

above, the Exchange believes that its proposed pricing remains competitive with other equity exchanges.²² In addition, because the Exchange's routing services are the subject of competition, including price competition, from other exchanges and broker-dealers that offer routing services, as well as the ability of members to use their own routing capabilities, it is likely that the Exchange will lose market share as a result of the changes if they are unattractive to market participants. Accordingly, the Exchange does not believe that the proposed changes will impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.²³

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

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. Please include File Number SR-NASDAQ-2019-045 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-NASDAQ-2019-045. 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 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. 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-NASDAQ-2019-045 and should be submitted on or before July 1, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁴

Eduardo A. Aleman,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-86025; File No. SR-Phlx-2019-23]

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Equity 7, Section 3, Which Governs Pricing for Phlx Members Using the Nasdaq PSX System

June 4, 2019.

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 May 22, 2019, Nasdaq PHLX LLC ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("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 Equity 7, Section 3, which governs pricing for Phlx members using the Nasdaq PSX System ("PSX").

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.

²² See *supra* notes 19 and 20.

²³ 15 U.S.C. 78s(b)(3)(A)(ii).

²⁴ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

1. Purpose

The purpose of the proposed rule change is to adopt pricing for the recently adopted SCAR routing strategy,³ which will be implemented on May 13, 2019.⁴ In sum, SCAR is a routing option under which orders check the System⁵ for available shares and simultaneously route to the other equity markets operated by Nasdaq, Inc., the Nasdaq BX Equities Market ("BX") and The Nasdaq Stock Market ("Nasdaq" and together with BX and the Exchange, the "Nasdaq Affiliated Exchanges").⁶

The Exchange initially filed the proposed pricing changes on May 13, 2019 (SR-Phlx-2019-21). On May 22, 2019, the Exchange withdrew that filing and submitted this filing.

The Exchange now proposes to adopt the following pricing for SCAR orders in securities listed on Nasdaq ("Tape C"), NYSE ("Tape A"), and on exchanges other than Nasdaq and NYSE ("Tape B") (collectively, "Tapes"), which execute on Nasdaq and BX:⁷

- SCAR orders executed on Nasdaq will be assessed a charge of \$0.00295 per share in all Tape securities priced at \$1 or more per share.
- SCAR orders executed on BX will be assessed a credit of \$0.0015 per share in Tape A and Tape C securities priced at \$1 or more per share.
- SCAR orders executed on BX will be assessed a credit of \$0.0026 per share in Tape B securities priced at \$1 or more per share.⁸

³ See Phlx Rule 3315(a)(1)(A)(x). See also Securities Exchange Act Release No. 85366 (March 20, 2019), 84 FR 11345 (March 26, 2019) (SR-Phlx-2019-04).

⁴ See Equity Trader Alert #2019-29.

⁵ The term "System" shall mean the automated system for order execution and trade reporting owned and operated by the Exchange. See Rule 3301(a).

⁶ If shares remain unexecuted after routing, they are posted on the Exchange's book or cancelled. Once on the book, should the order subsequently be locked or crossed by another market center, the System will not route the order to the locking or crossing market center. See Rule 3315(a)(1)(A)(x).

⁷ Orders using the SCAR routing option that execute on the Exchange would be subject to the Exchange's standard fees and rebates. Currently, members that do not meet certain volume thresholds that would qualify them for a discounted charge or credit are assessed a standard transaction fee of \$0.0030 per share for orders in any Tape securities priced at \$1 or more per share that execute on the Exchange. See Equity 7, Section 3, Order Execution and Routing.

⁸ The Exchange is proposing to provide a higher credit for SCAR orders executed on BX in Tape B securities priced at \$1 or more than such orders in securities in Tape A and Tape C to coordinate with

- SCAR orders executed on Nasdaq or BX in all Tape securities priced below \$1 per share will be assessed a charge of 0.30% of the total transaction cost.⁹

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 Sections 6(b)(4) and 6(b)(5) of the Act,¹¹ in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes that its proposal is reasonable, equitable, and not unfairly discriminatory because the pricing proposed above for SCAR is generally set at levels intended to incentivize members to use this new routing strategy while also allowing the Exchange to recoup the costs of providing routing services. For instance, under this proposal, members will be provided credits of \$0.0015 (for securities in Tapes A and C) or \$0.0026 (for Tape B securities) for orders in securities priced at \$1 or more per share that route to and execute on BX using the SCAR strategy. In contrast, orders that execute directly on BX as the home exchange (*i.e.*, without using SCAR) are currently charged a standard transaction fee of \$0.0003 per share.¹² Furthermore, the proposed \$0.00295 per share charge for orders in any Tape securities priced at \$1 or more per share that route to and execute on Nasdaq using the SCAR routing strategy is lower than the standard transaction charge of \$0.0030 per share that would apply if the order executed directly on Nasdaq as the home exchange.¹³ As such, the proposed SCAR pricing is set at rates that make it more economical for members to use this routing strategy, especially for those members that do not already add and/or remove large

BX pricing. BX similarly gives higher credits for orders that access liquidity on BX in Tape B securities priced at \$1 or more per share than such orders in securities in Tape A and Tape C. See BX Equity 7, Section 118(a).

⁹ This is the same rate that the Exchange currently charges for all securities priced below \$1 that route and execute at an away venue. See Equity 7, Section 3, Order Execution and Routing.

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(4) and (5).

¹² This fee would apply unless the member qualifies for a better rate (such as a liquidity removal credit) by meeting certain volume thresholds. See BX Equity 7, Section 118(a).

¹³ This fee would apply unless the member qualifies for a better rate (such as a discounted fee or credit) by meeting certain volume thresholds. See Nasdaq Equity 7, Section 118(a).

amounts of volume on Nasdaq and BX directly.

The Exchange also believes that the proposed SCAR credits and charges for all Tape securities priced at \$1 or more per share are set at appropriate levels for the reasons that follow. As noted above, the Exchange is proposing a higher credit for SCAR orders in Tape B securities than in securities in Tape A and Tape C to coordinate with BX pricing, which generally provides higher credits for BX members to remove liquidity from BX in Tape B securities priced at \$1 or more per share than in Tape A and Tape C securities priced at \$1 or more.¹⁴ The Exchange therefore believes that the credits are set at appropriate levels because the proposed credit of \$0.0026 for Tape B securities corresponds to the highest Tape B liquidity removal credit currently provided for accessing liquidity directly on BX.¹⁵ As a means of offsetting the higher credit proposed for Tape B securities and also of recouping the costs of providing routing services, Exchange is proposing the credit of \$0.0015 for Tapes A and C securities that is slightly lower than the highest Tapes A and C credit currently provided for accessing liquidity directly on BX.¹⁶ The Exchange still believes that the proposed \$0.0015 credit for Tape A and Tape C securities is set at an appropriate level because it remains within the range of the Tapes A and C liquidity removal credits currently provided for accessing liquidity directly on BX.¹⁷ The proposed credit is also aligned with the \$0.0015 rebate currently provided by Cboe BZX Exchange ("BZX"), Cboe EDGX Exchange ("EDGX"), and Cboe EDGA ("EDGA") to their members using ALLB, a routing strategy similar to SCAR in that ALLB routes between affiliated exchanges only,¹⁸ to route orders to their affiliate, Cboe BYX Exchange ("BYX").¹⁹ The Exchange also believes

¹⁴ See *supra* note 8.

¹⁵ See BX Equity 7, Section 118(a) (providing a \$0.0026 credit for BX members entering orders in Tape B securities that access liquidity on BX if they meet certain criteria).

¹⁶ These credits range from \$0.0001 to \$0.0018. See BX Equity 7, Section 118(a).

¹⁷ *Id.*

¹⁸ Unlike SCAR, which routes simultaneously to Nasdaq, PSX, and BX simultaneously in accordance with the System routing table, the ALLB routing strategy offered by BZX, BYZ, EDGA, and EDGX first checks the local book before being routed to the affiliated exchanges in accordance with the applicable system routing table. See Securities Exchange Act Release No. 85366 (March 20, 2019), 84 FR 11345 (March 26, 2019) (SR-Phlx-2019-04).

¹⁹ See BZX Fee Schedule, available at https://markets.cboe.com/us/equities/membership/fee_schedule/bzx/; EDGX Fee Schedule, available at

that the proposed \$0.00295 charge for SCAR orders that route and execute on Nasdaq is set at an appropriate level because it remains lower with the standard rate of \$0.0030 per share currently charged for accessing liquidity directly on Nasdaq, as described above, as well as the \$0.0030 fee currently assessed by BYX, EDGX, and EDGA to their members using the ALLB routing strategy to route orders to their affiliate, BZX.²⁰

The Exchange further believes that it is reasonable, equitable, and not unfairly discriminatory to assess the proposed charge for SCAR orders executed on BX or Nasdaq in any Tape securities priced below \$1 per share because it is consistent with what it currently charges for all orders in securities priced at less than \$1 per share that route and execute at an away venue.²¹ Lastly, the Exchange believes that the proposed pricing changes are equitable and not unfairly discriminatory because they will apply uniformly to all members.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees to remain competitive. Because competitors are free to modify their own fees in response, and because market participants may readily adjust their order routing practices, the Exchange believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited.

In this instance, the proposed pricing for SCAR orders are intended to recoup

https://markets.cboe.com/us/equities/membership/fee_schedule/edgx; and EDGA Fee Schedule, available at https://markets.cboe.com/us/equities/membership/fee_schedule/edga.

²⁰ See BYX Fee Schedule, available at https://markets.cboe.com/us/equities/membership/fee_schedule/byx. See *supra* note 19.

²¹ The Exchange currently charges 0.30% of the total transaction cost for all such orders. See Equity 7, Section 118(b).

the Exchange's costs associated with providing routing services while providing incentives to members to make use of the Exchange's optional routing functionality. As discussed above, the Exchange believes that its proposed pricing remains competitive with other equity exchanges.²² In addition, because the Exchange's routing services are the subject of competition, including price competition, from other exchanges and broker-dealers that offer routing services, as well as the ability of members to use their own routing capabilities, it is likely that the Exchange will lose market share as a result of the changes if they are unattractive to market participants. Accordingly, the Exchange does not believe that the proposed changes will impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.²³

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

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:

²² See *supra* notes 19 and 20.

²³ 15 U.S.C. 78s(b)(3)(A)(ii).

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. Please include File Number SR-Phlx-2019-23 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-2019-23. 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 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. 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-2019-23 and should be submitted on or before July 1, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁴

Eduardo A. Aleman,
Deputy Secretary.

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²⁴ 17 CFR 200.30-3(a)(12).