

applicant to GSD and MBSD. Finally, while the proposal would eliminate the bring-down opinion requirement, FICC would continue to periodically monitor in order to identify any significant changes in relevant non-U.S. jurisdictions that may be of interest to FICC.

*(B) Clearing Agency's Statement on Burden on Competition*

FICC believes that the proposed changes to the FICC Fee Schedules to impose the Foreign Legal Opinion Fee could impose a burden on competition because it would implement a new fee payable by a non-U.S. applicant in connection with a membership application to FICC, which currently does not exist in the FICC Fee Schedules. FICC does not believe that any burden on competition imposed by the changes to the FICC Fee Schedules would be significant because the Foreign Legal Opinion Fee is unlikely to cause a material impact to a non-U.S. membership applicant's overall cost of applying for FICC membership due to the fact that, absent the proposal, these applicants would have incurred the cost of obtaining the foreign legal opinion themselves. FICC believes that any burden on competition that is created by the proposed changes to the FICC Fee Schedules would be necessary in furtherance of the purposes of the Act<sup>15</sup> in order to cover costs to FICC associated with obtaining the foreign legal opinion that is necessary for FICC to determine whether it would face legal risks in connection with admitting a foreign membership applicant. FICC also believes that any burden that is created by the Foreign Legal Opinion Fee would be appropriate in furtherance of the Act<sup>16</sup> because it would be capped at the Maximum Estimated Charge and would not be greater than the costs FICC may incur in connection with obtaining the applicable foreign legal opinion.

FICC believes that the elimination of the annual bring-down requirement could promote competition because it would eliminate the cost of obtaining the bring-down opinion/letter currently incurred by direct foreign members, potentially lowering their operating costs.

*(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others*

Written comments relating to the proposed rule changes have not been solicited or received. FICC will notify

the Commission of any written comments received by FICC.

**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) of the Act<sup>17</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>18</sup> 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.

**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-FICC-2019-006 on the subject line.

*Paper Comments*

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549.
- All submissions should refer to File Number SR-FICC-2019-006. 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 FICC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). 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-FICC-2019-006 and should be submitted on or before January 21, 2020.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>19</sup>

**J. Matthew DeLesDernier,**  
*Assistant Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-87811; File No. SR-Phlx-2019-56]

**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**

December 20, 2019.

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 December 19, 2019, Nasdaq PHLX LLC ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II 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

<sup>19</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>15</sup> 15 U.S.C. 78q-1(b)(3)(I).

<sup>16</sup> *Id.*

<sup>17</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>18</sup> 17 CFR 240.19b-4(f).

Orders,” Rule 1087, “Price Improvement XL (“PIXL”),” Rule 1090, “Mass Cancellation of Trading Interest,” and Rule 1093 titled “Away Markets and Order Routing.”

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.<sup>3</sup>

#### 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)<sup>4</sup> and (f)<sup>5</sup> permit Public Customer-to-Public Customer Cross 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

<sup>3</sup> See Nasdaq ISE, LLC Rules at Options 2, Section 10.

<sup>4</sup> 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).”

<sup>5</sup> 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.”

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<sup>6</sup> 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<sup>7</sup> as "Away Markets and Order Routing" in April 2019.<sup>8</sup> 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.<sup>9</sup> 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.

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 × 1.20

9:45:00:00:10—OPRA updates MIAX BBO 0.95 × 1.20

9:45:00:00:20—Phlx Local BBO Quote 1.00 × 1.15

9:45:00:00:30—OPRA disseminates

PHLX BBO updates: 1.10 × 1.15

9:45:00:00:35—CBOE Quote 1.00 × 1.12

9:45:00:00:45—OPRA disseminates

CBOE BBO 1.00 × 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 × 1.15 (1.11 being the DNR Order displaying 1 MPV from ABBO)

9:45:00:00:60—MIAX Quote updates to 1.00 × 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 × 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 × 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

<sup>6</sup> The request to Market Operations is a manual request which is made telephonically.

<sup>7</sup> 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.

<sup>8</sup> See Securities Exchange Act Release No. 85655 (April 16, 2019), 77 FR 16709 (April 22, 2019) (SR-Phlx-2019-06).

<sup>9</sup> See Securities Exchange Act Release No. 87030 (September 19, 2019), 84 FR 50495 (September 25, 2019) (SR-NASDAQ-2019-077).

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  $1.00 \times 1.20$ . Subsequent to Away Market A displaying its market, Away Market B displays its market at  $.80 \times 1.00$ . 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,<sup>10</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>11</sup> 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 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.

<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

### 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 Preferred.<sup>12</sup>

### 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)<sup>13</sup> and (f)<sup>14</sup> permit Public Customer-to-Public 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

<sup>12</sup> See Nasdaq ISE, LLC Options 2, Section 10.

<sup>13</sup> 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)."

<sup>14</sup> 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."

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<sup>15</sup> and the Kill Switch.<sup>16</sup> 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 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

<sup>15</sup> See Options 3 at Supplementary Material .03 to Section 7.

<sup>16</sup> See Rule 1073.

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<sup>17</sup> within Rule

<sup>17</sup> 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

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 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

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.”

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.<sup>18</sup>

#### *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.

#### *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) of the Act<sup>19</sup> and Rule 19b-4(f)(6) thereunder.<sup>20</sup>

A proposed rule change filed under Rule 19b-4(f)(6)<sup>21</sup> normally does not become operative prior to 30 days after the date of the filing. However, Rule 19b-4(f)(6)(iii)<sup>22</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the

<sup>19</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>20</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

<sup>21</sup> 17 CFR 240.19b-4(f)(6).

<sup>22</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>18</sup> See Securities Exchange Act Release No. 87030 (September 19, 2019), 84 FR 50495 (September 25, 2019) (SR-NASDAQ-2019-077).

Commission to waive the 30-day operative delay so that the proposed rule change may become effective and operative immediately upon filing. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest, as it will allow the Exchange to immediately provide members with greater information and transparency on mass cancellation procedures and order routing strategies available on the Exchange. For this reason, the Commission hereby waives the 30-day operative delay and designates the proposed rule change as operative upon filing.<sup>23</sup>

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 change 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](mailto: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 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-2019-56 and should be submitted on or before January 21, 2020.

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

**J. Matthew DeLesDernier,**  
*Assistant Secretary.*

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**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-87843; File No. SR-ISE-2019-32]

### Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Adopt a Mass Cancellation Rule and Amend Other Sections of the Rulebook

December 23, 2019.

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 December 9, 2019, Nasdaq ISE, LLC ("ISE" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I and II 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 adopt a new rule at Options 3, Section 19 titled "Mass Cancellation of Trading Interest." The Exchange also proposes to amend definitions within General 1, Section 1, adopt a new definition for "Away Best Bid or Offer" within Options 1, Section 1, and update rule citations in various other rules.

The text of the proposed rule change is available on the Exchange's website at <http://ise.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 adopt a new rule at Options 3, Section 19 titled "Mass Cancellation of Trading Interest." The Exchange also proposes to amend definitions within General 1, Section 1, adopt a new definition for "Away Best Bid or Offer" within Options 1, Section 1, and update rule citations in various other rules.

##### Mass Cancellation of Trading Interest

The Exchange proposes to adopt a new rule at Options 3, Section 19 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

<sup>23</sup> For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>24</sup> 17 CFR 200.30-3(a)(12).

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

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