments. The amendment to Rule

1034(a) to replace the word "quoting" to "trading" will make the rule text more precise

as executions are considered for enforcement of minimum increments. Removing the

word "decimals" and discussing price is also more precise rule text. The Exchange also

notes that the proposed rule text conforms the wording to similar wording within Nasdaq

ISE, LLC, Nasdaq GEMX, LLC and Nasdaq MRX, LLC Options 3, Section 3. These

changes do not result in a System change, rather they represent the Exchange's current

System operation. The remainder of the amendments to reorganize and renumber the

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11   15 U.S.C. 78f(b)(5).

Rule are non-substantive. The Exchange believes that these amendments will bring

greater clarity to the Rule.

Directed Orders

The Exchange's proposal to remove rule text within Rule 1068(a)(i)(A) will make

clear that, today, both stop and stop-limit orders can be directed to a particular Specialist,

RSQT, or SQT by an Order Flow Provider. The rule text limitation is not accurate

because the System permits a stop and stop-limit order to be directed. Removing the

limitation and allowing all order types to be directed allows members greater flexibility

in choosing how to submit their orders. The Exchange notes that this amendment is

consistent with the Act because the Exchange is not limiting the use of the stop order as a

Directed Order. Today, Nasdaq ISE, LLC permits all order types to be Preferenced.[112]

Price Improvement XL ("PIXL")

The Exchange's proposal to amend Rule 1087 to point out at the top of the Rule

which provisions apply to Public Customer-to-Public Customer Cross Orders will make

the Rule clear. Today, Phlx Rule 1087(a)[13] and (f)[14] permit Public Customer-to-Public

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[12]   See Nasdaq ISE, LLC Options 2, Section 10.

[13]   Phlx Rule 1087(a) provides, "Auction Eligibility Requirements. All options
          traded on the Exchange are eligible for PIXL. A member (the "Initiating
          Member") may initiate an Auction provided all of the following are met:"…
          Pursuant to Rule 1087(f), the Exchange will allow a Public Customer-to-Public
          Customer PIXL Order to trade on either the bid or offer, if the NBBO is $0.01
          wide, provided (1) the execution price is equal to or within the NBBO, (2) there is
          no resting Public Customer at the execution price, and (3) $0.01 is the Minimum
          Price Variation (MPV) of the option. The Exchange will continue to reject a
          PIXL Order to buy (sell) if the NBBO is only $0.01 wide and the Agency order is
          stopped on the bid (offer) if there is a resting order on the bid (offer)."

[14]   Phlx Rule 1087(f) provides, "In lieu of the procedures in paragraphs (a) - (b)
          above, an Initiating Member may enter a PIXL Order for the account of a Public
          Customer paired with an order for the account of a Public Customer and such

Customer Cross Orders to be entered into PIXL. This amendment is consistent with the

Act because market participants will be more aware of which provisions govern Public

Customer-to-Public Customer Cross Orders.

Mass Cancellation of Trading Interest

The Exchange's proposal to memorialize the Mass Cancellation of Trading Interest

rule within Options 3, Section 19 is consistent with the Act because permitting Members

to contact Market Operations as a manual alternative to automated functionality which

similarly allows Members to cancel interest provides Members experiencing their own

system issues with a means to manage risk. Today, Members are able to cancel interest,

in an automated fashion through protocols[15] and the Kill Switch.[16] This is a voluntary

services offered to all members.

The Exchange notes that offering this service, which permits members to cancel

interest, will not diminish a Registered Options Trader's obligation with respect to

providing two-sided quotations and this rule is not inconsistent with other firm quote

obligations of the Registered Options Trader. Upon the request of a member, Phlx

Market Operations will manually input a mass cancellation message into the System

paired orders will be automatically executed without a PIXL Auction, provided there is not currently an Auction in progress in the same series or same strategy, in which case the orders will be rejected. The execution price for such a PIXL Order (except if it is a Complex Order) must be expressed in the quoting increment applicable to the affected series. Such an execution may not trade through the better of the NBBO or Reference BBO or at the same price as any resting Public Customer order. The execution price for such a Complex Order PIXL may be in .01 increments and may not trade at a price equal to or through the cPBBO or at the same price as a resting Public Customer Complex Order."

15   See Options 3 at Supplementary Material .03 to Section 7.

16   See Rule 1073.

consistent with the member's instruction to cancel trading interest. Once the mass

cancellation message is entered into the System by Phlx Market Operations, the message

will be accepted by the System in the order of receipt in the queue such that the interest

that was already accepted into the System will be processed prior to the mass cancellation

message. In addition, mass cancellation messages entered into the System by Phlx

Market Operations are handled by the System through the same queuing mechanism that

a quote or order message is handled by the System. The Exchange notes its processing of

a mass cancellation message inputted by Phlx Market Operations and handled by the

System is consistent with firm quote and order handling rules.

As noted above, NOM and BX Rules at Chapter VII, Section 11 allow NOM and BX

Participants to also contact market operations and request cancellations of interest. This

new rule reflects the Exchange's current practice.

Routing

The Exchange's proposal to remove the following sentence from Rule 1093(a),

"When checking the Order Book, the System will seek to execute at the price at which it

would send the order to an away market," is consistent with the Act because this sentence

is vague. The price at which an order would execute is dependent on the scenario within

which an order would route. Removing this sentence will remove any confusion related

to the price at which the order would route. The proposed rule would also add additional

detail about the scenarios under which an order would route away.

The Exchange's proposal to amend the sentence within Rule 1093(a)(iii)(A)

related to DNR Orders which provides, "Any incoming order interacting with such a

resting DNR order will execute at the ABBO price, unless the ABBO is improved to a

price which crosses the DNR's displayed price, in which case the incoming order will

execute at the previous ABBO price," is consistent with the Act. The Exchange proposes

to amend this rule text to clarify the current rule text and add another scenario that is not

currently within the rule text. The Exchange proposes to state, "Any incoming order

interacting with such a resting DNR order will execute at the ABBO price, unless (1)

prior to execution, while the incoming order is matched with the resting DNR Order, the

ABBO is improved to a price which crosses the DNR's displayed price, in which case the

incoming order will execute at the ABBO price which was available upon arrival of the

incoming order which matched with the DNR Order; or (2) the ABBO is improved to a

price which locks the DNR's displayed price, in which case the incoming order will

execute at the DNR's displayed price." The System would not take into account the

away market order or quote which crossed the DNR's displayed price. The Exchange is

not trading-through an away market in this scenario, rather an away market is crossing

Phlx's displayed market and therefore that market has the obligation not to trade-through

Phlx's displayed price.

The Exchange is also adding a scenario where the ABBO is improved to a price

which locks the DNR's displayed price. In this added scenario, the incoming order will

execute at the DNR's displayed price. The Exchange notes that this scenario is not

contained in the current rule text. Adding this scenario is consistent with the Act because

it will bring greater transparency to the routing rule and inform members about this

potential outcome if a member elects to mark their order as DNR. Additionally,

amending a sentence[17] within Rule 1093(a)(iii)(A) to provide, "Should the best away

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[17]   The current sentence within Rule 1093(a)(iii)(A) states, "Should the best away
         market change its price to an inferior price level, the DNR Order will
         automatically re-price from its one minimum price variation inferior to the

market move to an inferior price level, the DNR Order will automatically re-price from

its one MPV inferior to the original ABBO and display one MPV away from the new

<u>ABBO</u> or its original limit price<u>, and expose such orders at the new ABBO only if the re-</u>

<u>priced order locks or crosses the new ABBO"</u> is consistent with the Act because the

additional language expands on the current re-pricing that exists today. The Exchange

believes that this language provides more context to the manner in which a DNR Order

will be handled by the Exchange's System. The Exchange believes that this additional

rule text is consistent with the Act as the DNR Order would re-price again from its one

MPV inferior to the original ABBO because the best away market moved to an inferior

price level. The DNR Order would display one MPV away from the new ABBO price or

its original limit price. Also, the DNR Order would expose such orders at the new

ABBO, only if the re-priced order locks or crosses the new ABBO. Once booked at its

original limit price, it will remain on the Order Book at that price until executed or

cancelled. Providing this additional transparency will assist members in determining if

they want their orders routed.

     With respect to FIND Orders within Rule 1093(a)(iii)(B) as well as SRCH Orders

within Rule 1093(a)(iii)(C) the amendments are consistent with the Act as they propose a

scenario that is not currently within the Rules. The Exchange proposes to add a scenario

that provides, if during the Route Timer, the ABBO markets move such that the FIND

Order or SRCH Order is no longer marketable against the ABBO it provides the various

scenarios that may occur. Also, if there exists a locked ABBO when the FIND Order or

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          original away best bid/offer price to one minimum trading increment away from
          the new away best bid/offer price or its original limit price, and expose such
          orders at the ABBO to participants only if the re-priced order locks or crosses the
          ABBO."

SRCH Order is entered onto the Order Book and if during the Route Timer any new

interest arrives opposite the FIND Order or SRCH Order that is marketable against the

FIND Order or SRCH Order. Scenarios are provided for each of these situations within

the new rule text. The new text seeks to clearly provide a member with the specific

handling of a routable order for various scenarios during intra-day trading. The

Exchange believes that the addition of these scenarios is consistent with the Act as the

order, which was marked routable as either a FIND Order or SRCH Order, once it is not

marketable against the ABBO, will either trade at the next PBBO, if the order locks or

crosses the FIND Order or SRCH Order, or it would be booked at its limit price,

providing it is not locking or crossing the PBBO. The Exchange's rule must account for

trade-through and will consider potential executions for an order consistent with routing

instructions. The Exchange believes that this rule text will bring greater clarity to the

Exchange's Rules.

The amendments to Phlx Rule 1093 represent current System functionality.

These rules are similar to current rule text on NOM at Chapter VI, Section 11.[18]

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.

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[18]   See Securities Exchange Act Release No. 87030 (September 19, 2019), 84 FR
         50495 (September 25, 2019) (SR-NASDAQ-2019-077).

Applicability, Definitions and References

The Exchange's proposal to define a "bid" and an "offer" within Phlx Rule 1000(b) does not impose an undue burden on competition, rather these terms will bring greater transparency to the Exchange's Rules.

Minimum Increments

The Exchange's proposal to amend Rule 1034 to reorganize and update the rule does not impose an undue burden on competition because all market participants are subject to Rule 1034. The language will properly reflect that the standard for submitting orders with minimum increments into the System. The remainder of the amendments to reorganize and renumber the Rule are non-substantive.

Directed Orders

The Exchange's proposal to remove rule text within Rule 1068(a)(i)(A) does not impose an undue burden on competition as Stop Order and Stop-Limit Orders may be Directed Orders similar to all other order types. Removing the limitation and allowing all order types to be directed allows members greater flexibility in choosing how to submit their orders.

Price Improvement XL ("PIXL")

The Exchange's proposal to amend Rule 1087 to point out at the top of the Rule which provisions apply to Public Customer-to-Public Customer Cross Orders does not impose an undue burden on competition. This rule change will make market participants more aware of which provisions govern Public Customer-to-Public Customer Cross Orders.

Mass Cancellation of Trading Interest

The Exchange's proposal to memorialize the Mass Cancellation of Trading Interest

rule within Rule 1090 does not impose an undue burden on competition because all

members may utilize this service. This new rule reflects the Exchange's current practice.

Routing

The Exchange believes that adding greater detail to its rules concerning routing of

orders does not impose an undue burden on competition, rather it provides greater

transparency as to the potential outcomes when utilizing different routing strategies.

Further, the Exchange notes that market participants may elect not to route their orders.

The Exchange continues to offer various options to its market participants with respect to

routing.

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

No written comments were either solicited or received.

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

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

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

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

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

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

thereunder.[20]

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[19]   15 U.S.C. 78s(b)(3)(A)(iii).

[20]   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

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.

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-2019-56 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-2019-56. 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

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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.

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-2019-56 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.[21]

                            Jill M. Peterson
                            Assistant Secretary

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[21]   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

* * * * *

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

* * * * *

(62) The term **"bid"** means a quote or limit order to buy one or more options contracts.

(63) The term **"offer"** means a quote or limit order to sell one or more options contracts.

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Rule 1014. Obligations of Market Makers

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(e) **Market Maker Orders.** ROTs and Specialists may enter all order types defined in Rule 1080(b) in the options classes to which they are appointed and non-appointed, except for Market Orders as provided in Rule 1080(b)(1), Stop Orders as provided in Rule 1080(b)(4), All-or-None Orders as provided in Rule 1080(b)(5), Directed Orders as provided for in Rule 1068, and [p]Public [c]Customer-to-[p]Public [c]Customer [c]Cross [o]Orders subject to Rule 1087(a) and (f). The total number of contracts executed during a quarter by a ROT or Specialist in options series to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts executed by the ROT or Specialist in options series.

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Rule 1034. Minimum Increments
(a) Except as provided in[sub-paragraphs (i)(B) and (iii)]Commentary below, all options on stocks, index options, and Exchange Traded Fund Shares [quoting]trading [in decimals] at a price of $3.00 or higher shall have a minimum increment of $.10, and all options on stocks and index options [quoting]trading [in decimals]at a price under $3.00 shall have a minimum increment of $.05.

> [(i) (A)](1) However, the Board of Directors may establish different minimum trading increments. The Exchange will designate any such change as a stated policy, practice or interpretation with respect to the administration of Rule 1034, within the meaning of

Section 19(b)(3)(A) of the Exchange Act and will file a proposed rule change with the Securities and Exchange Commission to be effective upon filing.

(2) An order received at a price expressed in other than the appropriate minimum trading increment described in this Rule shall be rejected by the System.

(3) Different minimum changes for dealings in option contracts other than those specified in paragraph (a) may also be fixed by the Exchange from time to time for option contracts of a particular series.

Commentary:

.01 **Penny Pilot Program**: [(B)] For a pilot period scheduled to expire June 30, 2020 or the date of permanent approval, if earlier (the "pilot"), certain options shall be quoted and traded on the Exchange in minimum increments of $0.01 for all series in such options with a price of less than $3.00, and in minimum increments of $0.05 for all series in such options with a price of $3.00 or higher, except that options overlying the PowerShares QQQ Trust ("QQQQ")®, SPDR S&P 500 Exchange Traded Funds ("SPY"), and iShares Russell 2000 Index Funds ("IWM") shall be quoted and traded in minimum increments of $0.01 for all series regardless of the price. A list of such options shall be communicated to membership via an Options Trader Alert ("OTA") posted on the Exchange's web site.

The Exchange may replace any pilot issues that have been delisted with the next most actively traded multiply listed options classes that are not yet included in the pilot, based on trading activity in the previous six months. The replacement issues may be added to the pilot on the second trading day in the first month of each quarter.

[(C) An order received at a price expressed in other than the appropriate minimum trading increment described in this Rule shall be rejected by the Phlx XL II system.]

.02[(ii)] All options on foreign currencies where the underlying foreign currency is not the U.S. dollar shall have a minimum increment of $.01.

.03[(iii)] All options on Alpha Indexes shall have a minimum increment of $.01 if options on either component of the index have a minimum increment of $.01.

.04[(iv)] All Mini Option contracts shall have a minimum price variation as set forth in Commentary .13 of Rule 1012.

[(v) However, different minimum changes for dealings in option contracts may also be fixed by the Exchange from time to time for option contracts of a particular series.]

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Rule 1068. Directed Orders

(a) Specialists, RSQTs and SQTs may receive Directed Orders (as defined in this Rule) in accordance with the provisions of this rule.

(i) Definitions

(A) The term "Directed Order" means any order[(other than a stop or stop-limit order as defined in Options 8, Section 32)] to buy or sell which has been directed to a particular Specialist, RSQT, or SQT by an Order Flow Provider, as defined below. To qualify as a Directed Order, an order must be delivered to the Exchange via the System.

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Rule 1080. Electronic Acceptance of Quotes and Orders
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(e) **Off-Floor Broker-Dealer Order**. An off-floor broker-dealer order may be entered for a minimum size of one contract. Off-floor broker-dealers may enter all order types defined in Options 3, Section 7(b) except for All-or-None Orders, Market Orders, Stop Market Orders, and [p]Public [c]Customer-to-[p]Public [c]Customer [c]Cross [o]Orders subject to Options 3, Section 13(a) and (f).

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Rule 1087. Price Improvement XL ("PIXL")

A member may electronically submit for execution an order it represents as agent on behalf of a Public Customer, broker-dealer, or any other entity ("PIXL Order") against principal interest or against any other order (except as provided in sub-paragraph (a)(6) below) it represents as agent (an "Initiating Order") provided it submits the PIXL Order for electronic execution into the PIXL Auction ("Auction") pursuant to this Rule. The contract size specified in Rule 1087 as applicable to PIXL Orders shall apply to Mini Options. The execution of a PIXL Order that is comprised of a Public Customer order to buy and a Public Customer to sell at the same price and for the same quantity will be governed by Rule 1087(a) and (f) ("Public Customer-to-Public Customer Cross Order").

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Rule 1090. Mass Cancellation of Trading Interest

A member or member organization may cancel any bids, offers, and orders in any series of options by requesting Phlx Market Operations staff to effect such cancellation as per the instructions of the member or member organization.

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Rule 1093. Away Markets and Order Routing

(a) Phlx offers two routing strategies, FIND and SRCH. Each of these routing strategies will be explained in more detail below. An order may in the alternative be marked Do Not Route or "DNR". The Exchange notes that for purposes of this rule the System will route FIND and SRCH Orders with no other contingencies. Immediate or Cancel ("IOC") Orders will be cancelled immediately if not executed, and will not be routed. The System checks the Order Book for available contracts for potential execution against the FIND or SRCH orders. After the System checks the Order Book for available contracts, orders are sent to other available market centers for potential execution. [When checking the Order Book, the System will seek to execute at the price at which it would send the order to an away market.] For purposes of this rule, the Phlx's best bid or offer or "PBBO" does not include All-or-None Orders or stop orders which have not been triggered and the "internal PBBO" shall refer to the actual better price of an order resting on Phlx's Order Book, which is not displayed, but available for execution, excluding Allor- None Orders. For purposes of this rule, a Route Timer shall not exceed one second and shall begin at the time orders are accepted into the System, and the System will consider whether an order can be routed at the conclusion of each Route Timer. Finally, for purposes of this rule, "exposure" or "exposing" an order shall mean a notification sent to participants with the price, size, and side of interest that is available for execution. An order exposure alert is sent if the order size is modified. Exposure notifications will be sent to participants in accordance with the routing procedures described in Rule 1093(a)(iii) below except if an incoming order is joining an already established PBBO price when the ABBO is locked or crossed with the PBBO, in which case such order will join the established PBBO price and no exposure notification will be sent. For purposes of this rule Phlx's opening process is governed by Rule 1017 and includes an opening after a trading halt ("Opening Process"). For purposes of this rule, the term "Public Customer" means a person or entity that is not a broker or dealer in securities and is not a professional as defined within Rule 1000(b)(14).

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(iii) The following order types are available:

(A) *DNR Order.* A DNR Order will never be routed outside of Phlx regardless of the prices displayed by away markets. A DNR Order may execute on the Exchange at a price equal to or better than, but not inferior to, the best away market price but, if that best away market remains, the DNR Order will remain in the Phlx Order Book and be displayed at a price one minimum price variation ("MPV") inferior to that away best bid/offer. If the DNR Order is locking or crossing the ABBO, the DNR Order shall be entered into the Order Book at the ABBO price and displayed one MPV away from the ABBO. The Exchange shall immediately expose the order at the ABBO to participants, provided the option series has opened for trading. Any incoming order interacting with such a resting DNR [o]Order will execute at the ABBO price, unless (1) the ABBO is improved to a price which crosses the DNR Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price; or (2) the ABBO is improved to a price which locks the DNR Order's displayed price, in which case the incoming order will execute at the DNR Order's displayed price. Should the best away market

[change its price] <u>move</u> to an inferior price level, the DNR Order will automatically re-price from its one [minimum price variation] <u>MPV</u> inferior to the original [away best bid/offer price]<u>ABBO</u> [to]<u>and display</u> one[minimum trading increment] <u>MPV</u> away from the new [away best bid/offer price]<u>ABBO</u> or its original limit price<u>, and expose such orders at the new ABBO only if the re-priced order locks or crosses the new ABBO.</u> Once [priced]<u>booked</u> at its original limit price, it will remain at that price until executed or cancelled. Should the best away market improve its price such that it locks or crosses the DNR Order limit price, the Exchange will execute the resulting incoming order that is routed from the away market that locked or crossed the DNR Order limit price.

(B) *FIND Order.* A FIND Order is an order that is: (i) routable at the conclusion of an Opening Process; and (ii) routable upon receipt during regular trading, after an option series is open. FIND Orders submitted after an Opening Process initiate their own Route Timers and are routed in the order in which their Route Timers end. FIND Orders that are not marketable with the ABBO upon receipt will be treated as DNR for the remainder of the trading day.

    (1) – (4) No change.

    (5) A FIND Order received after an Opening Process that is marketable against the internal PBBO when the ABBO is equal to the internal PBBO will be traded at the Exchange at the internal PBBO. If the FIND Order has size remaining after exhausting the PBBO, it will initiate a Route Timer, and expose the FIND Order at the ABBO to allow market participants an opportunity to interact with the remainder of the FIND Order. During the Route Timer, the FIND Order will be included in the PBBO at a price one MPV away from the ABBO. If, during the Route Timer, any new interest arrives opposite the FIND Order that is equal to or better than the ABBO price, the FIND Order will trade against such new interest at the ABBO price. If during the Route Timer, the ABBO moves and crosses the FIND Order, any new interest arrives opposite the FIND Order that is marketable against the FIND Order will trade at the FIND Order price. <u>If during the Route Timer, the ABBO markets move such that the FIND Order is no longer marketable against the ABBO, it may: (i) trade at the next PBBO price (or prices) if the FIND Order price is locking or crossing that price (or prices), and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the PBBO. A FIND Order will be included in the displayed PBBO at its limit price, unless the FIND Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If there exists a locked ABBO when the FIND Order is entered onto the Order Book, the FIND Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If during the Route Timer any new interest arrives opposite the FIND Order that is marketable against the FIND Order such interest will trade against the FIND Order at the ABBO price unless the ABBO is improved to a price which crosses the FIND Order's already</u>

displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price.

(6) – (9) No change.

(C) **SRCH Order.** A SRCH Order is a Public Customer order that is routable at any time. A SRCH Order on the Order Book during an Opening Process (including a re-opening following a trading halt), whether it is received prior to an Opening Process or it is a GTC SRCH Order from a prior day, may be routed as part of an Opening Process. Orders initiate their own Route Timers and are routed in the order in which their Route Timers end.

(1) – (5) No change.

(6) A SRCH Order received after an Opening Process that is marketable against the ABBO when the ABBO is better than the PBBO will initiate a Route Timer, and expose the SRCH Order at the ABBO to allow participants and other market participants an opportunity to interact with the SRCH Order. During the Route Timer, the SRCH Order will be included in the PBBO at a price that is the better of one MPV inferior to the ABBO or at the PBBO. If, during the Route Timer, any new interest arrives opposite the SRCH Order that is equal to or better than the ABBO price, the SRCH Order will trade against such new interest at the ABBO price. If during the Route Timer, the ABBO markets move such that the SRCH Order is no longer marketable against the ABBO, it may: (i) trade at the next PBBO price (or prices) if the SRCH Order price is locking or crossing that price (or prices), and/or (ii) be entered into the Order Book at its limit price if not locking or crossing the PBBO. A SRCH Order will be included in the displayed PBBO at its limit price, unless the SRCH Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If there exists a locked ABBO when the SRCH Order will be entered into the Order Book at the ABBO price and displayed one MPV inferior to the ABBO. If during the Route Timer any new interest arrives opposite the SRCH Order that is marketable against the SRCH Order such interest will trade against the SRCH order at the ABBO price unless the ABBO is improved to a price which crosses the SRCH Order's already displayed price, in which case the incoming order will execute at the previous ABBO price as the away market crossed a displayed price.

(7) – (10) No change.

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Rule 1096. Entry and Display of Orders
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(e) Orders will be displayed in the System as described in Rule [1099]1070.

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