

2018, made final distributions to its shareholders based on net asset value. Expenses of \$3,515,501.43 incurred in connection with the reorganization were paid by the applicant, the applicant's investment adviser, the acquiring fund, and the acquiring fund's investment adviser.

*Filing Date:* The application was filed on March 19, 2018.

*Applicant's Address:* 6300 Lamar Avenue, Overland Park, Kansas 66202

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

**Eduardo Aleman,**  
*Assistant Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-82975; File No. SR-Phlx-2018-22]

### Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing of Proposed Rule Change To Create a New Rule 1081, To Amend Electronic Market Maker Obligations and Quoting Requirements for Electronic ROTs, Which Will Be Defined To Include SQTs, RSQTs, Directed SQTs, Directed RSQTs, Specialists, and Remote Specialists

March 30, 2018.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 20, 2018, Nasdaq PHLX LLC ("Phlx" or the "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 create a new Rule 1081, to amend electronic quoting for electronic ROTs, which will be defined to include SQTs, RSQTs, Directed SQTs, Directed RSQTs, Specialists and Remote Specialists.

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 the Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

The purpose of this rule change is to reserve the current quoting obligations in Phlx Rule 1014(b)(ii)(D) and adopt new Phlx Rule 1081, which is currently reserved, to amend the current obligations of electronic ROTs on Phlx. The Exchange proposes to entitle Phlx Rule 1081, "Electronic Market Maker Obligations and Quoting" and adopt certain rule text similar to NASDAQ BX, Inc. ("BX") Rules at Chapter VII, Section 5 and quoting obligations similar to BX Rules at Chapter VII, Section 6 which [sic] describes the obligations of market makers. The Exchange notes that these obligations apply to quotations by of [sic] SQTs, RSQTs, Directed SQTs, Directed RSQTs, Specialists (hereinafter, "electronic ROTs") electronically through the Exchange's System.<sup>3</sup> The Exchange notes that quotes submitted electronically by a Specialist, while on the trading floor, into the Exchange's System, would qualify toward the Specialist requirement. All Specialists are subject to the requirements of Phlx Rule 1081. Similarly all RSQTs are subject to the requirements of Phlx Rule 1081 as RSQTs by definition have no physical trading floor presence. SQTs by definition may generate and submit option quotations electronically in options to which such SQT is assigned while such SQT is physically present on the floor of the Exchange. The SQTs quotations are subject to the obligations contained in Rule 1081. Non-SQT ROTs<sup>4</sup> are not subject to the quoting

requirements in proposed Rule 1081, rather they are subject to quarterly trading requirements which are specified in Commentary .01 to Phlx Rule 1014.

The Exchange proposes to adopt new sections (a) and (b) of Phlx Rule 1081 to specify the various obligations of electronic ROTs on Phlx. In registering as an electronic ROT, member organization [sic] commits to various obligations. Generally, the Exchange proposes to indicate that an electronic ROT's transactions, in its market making capacity,<sup>5</sup> must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and those member organizations should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. The Exchange also proposes to note, similar to BX Rules at Chapter VII, Section 5(b) that electronic ROTs should not effect purchases or sales except in a reasonable and orderly manner. While this rule text is not explicitly noted in Phlx Rule 1014, the rule does today note at Phlx Rule 1014(a) that transactions of a Specialist and a ROT should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and those members should not enter into transactions or make bids or offers that are inconsistent with such a course of dealings.

Proposed Phlx Rule 1081(a) provides, ordinarily during trading hours,<sup>6</sup> an electronic ROT must: (i) Maintain a two-sided market in those options in which the electronic ROT is registered to trade, in a manner that enhances the depth, liquidity and competitiveness of the market; (ii) engage, to a reasonable degree under the existing circumstances, in dealings for its own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of (or demand for) a particular option contract, or a temporary distortion of price relationships between option contracts of the same class; (iii) compete

meaning send quotes electronically to the Exchange; instead, pursuant to Commentary .18 of Rule 1014, they submit limit orders electronically and respond to Floor Brokers verbally.

<sup>5</sup> Electronic ROTs are permitted to enter orders on Phlx as permitted in Rule 1080(b)(i)(B). Orders are not considered market making activity for purposes of fulfilling quoting or the other obligations of an electronic ROT which are proposed herein.

<sup>6</sup> The Exchange notes that a trading halt may cause the obligations of electronic ROTs to be suspended because the market is not open for trading. The Exchange intends that the obligations of an electronic ROT will be in effect when the Exchange is open for trading as specified in the Exchange's Rules.

<sup>3</sup> System is defined at Phlx Rule 1000(b)(45).

<sup>4</sup> A non-SQT ROT is an ROT who is neither an SQT nor an RSQT. See Rule 1014(b)(ii)(C). By definition, non-SQT ROTs do not "stream" quotes,

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

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

with other electronic ROTs in all options in all capacities<sup>7</sup> in which the electronic ROT is registered to trade; (iv) make markets that will be honored for the number of contracts entered into Phlx's System in all options in which the electronic ROT is registered to trade; (v) update quotations in response to changed market conditions in all options in which the electronic ROT is registered to trade; (v) maintain active markets in all options in which the electronic ROT is registered; and (vi) honor all orders attributed to the electronic ROT that the System routes to away markets pursuant to Rule 1080(m).<sup>8</sup>

Similar to BX Rules at Chapter VII, Section 5(c), Phlx proposes in Phlx Rule 1081(b) to provide, "If Phlx Regulation finds any substantial or continued failure to engage in a course of dealings as specified in paragraph (a) of this section, the electronic ROT will be subject to disciplinary action or suspension or revocation of registration in one or more of the securities in which the electronic ROT is registered. Nothing in this rule will limit any other power of the Board under these Rules, or procedures of Phlx with respect to the registration of an ROT or in respect of any violation by an ROT pursuant to this rule."<sup>9</sup> The Exchange believes that the addition of these obligations will provide additional context as to the obligations of electronic ROTs on Phlx.

#### Current Quoting Requirements

The Exchange proposes to amend the current market making quoting obligations at Phlx Rule 1014(b)(ii)(D)(1). Currently, Phlx requires that in addition to the other requirements for ROTs set forth in Rule 1014, with some exceptions (*e.g.*, when an RSQT functions as a Remote Specialist in particular options)<sup>10</sup> an SQT and an RSQT are responsible to quote two-sided markets in not less than 60% of the series in which such SQT or

RSQT is assigned, provided that, on any given day, a Directed SQT ("DSQT") or a Directed RSQT ("DRSQT") are responsible to quote two-sided markets in the lesser of 99% of the series listed on the Exchange or 100% of the series listed on the Exchange minus one call-put pair,<sup>11</sup> in each case in at least 60% of the options in which such DSQT or DRSQT is assigned. Further, whenever a DSQT or DRSQT enters a quotation in an option in which such DSQT or DRSQT is assigned, such DSQT or DRSQT must maintain until the close of that trading day quotations for the lesser of 99% of the series of the option listed on the Exchange or 100% of the series of the option listed on the Exchange minus one call-put pair. The rule also states that to satisfy the applicable quoting requirements with respect to quoting a series, an SQT, RSQT, DSQT, or DRSQT must quote such series 90% of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as the Exchange may announce in advance.<sup>12</sup> The rule notes that these obligations apply collectively to all appointed issues of an SQT, RSQT, DSQT, or DRSQT, rather than on an issue-by-issue basis. Compliance with this obligation is determined on a monthly basis. However, determining compliance with the continuous quoting requirement on a monthly basis does not relieve an SQT, RSQT, DSQT, or DRSQT of the obligation to provide continuous two-sided quotes on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against an SQT, RSQT, DSQT, or DRSQT for failing to meet the continuous quoting obligation each trading day. Finally, the Exchange may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances.

Currently, with respect to a Specialist, Phlx Rule 1014(b)(ii)(D)(2) requires the Specialist (including the RSQT functioning as a Remote Specialist in particular options) quote two-sided markets in the lesser of 99% of the series or 100% of the series minus one call-put pair in each option in which such Specialist is assigned. To satisfy the requirement of this subparagraph (D)(2) with respect to quoting a series, the Specialist must quote such series 90% of the trading day (as a percentage of the total number of minutes in such

trading day) or such higher percentage as the Exchange may announce in advance. These obligations apply collectively to all appointed issues of the Specialist, rather than on an issue-by-issue basis. Compliance with this obligation is determined on a monthly basis. However, determining compliance with the continuous quoting requirement on a monthly basis does not relieve the Specialist (including the RSQT functioning as a Remote Specialist in particular options) of the obligation to provide continuous two-sided quotes on a daily basis, nor does it prohibit the Exchange from taking disciplinary action against the Specialist (including the RSQT functioning as a Remote Specialist in particular options) for failing to meet the continuous quoting obligation each trading day. Finally, the Exchange may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances.

Currently, Phlx Rule 1014(b)(ii)(D)(3) provides that SQTs, RSQTs and the Specialist assigned in an option shall submit electronic quotations with a size of not less than the minimum number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one contract. Phlx Rule 1014(b)(ii)(D)(4) provides that notwithstanding the foregoing, SQTs, DSQTs, RSQTs<sup>13</sup> and DRSQTs shall be deemed not to be assigned in any Quarterly Option Series, any adjusted option series,<sup>14</sup> and any option series until the time to expiration for such series is less than nine months. Thus, the quoting obligations described above do not apply to SQTs, DSQTs, RSQTs and DRSQTs respecting Quarterly Option Series, Adjusted Option Series, and series with an expiration of nine months or greater. Phlx Rule 1014(b)(ii)(D)(5) provides that if a technical failure or limitation of a System of the Exchange prevents a participant from maintaining, or prevents a participant from communicating to the Exchange, timely and accurate quotes, the duration of such failure or limitation shall not be included in any of the calculations under Rule 1014(b)(ii)(D) with respect to the affected quotes.

<sup>13</sup> This provision does not apply to RSQTs when they are functioning as Remote Specialists in particular options.

<sup>14</sup> Phlx defines an adjusted option series as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares ("Adjusted Options Series").

<sup>7</sup> For example, competing as a Specialist and as an SQT, depending on the various capacities of market making in which the electronic ROT is engaged.

<sup>8</sup> Proposed Phlx Rule 1081(a)(i)-(vii) are similar to BX Rules at Chapter VII, Section 5(a).

<sup>9</sup> The Exchange notes that an electronic ROT may be found to have violated other by-laws and rules of the Exchange which are separate and apart from these obligations. The Exchange has added this rule text to make clear that the obligations noted within this rule are not an exclusive list.

<sup>10</sup> Electronic Specialists have different quoting obligations currently in Phlx's rule which will be described in more detail in this proposal. Also, SQTs, DSQTs, RSQTs and DRSQTs are deemed not to be assigned in any Quarterly Option Series, any adjusted option series, and any option series until the time to expiration for such series is less than nine months.

<sup>11</sup> A "call-put pair" refers to one call and one put that cover the same underlying instrument and have the same expiration date and exercise price. See Rule 1014(b)(ii)(D)(6).

<sup>12</sup> See Phlx Rule 1014(b)(ii)(D)(1).

### Proposed Quoting Requirements

The Exchange proposes to amend its electronic quoting requirements at proposed Phlx Rule 1081(c). The Exchange notes that electronic ROTs must enter bids and offers for the options to which it is registered, except in an assigned options series listed intra-day on the Exchange. The Exchange notes that intra-day [sic] add of a series would be counted the following trading day (next business day after the intra-day add of a series was listed) when the option series would be available for a full trading day.<sup>15</sup> Today, an electronic ROT is not held to quote an intra-day add of a series because the options series was not available for trading the entire day. The Exchange is adding this exception to the rule text to make clear that electronic ROTs would not be responsible for quoting an intra-day addition. The Exchange believes that not counting intra-day adds of a series that were not available for the entire day of trading is consistent with the Act because the electronic ROT would not have the opportunity to trade that particular options series for the entire trading day.

Further, the proposed rule text notes, as is the case today, on a daily basis an SQT and RSQT would be obligated to meet certain quoting requirements. An SQT or RSQT who is also the Specialist will be held to the Specialist obligations in options series in which the Specialist is assigned and will be held to SQT and RSQT obligations in all other options series where assigned. An SQT or RSQT who receives a Directed Order shall be held to the standard of a Directed SQT or Directed RSQT, as appropriate. This is the case today, although the current rule text does not state specifically that each obligation is separate. The Exchange's proposed rule text at Phlx Rule 1081(c) is not contained in the current rule, but is the current practice on Phlx. This additional detail is being added to the text of the proposed rule to further clarify the manner in which the quoting obligations are applied.

With respect to electronic ROTs, similar to the existing Phlx language at Phlx Rule 1014(b)(ii)(D)(3), the Exchange proposes to continue to require the best bid and best offer entered by an electronic ROT to have a size of not less than the minimum number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one (1) contract. Further, the rule text specifies

at Phlx Rule 1081(c)(i) that an electronic ROT's bid and offer for a series of options contracts shall be accompanied by the number of contracts at that price the electronic ROT is willing to buy or sell.<sup>16</sup> This language is similar to BX Rules at Chapter VII, Section 6(a). Today, Phlx Rule 1014(b)(ii)(D)(3) requires SQTs, RSQTs and the Specialist assigned in such option to submit electronic quotations with a size of not less than the minimum number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one contract. The Exchange is not introducing a new concept with this proposed language, rather the Exchange is retaining its current language regarding minimum size. The BX Rule differs from the Phlx Rule in this regard. BX's Rule Provides that a Participant "must have a size of at least one (1) contract" without reference to BX setting a minimum number. Phlx's Rule is generally similar to BX, except Phlx is retaining its rule text which permits the Exchange to determine the minimum number of contracts. The proposed rule text states, "The best bid and best offer submitted by an electronic ROT must have a size of not less than the minimum number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one (1) contract." Today, an electronic ROT's bid and offer for a series of options contracts is quoted at a price for the number of contracts the electronic ROT is willing to buy or sell.

The Exchange proposes language at Phlx Rule 1081(c)(ii) that requires an electronic ROT that enters a bid (offer) in a series of an option in which he is registered on Phlx to enter an offer (bid).<sup>17</sup> This requirement to maintain a two-sided quote is similar to what is required today on Phlx.<sup>18</sup> The Exchange does not propose to amend the manner in which this provision is currently applied to an electronic ROT.

Proposed Phlx Rule 1081(c)(ii)(A) provides that SQTs and RSQTs, associated with the same member organization, are collectively required to provide two-sided quotations in 60% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading. The Exchange includes proposed rule text at Phlx Rule 1081(c)(ii)(D), which provides

that the obligation at Phlx Rule 1081(c)(ii)(A) would be calculated by (i) taking the total number of seconds the member organization disseminates quotes in each assigned options series, excluding Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater for SQTs, RSQTs, Directed SQTs and Directed RSQTs; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. SQTs and RSQTs would not be required to quote Quarterly Option Series, any Adjusted Options Series, and any option series with an expiration of nine months or greater. Further, the rule text notes that quoting is not required in every assigned options series. Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the member organization.<sup>19</sup> Proposed Phlx Rule 1081(c)(ii)(A) also provides, similar to today, that notwithstanding the foregoing, a member organization shall not be required to make two-sided markets pursuant to 1081(c)(ii) in any Quarterly Option Series, any Adjusted Options Series, and any option series with an expiration of nine months or greater.<sup>20</sup>

The current Phlx rule requires SQTs and RSQTs to quote 60% of the series 90% of the trading day.<sup>21</sup> By comparison, the proposed rule change, which is similar to BX's Rule at Chapter VII, Section 6(d)(i)(1) [sic].<sup>22</sup> The SQTs and RSQTs may quote any combination of series, and does not necessarily have to quote every assigned options series. Similar to today, these quotations must continue to meet the legal quote width requirements specified in Phlx Rule 1014(c)(i)(A)(1) and (2). The proposal better accommodates the occasional issues that may arise in a particular series, whether technical or manual. The existing requirement may at times discourage liquidity in particular options series because an electronic ROT is forced to focus on a momentary lapse, rather than using the appropriate resources to focus on the options series that need and consume additional liquidity.

<sup>19</sup> See Phlx Rule 1081(c)(ii)(D).

<sup>20</sup> This is similar to Phlx Rule 1014(b)(ii)(D)(4). The Exchange is utilizing the phrase "series with an expiration of nine months or greater" in this version simply for clarity and to conform to the current BX language at BX Rules at Chapter VII at Section 6. Once the options series had less than nine months of expiration, the electronic ROT would be required to commence quoting the options series if appointed in that options series.

<sup>21</sup> See Phlx Rule 1014(b)(ii)(D)(1).

<sup>22</sup> See proposed Phlx Rule 1081(c)(ii)(A) and (D).

<sup>15</sup> An intra-day add of a series shall be defined, for purposes of this Rule 1081, as an option series that is added manually on the same day the series begins trading.

<sup>16</sup> See proposed Phlx Rule 1081(c)(i).

<sup>17</sup> See proposed Phlx Rule 1081(c)(ii).

<sup>18</sup> See Phlx Rule 1014(b)(ii)(D)(1). This requirement is also similar to BX Rules at Chapter VII, Section 6(b).

The Exchange is defining an Adjusted Options Series as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares. This definition at Proposed Phlx Rule 1081(c)(ii)(A)(i) is the same definition that is currently in Phlx Rule 1014(b)(ii)(D)(4).

Proposed Phlx Rule 1081(c)(ii)(B) provides that Specialists (including Remote Specialists), associated with the same member organization, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading. The Exchange includes proposed rule text at Phlx Rule 1081(c)(ii)(D), which provides that the obligation at Phlx Rule 1081(c)(ii)(B) would be calculated by (i) taking the total number of seconds the member organization disseminates quotes in each assigned options series; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. Further, the rule text notes that quoting is not required in every assigned options series.<sup>23</sup> Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the member organization.<sup>24</sup> The [sic] proposal to quote in aggregate all of assigned series 90% of the trading day would align Phlx's Rule to that of BX.

This is an amendment from the current Phlx requirement which requires a Specialist to quote two-sided markets in the lesser of 99% of the series or 100% of the series minus one call-put pair in each option in which the Specialist is assigned. Today, the Specialist must quote such series 90% of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as the Exchange may announce in advance.<sup>25</sup> The Exchange desires to lower the requirement to conform to BX's requirement for Lead Market Makers, the equivalent of Phlx's Specialists, at BX Rules at Chapter VII, Section 14(f). As is the case today, these quotations must meet the legal quote width requirements specified in Phlx Rule 1014(c)(i)(A)(1) and (2). The Exchange notes that Specialists continue to have heightened quoting requirements as compared to electronic ROTs, which

heightened obligations allow for the Specialist to receive certain participation rights.<sup>26</sup> The participation rights reward Specialists for making markets and providing other market participants an incentive to quote aggressively.

Today, Phlx Rule 1014(b)(ii)(D)(4) provides an exception from the quoting obligations in Quarterly Option Series, Adjusted Options Series, and any option series until the time for expiration for such series is less than nine months, for SQTs, DSQTs, RSQTs, and DRSQTs. This exception does not apply to Specialists or Remote Specialists because they are not listed as an excepted class. The Exchange's proposal continues to require Specialists and Remote Specialists to quote in Quarterly Option Series, Adjusted Options Series, and any option series until the time for expiration for such series is less than nine months where assigned.<sup>27</sup> This rule text does not conform to BX Rules at Chapter VII, Section 14. A BX Lead Market Maker is not required to quote Quarterly Options Series, Adjusted Options Series, or any series with a time to expiration of nine months or greater.

Proposed Phlx Rule 1081(c)(ii)(C) provides Directed SQTs and Directed RSQTs, associated with the same member organization, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading. The Exchange includes proposed rule text at Phlx Rule 1081(c)(ii)(D), which provides that the obligation at Phlx Rule 1081(c)(ii)(C) would be calculated by (i) taking the total number of seconds the member organization disseminates quotes in each assigned options series, excluding Quarterly Option Series, any Adjusted Options Series, and any option series with an expiration of nine months or greater for SQTs, RSQTs, Directed SQTs and Directed RSQTs; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. Further, the rule text notes that quoting is not required in every assigned options series.<sup>28</sup> Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the member organization.<sup>29</sup> Notwithstanding the foregoing, a member organization shall

not be required to make two-sided markets pursuant to 1081(c)(ii) in any Quarterly Option Series, any Adjusted Options Series, and any option series with an expiration of nine months or greater.<sup>30</sup> This provision is not being amended and is similar to the current Phlx rule and BX Rules at Chapter VII, Section 15(iv).<sup>31</sup> These quotations must meet the legal quote width requirements specified in Phlx Rule 1014(c)(i)(A)(1) and (2).

The proposed provisions amend the current Phlx requirement which requires a Directed ROT to quote two-sided markets in the lesser of 99% of the series listed on the Exchange or 100% of the series listed on the Exchange minus one call-put pair, in each case in at least 60% of the options in which such DSQT or DRSQT is assigned. Whenever a DSQT or DRSQT enters a quotation in an option in which such DSQT or DRSQT is assigned, such DSQT or DRSQT must maintain until the close of that trading day quotations for the lesser of 99% of the series of the option listed on the Exchange or 100% of the series of the option listed on the Exchange minus one call-put pair. The Exchange desires to lower the requirement to conform to BX's requirement for Directed Market Makers in BX Rules at Chapter VII, Section 15(iii). The Exchange notes that Directed SQTs and Directed RSQTs continue to have heightened quoting requirements as compared to electronic ROTs, which heightened obligations allow for the Directed SQTs and Directed RSQTs to receive certain participation rights.<sup>32</sup> The enhanced participation rights reward Directed SQTs and Directed RSQTs for making markets and providing other market participants an incentive to quote aggressively.

For purposes of the quoting obligations specified in proposed Rule 1081(c)(ii)(C) a member organization shall be considered directed in all assigned options once the member organization receives a Directed Order in any option in which they are

<sup>30</sup> As noted herein, for purposes of this Rule, an adjusted option series is defined as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares ("Adjusted Options Series"). Once the options series had less than nine months of expiration, the electronic ROT would be required to commence quoting the options series if appointed in that options series.

<sup>31</sup> This is similar to Phlx Rule 1014(b)(ii)(D)(4). The Exchange is utilizing the phrase "series with an expiration of nine months or greater" in this version simply for clarity. This provision, which refers to any series with an expiration of nine months or greater, is the same measure utilized today on Phlx, however, it is phrased different [sic].

<sup>32</sup> See Phlx Rule 1014(g)(viii)(B)(1) [sic].

<sup>23</sup> See proposed Phlx Rule 1081(c)(ii)(B) and (D).

<sup>24</sup> See Phlx Rule 1081(c)(ii)(D).

<sup>25</sup> See Phlx Rule 1014(b)(ii)(D)(2).

<sup>26</sup> See Phlx Rule 1014(g)(vii)(B)(1)(c).

<sup>27</sup> See Phlx Rule 1081(c)(ii)(B).

<sup>28</sup> See proposed Phlx Rule 1081(c)(ii)(C) and (D).

<sup>29</sup> See Phlx Rule 1081(c)(ii)(D).

assigned and shall be considered a Directed SQT or Directed RSQT until such time as the member organization notifies the Exchange that they are no longer directed.<sup>33</sup> The Exchange notes that if a member desired to become a Directed SQT that this obligation would commence when that Directed SQT executed an order directed to the Directed SQT. For example if on March 15, 2018 at 3:00 p.m. SQT A received its first directed order, the quoting obligations would begin at that time (3:00 p.m.) and would continue until such time as SQT A informed Nasdaq [sic] Operations that it no longer desired to be directed. If a Directed SQT or Directed RSQT no longer desired to participate in the Directed Order program the Exchange would not permit the Directed SQT or Directed [sic] to receive an enhanced allocation pursuant to Rule 1014(g)(viii).<sup>34</sup> A Directed SQT's or Directed RSQT's quoting obligations would cease at such time as the member organization contacted Nasdaq [sic] Operations indicating the firm no longer desired to participate as a Directed SQT or a Directed RSQT.

As is the case today, Phlx Regulation may consider exceptions to the above-referenced requirement to quote based on demonstrated legal or regulatory requirements or other mitigating circumstances. For purposes of the Exchange's surveillance of member organization compliance with this rule, the Exchange may determine compliance on a monthly basis. The Exchange's monthly compliance evaluation of the quoting requirement does not relieve a member organization of the obligation to provide two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a member organization for failing to meet the quoting obligation each trading day.<sup>35</sup> Further, as is the case today, if a technical failure or limitation of a System of Phlx prevents a member organization from maintaining, or prevents a member organization from communicating to Phlx timely and accurate quotes, the duration of such failure or limitation shall not be included in any of the calculations under subparagraph (c)(ii) of proposed Rule 1081 with respect to the affected quotes.<sup>36</sup>

<sup>33</sup> A member organization that desires not to be directed would contact the Exchange's Operations desk.

<sup>34</sup> Once the Nasdaq [sic] Operations desk was contacted, Nasdaq [sic] staff would take steps to remove the ability of the member organization to be allocated as a Directed SQT or a Directed RSQT.

<sup>35</sup> See Phlx Rule 1014(b)(ii)(D)(1) and (2).

<sup>36</sup> See Phlx Rule 1014(b)(ii)(D)(5).

Example for calculating quoting for an electronic ROT:

Market Maker firm A ("MM A") has Badges 1, 2 and 3. MM A has permission to quote underlying U which has options U1, U2, U3, U4, and U5. MM A also has permission to quote underlyings V and W.

Option U1 opened at 09:30:30 and closed at 16:00:39

Badge 1 quoted U1 at 09:35:30 @ 13.00(10)–15.00(10)

Badge 1 updated quote in U1 at 09:50:31 @10.00(10)–15.00(20)

Badge 1 purged quote at 15:55:40

Total quoted time for U1 is: 15:55:40–09:35:30 = (15–9)\*3600 + (55–35)\*60 + (40–30) = 22810 (seconds)

Total available quote time for U1 is: 16:00:39–09:30:30 = (15–9)\*3600 + (60–30)\*60 + (39–30) = 23409 (seconds)

Option U2 opened at 09:30:32 and closed at 16:00:29

Badge 2 quoted U2 at 10:05:30 @ 13.00(10)–15.00(10)

Badge 2 updated quote in U2 at 11:00:01 @11.00(10)–16.00(20)

Badge 2 purged quote at 15:05:40

Total quoted time for U2 is: 15:05:40–10:05:30 = (14–10)\*3600 + (65–05)\*60 + (40–30) = 18010 (seconds)

Total available quote time for U2 is: 16:00:29–09:30:32 = (15–9)\*3600 + (59–30)\*60 + (89–32) = 23397 (seconds)

Option U3 opened at 09:40:02 and closed at 16:01:20

Badge 3 quoted U3 at 11:10:21 @ 21.00(10)–24.00(20)

Badge 3 purged quote at 15:00:05

Total quoted time for U3 is: 15:00:05–11:10:21 = (14–11)\*3600 + (59–10)\*60 + (65–21) = 13784 (seconds)

Total available quote time for U3 is: 16:01:20–09:40:02 = (15–9)\*3600 + (61–40)\*60 + (20–2) = 22878 (seconds)

Option U4 opened at 9:30:01 and closed at 16:00:20

Badge 1, 2 and 3 all quoted option U4: Badge 1 quoted U4 at 09:38:59 @ 35.00(10)–37.00(10)

Badge 1 updated quote in U4 at 10:30:21 @31.00(10)–37.00(20)

Badge 1 purged quote in U4 at 15:45:00

Badge 2 quoted U4 at 09:34:29 @ 35.00(10)–37.00(10)

Badge 2 purged quote at 15:35:55

Badge 3 quoted U4 at 10:33:21 @ 36.00(10)–38.00(20)

Badge 3 purged quote at 15:59:34

Since Badge 2 began quoting U4 at the earliest time, this time is used for the total quote time determination. Similarly, MM A's Badge 3 was last to purge his quote in U4 so this purge time is used for the total quote time determination.

Total quoted time for U4 is: 15:59:34–09:34:29 = (15–09)\*3600 + (59–34)\*60 + (34–29) = 23105 (seconds)

Total available quote time is: 16:00:20–09:30:01 = (15–9)\*3600 + (60–30)\*60 + (20–1) = 23419 (seconds)

Option U5 opened at 9:30:11 and closed at 16:00:23

No MM A badges quoted U5 thus, the total quoted time for U5 will be: 0 (seconds)

Total available quote time is: 16:00:23–09:30:11 = (15–9)\*3600 + (60–30)\*60 + (23–11) = 23412 (seconds)

The Total quote percentage for MM A is:

Total time for MM A quoted underlying U: 22810 + 18010 + 13784 + 23105 + 0 = 77709 (seconds)

Total eligible quoting time for MM A on underlying U: 23409 + 23397 + 22878 + 23419 + 23412 = 116515 (seconds)

Similarly assume:

Total time for MM A quoted underlying V: 70983(seconds)

Total eligible quoting time for MM A on underlying V: 84515 (seconds)

Total time for MM A quoted underlying W: 0(seconds)

Total eligible quoting time for MM A on underlying W: 46513 (seconds)

Then the total quoting percentage for MM A is:

$(77709 + 70983 + 0) / (116515 + 84515 + 46513) = 148692/247543 = 60.07\%$

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>37</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>38</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest for the reasons stated below.

The Exchange believes that its proposed rule change provides further detail as to obligations of electronic ROTs on Phlx. The Exchange's proposed obligations, which are similar to BX Rules at Chapter VII, Section 5, delineate examples of the type of activity that constitutes a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market. This proposal is consistent with the Act because it removes impediments to and perfects the mechanism of a free and open market and a national market system by

<sup>37</sup> 15 U.S.C. 78f(b).

<sup>38</sup> 15 U.S.C. 78f(b)(5).

imposing obligations on market makers with respect to making markets on Phlx. While under the proposal there are quoting requirements changes, the Exchange does not believe that these changes reduce the overall obligations applicable to electronic ROTs.<sup>39</sup> Moreover, the Exchange believes that the proposal may increase market making activity on the Exchange and the quality of the Exchange's market by establishing quoting compliance standards that are reasonable and already in place on other options exchanges.<sup>40</sup>

With respect to the quoting obligations, the Exchange's proposal seeks to conform the quoting obligations to that of BX's Rules.<sup>41</sup> The Exchange is amending the quoting obligations for electronic ROTs to lower the obligations. Phlx's current quoting requirements are much more stringent than certain other exchanges. Quoting two-sided markets in not less than 60% of the series in which such SQT or RSQT is assigned and also for a Specialist (including Remote Specialist), Directed SQT or Directed SQT [sic] quoting two-sided markets in the lesser of 99% of the series or 100% of the series minus one call-put pair in each option in which such Specialist is assigned, 90% of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as the Exchange may announce, is much more stringent than looking at all options in which an electronic ROT is registered, because it [sic] allows for some number of series not to be quoted at all, as long as the overall standard is met. This better accommodates the occasional issues that may arise in a particular series, whether technical or manual. The existing requirement may at times discourage liquidity in particular options series because an electronic ROT is forced to focus on a momentary lapse rather than using the appropriate resources to focus on the options series that need and consume additional liquidity. Phlx believes that it can better attract electronic ROTs and grow its

market if its quoting obligation is more in line with that of other exchanges.

The Exchange's proposal that SQTs and RSQTs, associated with the same member organization, are collectively required to provide two-sided quotations in 60% of the cumulative number of seconds, or such higher percentage as Phlx may announce in advance, for which that member organization's assigned options series are open for trading seeks to promote just and equitable principles of trade, and to foster cooperation and coordination with persons engaged in facilitating transactions in securities by aligning Phlx's Rules with quoting obligations on BX. The Exchange notes that electronic ROTs are required to abide by the Exchange's obligations in order to contribute to the maintenance of a fair and orderly market.

The proposal supports the quality of the Exchange's market by helping to ensure that electronic ROTs will continue to be obligated to quote in a percentage of their assigned series. Ultimately, the benefit the proposed rule change confers upon electronic ROTs is offset by the continued responsibilities to provide significant liquidity to the market to the benefit of market participants. Despite the reduction, the Exchange believes that the proposed rule text is consistent with the Act because the quoting obligations are similar to quoting obligations on BX today.<sup>42</sup> Determining compliance with the continuous quoting requirement on a monthly basis would not relieve an electronic ROT from the obligation to quote two-sided quotes for 60% of the cumulative number of seconds on a daily basis, nor would it prohibit the Exchange from taking disciplinary action against an electronic ROT for failing to meet the quoting obligation each trading day. For these reasons, the Exchange believes that the proposed changes to the quoting obligations are consistent with the Act. Further, the proposed changes to the quoting obligations for electronic ROTs are consistent with market maker obligations in place on BX as noted herein.<sup>43</sup>

Further, the Exchange's proposal to amend the quoting obligations for Specialists and electronic Directed SQTs and Directed RSQTs is consistent with the Act because despite lowering the current obligations, the Exchange continues to impose higher quoting obligations on Specialists and electronic Directed SQTs and Directed RSQTs as

compared to SQTs and RSQTs because they are entitled to certain allocation benefits that other ROTs are not entitled to today. Phlx Rule 1014(g)(vii) provides for the allocation method for electronic ROTs on Phlx after the Specialist Participation Entitlement has been applied and Phlx Rule 1014(g)(viii) provides for the allocation method in the case of directed orders to the electronic Directed SQT and Directed RSQT, and such allocation will depend on the number of electronic ROTs present. The Specialist receives an entitlement after all Customer orders have been fully executed provided the Specialist's bid/offer is at or improves on the Exchange's disseminated price and up to the Specialist's displayed size.<sup>44</sup> A DSQT or a DRSQT shall be allocated a participation entitlement as specified in Phlx Rule 1014(g)(viii)(B)(1) and (2). The Exchange notes that Specialists and Directed SQTs and Directed RSQTs continue to have heightened quoting requirements as compared to electronic ROTs, which heightened obligations allow for the Specialist, Directed SQTs and Directed RSQTs to receive certain enhanced participation rights.<sup>45</sup> The enhanced participation rights reward Specialists, Directed SQTs and Directed RSQTs for making markets and providing other market participants an incentive to quote aggressively. While electronic ROTs will be subject to lower quoting requirements as compared to Specialists and electronic Directed SQTs and Directed RSQTs, they will also be entitled to lower allocations. The Exchange believes that the proposed rule text is consistent with the Act because the obligations are commensurate with the ability to achieve certain allocations. The Exchange believes that its proposal will continue to align SQTs and RSQTs, Specialists and electronic Directed SQTs and Directed RSQTs accordingly. Also, the proposal will align with quoting requirements on BX today.<sup>46</sup>

Finally the proposed rule text serves to provide more specificity to members regarding the manner in which quoting obligations are calculated.

<sup>39</sup> In this respect, the Exchange notes that electronic ROTs are subject to many obligations aside from quoting, including, for example, the obligation to maintain a fair and orderly market in their appointed classes, and the obligation to conduct the opening and enter continuous quotations in all of the series of their appointed options classes within maximum spread requirements.

<sup>40</sup> See BX Rules at Chapter VII at Section 6.

<sup>41</sup> See BX Rules at Chapter VII at Sections 6, 14 and 15. The proposed rule text is different than the BX rule text with respect to quoting obligations, however the computation of the quoting obligations will be the same as BX's computations today.

<sup>42</sup> See BX Rules at Chapter VII at Sections 6, 14 and 15.

<sup>43</sup> *Id.*

<sup>44</sup> The Specialist Participation Entitlement shall be 60% of remaining interest if there is one other ROT at that price. The Specialist Participation Entitlement shall be 40% of remaining interest if there are two ROTs at that price. Finally, the Specialist Participation Entitlement 30% of remaining interest if there are more than two other ROTs at that price. See Phlx Rule 1014(g)(vii)(B)(1)(c) and 1014(g)(ii).

<sup>45</sup> See Phlx Rule 1014(g)(vii)(B)(1)(c) and (g)(viii)(B)(1) [sic].

<sup>46</sup> See BX Rules at Chapter VII at Sections 6, 14 and 15.

### *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. Electronic ROTs will continue to be entitled to certain allocations, similar to today. Electronic ROTs, unlike other market participants, have obligations which the Exchange has memorialized within the proposed rule text. The Exchange believes that treating Electronic ROTs differently than other market participants does not impose an undue burden on competition because Electronic ROTs provide liquidity to the market which benefits market participants who interact with that liquidity. The Exchange requires Electronic ROTs today to maintain fair and orderly markets. The Exchange believes the allocation benefits are commensurate with the quoting obligations imposed on Electronic ROTs. Additionally, the Exchange believes that the varying quoting requirements as between electronic ROTs and Specialists and electronic Directed SQTs and Directed RSQTs does not impose an undue burden on competition because while electronic ROTs will be subject to lower quoting requirements as compared to Specialists and electronic Directed SQTs and Directed RSQTs, they will also be entitled to lower allocations.

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

No written comments were either solicited or received.

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

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

### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act.

Comments may be submitted by any of the following methods:

#### *Electronic Comments*

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2018-22 on the subject line.

#### *Paper Comments*

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2018-22. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<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 such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-Phlx-2018-22, and should be submitted on or before April 26, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>47</sup>

**Eduardo Aleman,**

*Assistant Secretary.*

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<sup>47</sup> 17 CFR 200.30-3(a)(12).

## **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-82968; File No. SR-Phlx-2018-27]

### **Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend the Exchange's Provisions for Excluding a Day From Its Volume Calculations for Purposes of Determining Volume Based Pricing**

March 30, 2018.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 19, 2018, Nasdaq PHLX LLC ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend the Exchange's provisions for excluding a day from its volume calculations for purposes of determining volume based pricing.

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.

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

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