SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82766; File No. SR-Phlx-2018-14)

February 23, 2018

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, to Adopt New Order Type Protections, Butterfly and Box Spread Protections for Complex Order Strategy Trades

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 February 9, 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. On February 21, 2018, the Exchange filed Amendment No. 1 to the proposal. Amendment No. 1 replaces and supersedes the original filing in its entirety. The Commission is publishing this notice to solicit comments on the proposed rule change, as modified by Amendment No. 1, from interested persons.

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

The Exchange proposes to adopt new order type protections, Butterfly and Box Spread protections, for Complex Order[3] strategy trades. This rule change replaces and supersedes SR-Phlx-2018-14.

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

2 17 CFR 240.19b-4.

3 A Complex Order is an order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, priced as a net debit or credit based on the relative prices of the individual components, for the same account, for the purpose of executing a particular investment strategy. See Phlx Rule 1098(a)(i).

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 the proposed rule change is to adopt Complex Order protections for butterfly and box spreads, which are Complex Order strategies. Today, Phlx members may submit butterfly and box spreads into the Phlx System. Phlx proposes to define a butterfly spread as a three legged Complex Order with certain characteristics.[4] The Exchange is proposing to reject butterfly spreads which are outside of certain parameters to avoid potential executions at prices that exceed the minimum and maximum possible intrinsic value of the spread by a specified amount. Additionally, Phlx proposes to define a box spread as a four legged Complex Order with certain characteristics.[5] The Exchange is proposing to reject box

[4] This strategy utilizes a combination of either all calls or all puts of the same expiration date in the same underlying to limit risk.

[5] This strategy utilizes a combination of put/call pairs of options with the same expiration date in the same underlying to limit risk.

spreads which are outside of certain parameters to avoid potential executions at prices that exceed the minimum and maximum possible intrinsic value of the spread by a specified amount. Today, the Exchange offers similar order protection features for Complex Orders such as Strategy Price Protection[6] and Acceptable Complex Execution[7] to avoid erroneous trades. Each protection will be discussed in more detail below.

Butterfly Spread Protection

As noted above, the Exchange proposes to adopt a Butterfly Spread Protection. A butterfly spread is a three legged Complex Order with the following: (1) two legs to buy (sell) the same number of calls (puts); (2) one leg to sell (buy) twice the number of calls (puts) with a strike price at mid-point of the two legs to buy (sell); (3) all legs have the same expiration; and (4) each leg strike price is equidistant from the next sequential strike price. With this protection, a Complex Order, including auction and auction responses, that is priced higher than the Maximum Value (defined below) or lower than the Minimum Value (defined below) will be cancelled. A Complex Market Order will be accepted, but will be restricted from trading at a price higher than the Maximum Value or lower than the Minimum Value.

The Initial Maximum Value shall be the distance between the leg with the mid-point strike price and either of the outer leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to members. The Exchange intends to set the Maximum Value Buffer at zero initially. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

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6 See Phlx Rule 1098(g).

7 See Phlx Rule 1098(h)(i).

The Initial Minimum Value shall be zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Exchange intends to set the Minimum Value Buffer at zero initially. The Exchange would monitor the zero value, including feedback from market participants, in determining whether the value is set at the appropriate level. The concern would set [sic] from market participants who are unable to close out positions. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero. There are circumstances were [sic] the Minimum Value Buffer [sic] may be less than zero. For example, market participants who desire to trade out of positions at intrinsic value may not find a contra-side willing to trade without a premium. A small incremental allowance outside of the minimum/maximum value allows for a small premium to offset commissions associated with trading and may incentivize participants to take the other side of spreads trading at intrinsic value. For the participant looking to close out their position, it may be financially beneficial to pay a small premium and close out the position rather than carry such position to expiration and take delivery. The Butterfly Spread Protection would apply throughout the trading day, including pre-market, during the Opening Process and during Halts. Below is an example of the application of this protection.

Example 1

Assume the following Complex Order legs for a butterfly spread:

1. Buy 1 NDX 6960 Jan 26 Call (33.70 x 34.60)
2. Sell 2 NDX 6970 Jan 26 Calls (27.00 x 27.90)
3. Buy 1 NDX 6980 Jan 26 Call (28.40 x 29.50)

The derived net Phlx complex market ("cPBBO") is 6.30 x 10.10

Assume both the Maximum Value Buffer and Minimum Value Buffer are 0

Minimum Value = 0

- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.00
- Minimum Value: 0.00 – 0.00 = 0.00

Maximum Value = 10

- Initial Maximum Value: 6970 (middle leg strike price) – 6960 (outer leg strike price) = 10.00
- Maximum Value Buffer: 0.00
- Maximum Value: 10.00 (Initial Maximum Value) + 0.00 (Maximum Value Buffer) = 10.00

An incoming order to buy the spread defined above for 10.10 will be cancelled because the purchase price of 10.10 is greater than the Maximum Value of 10.00.

Example 2

Assume the following Complex Order legs for a butterfly spread:

1. Buy 1 NDX 6960 Jan 26 Call (33.70 x 34.60)
2. Sell 2 NDX 6970 Jan 26 Calls (27.00 x 27.90)
3. Buy 1 NDX 6980 Jan 26 Call (28.40 x 29.45)

The derived net Phlx complex market ("cPBBO") is 6.30 x 10.05

Assume both the Maximum Value Buffer and Minimum Value Buffer are 0.05

Minimum Value = -0.05

- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.05
- Minimum Value: 0.00 – 0.05 = -0.05

Maximum Value = 10.05

- Initial Maximum Value: 6970 (middle leg strike price) – 6960 (outer leg strike price) = 10.00
- Maximum Value Buffer: 0.05
- Maximum Value: 10.00 (Initial Maximum Value) + 0.05 (Maximum Value Buffer) = 10.05

An incoming order to buy the spread defined above for 10.05 will be accepted and executed against the simple market because the purchase price of 10.05 is equal to the Maximum Value 10.05.

Box Spread Protection

As noted above, the Exchange proposes to adopt a Box Spread Protection. A box spread is a four legged Complex Order with the following: (1) one pair of legs with the same strike price with one leg to buy a call (put) and one leg to sell a put (call); (2) a second pair of legs with a different strike price from the pair described in (1) with one leg to sell a call (put) and one leg to buy a put (call); (3) all legs have the same expiration; and (4) all legs have equal volume. With this protection, Complex Orders, including auction and auction responses that are priced higher than the Maximum Value or lower than the Minimum Value, will be cancelled. A Complex Market Order will be accepted but will be restricted from trading at a price higher than the Maximum Value or lower than the Minimum Value.

The Initial Maximum Value shall be the distance between the strike prices of each pair of leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to members. The Exchange intends to set the Maximum Value Buffer at zero initially. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

The Initial Minimum Value shall be zero. The Initial Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Exchange intends to set the Minimum Value Buffer at zero initially. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

The Box Spread Protection would apply throughout the trading day, including pre-market, during the Opening Process and during Halts. Below is an example of the application of this protection.

Example 1

Assume the following Complex Order pairs for a box spread:

1. Pair A:
    a. Buy 1 NDX 6960 Jan 26 Call (30.80 x 34.05)
    b. Sell 1 NDX 6960 Jan 26 Put (33.50 x 36.00)
2. Pair B
    a. Sell 1 NDX 6970 Jan 26 Call (27.50 x 29.00)
    b. Buy 1 NDX 6970 Jan 26 Put (36.40 x 37.05)

The derived net Phlx complex market ("cPBBO") is 2.20 x 10.10

Assume both Maximum Value Buffer and Minimum Value Buffer are 0.00

Minimum Value = 0.00

- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.00
- Minimum Value: 0.00 – 0.00 = 0.00

Maximum Value = 10.00

- Initial Maximum Value: 6970 (Pair A strike price) – 6960 (Pair B strike price) = 10.00

- Maximum Value Buffer: 0.00
- Maximum Value: 10.00 (Initial Maximum Value) + 0.00 (Maximum Value Buffer) = 10.00

An incoming order to buy the spread defined above for 10.10 will be cancelled because the purchase price of 10.10 is greater than the Maximum Value of 10.00.

Example 2

Assume the following Complex Order pairs for a box spread:

1. Pair A:
    a. Buy 1 NDX 6960 Jan 26 Call (30.80 x 34.05)
    b. Sell 1 NDX 6960 Jan 26 Put (33.50 x 36.50)
2. Pair B
    a. Sell 1 NDX 6970 Jan 26 Call (27.50 x 30.75)
    b. Buy 1 NDX 6970 Jan 26 Put (36.40 x 37.05)

The derived net Phlx complex market ("cPBBO") is -0.05 x 10.10

Assume both Maximum Value Buffer and Minimum Value Buffer are 0.05

Minimum Value = -0.05

- Initial Minimum Value: 0.00
- Minimum Value Buffer: 0.05
- Minimum Value: 0.00 – 0.05 = -0.05

Maximum Value = 10.05

- Initial Maximum Value: 6970 (Pair A strike price) – 6960 (Pair B strike price) = 10.00
- Maximum Value Buffer: 0.05
- Maximum Value: 10.00 (Initial Maximum Value) + 0.05 (Maximum Value Buffer) = 10.05

An incoming order to sell the spread defined above for -0.05 will be accepted and executed against the simple market because the purchase price of -0.05 is equal than the Minimum Value of -0.05.

Implementation

The Exchange would implement these new protections no later than August 30, 2018. The Exchange would notify members of the exact implementation date by issuing a notice to members.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[8] in general, and furthers the objectives of Section 6(b)(5) of the Act,[9] 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, by offering protections for certain Complex Orders which restrict executions that exceed the intrinsic value of the spread by a specified (or configurable) amount. Further, the Exchange believes that its proposal will mitigate risks to market participants. Specifically, Phlx believes that the change, which is responsive to member input, will facilitate transactions in securities and perfect the mechanism of a free and open market by providing its members with additional functionality that will assist them with managing their risk by checking each Complex Order that is either a butterfly or box spread against certain parameters described within the filing before accepting the Complex Orders into the order book.

The Exchange believes that the parameters described herein, including parameters which will be configured by the Exchange, will protect members from executing orders too far outside

8 15 U.S.C. 78f(b).

9 15 U.S.C. 78f(b)(5).

the Minimum Value and Maximum Value which considers the intrinsic value of the strategy, thereby promoting fair and orderly markets and the protection of investors. The Exchange intends to offer a buffer allowance from the minimum/maximum values permitted for the execution of these strategy orders to allow market participants flexibility to manage their business and accommodate executions outside of this range. The Exchange would monitor the zero value, including feedback from market participants, in determining whether the value is set at the appropriate level. The concern would set [sic] from market participants who are unable to close out positions. There are circumstances were [sic] the Minimum Value Buffer [sic] may be less than zero. For example, market participants who desire to trade out of positions at intrinsic value may not find a contra-side willing to trade without a premium. A small incremental allowance outside of the minimum/maximum value allows for a small premium to offset commissions associated with trading and may incentivize participants to take the other side of spreads trading at intrinsic value. For the participant looking to close out their position, it may be financially beneficial to pay a small premium and close out the position rather than carry such position to expiration and take delivery. The purpose of this rule change is not to impede current order handling but to ensure execution prices are within a reasonable range of minimum and maximum values. These parameters are consistent with order protection features for Strategy Price Protection in that Strategy Price Protection offers a buffer allowance from the permitted values.[10]

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. Specifically,

[10] See Phlx Rule 1098(g).

the proposal does not impose an intra-market burden on competition, because it will apply to all Complex Orders which are either butterfly or box spreads entered by any Phlx member. Further, the proposal will not impose an undue burden on inter-market competition, rather the proposal will assist the Exchange in remaining competitive in light of protections offered by other options exchanges.[11] The Exchange competes with many other options exchanges which offer Complex Orders. In this highly competitive market, market participants can easily and readily direct order flow to competing venues.

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

[11] See CBOE Rule 6.53C, *Interpretations and Policies* .08.

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2018-14 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-2018-14. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet 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-2018-14, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[12]

Robert W. Errett
Deputy Secretary

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