SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-76295; File No. SR-Phlx-2015-83]

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and

Immediate Effectiveness of Proposed Rule Change to Risk Monitor Mechanism

October 29, 2015

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 October 15, 2015, NASDAQ OMX PHLX LLC

("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or

"Commission") the proposed rule change as described in Items I, II, and III, below, which Items

have been prepared by the Exchange. The Commission is publishing this notice to solicit

comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend Rule 1093 entitled "Phlx XL Risk Monitor

Mechanism" by reserving this rule and relocating the rule governing the Risk Monitor

Mechanism into Phlx Rule 1095, entitled "Automated Removal of Quotes" which contains

similar market maker[3] risk monitor tools. The Exchange is also modifying the language

currently contained in Rule 1093.

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

[2]   17 CFR 240.19b-4.

[3]   A "Market Maker" includes Registered Options Traders ("ROTs") (Rule 1014(b)(i) and
         (ii)), which includes Streaming Quote Traders ("SQTs") (see Rule 1014(b)(ii)(A)) and
         Remote Streaming Quote Traders ("RSQTs") (see Rule 1014(b)(ii)(B)). An SQT is
         defined in Exchange Rule 1014(b)(ii)(A) as an ROT who has received permission from
         the Exchange to generate and submit option quotations electronically in options to which

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

http://nasdaqomxphlx.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 purpose of the filing is to relocate and amend the current rule text of the Risk

Monitor Mechanism Rule in 1093.[4] The Exchange is proposing to relocate the rule text into

Rule 1095, which currently describes two other risk mechanisms offered to Market Makers

today.[5] Quoting across many series in an option creates the possibility of "rapid fire" executions

that can create large, unintended principal positions that expose Market Makers, who are

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such SQT is assigned. An RSQT is defined in Exchange Rule 1014(b)(ii)(B) as an ROT that is a member or member organization with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically in options to which such RSQT has been assigned. An RSQT may only submit such quotations electronically from off the floor of the Exchange. A Market Maker also includes a specialist, an Exchange member who is registered as an options specialist pursuant to Rule 1020(a).

[4]   The proposed amendments will conform the rule text to the manner in which the Exchange's Phlx XL system ("System") operates today.

[5]   The two risk protections, Volume-Based Threshold and the Multi-Trigger Threshold, are Market Maker protections, similar to the Risk Monitor Mechanism to assist Market Makers to control their trading risks.

required to continuously quote in assigned options, to potentially significant market risk. The

Risk Monitor Mechanism (hereinafter "Percentage-Based Threshold") permits Market Makers to

monitor risk arising from multiple executions across multiple options series of a single

underlying security.

The Exchange will require Market Makers to utilize either the Percentage-Based

Threshold or the Volume-Based Threshold.[6] The Multi-Trigger Threshold will be optional.[7]

Today, Market Makers are required to utilize the Percentage-Based Threshold.

Current Rule Text in Rule 1093

Phlx Rule 1093 specifically describes the counting program that is maintained by the

trading system (hereinafter "System") for each Phlx XL participant (hereinafter "Market

Maker"), in a particular option. Specifically, the counting program counts the number of

contracts traded in an option by each Market Maker within a specified time period, not to exceed

15 seconds, established by each Market Maker, known in this rule as the "specified time period."

The specified time period commences for an option when a transaction occurs in any

series in such option. The Exchange counts Specialized Quote Feed ("SQF")[8] quotes only in

determining the number of contracts traded and removed by the System. When a Market Maker

trades the Specified Engagement Size during the specified time period, the Percentage-Based

Threshold is triggered[9] and the System automatically removes such Market Maker's quotations

from the Exchange's orders in all series of the particular option. The Percentage-Based

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[6]   The Volume-Based Threshold is offered only to Market Makers.

[7]   The Multi-Trigger Threshold is offered only to Market Makers.

[8]   SQF permits the receipt of quotes. SQF Auction Responses and market sweeps are also
        not included.

[9]   A trigger is defined as the event which causes the System to automatically remove all
        quotes in all options series in an underlying issue.

Threshold is engaged when the counting program determines that the Issue Percentage equals or exceeds a percentage established by the Market Maker, not less than 100%.

The Specified Engagement Size is automatically offset by a number of contracts that are executed on the opposite side of the market in the same option issue during the specified time period known as the "Net Offset Specified Engagement Size." Long call positions are only offset by short call positions, and long put positions are only offset by short put positions. The Percentage-Based Threshold is engaged once the Net Offset Specified Engagement Size represents a net number of contracts executed among all series in an option issue, during the specified time period, where the issue percentage is equal to or greater than the Specified Percentage.[10]

The System automatically resets the counting program and commences a new specified time period when: (i) a previous counting period has expired and a transaction occurs in any series in such option; or (ii) the Market Maker refreshes his/her quotation, in a series for which an order has been executed (thus commencing the specified time period) prior to the expiration of the specified time period.

Proposed Rule

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[10] Any marketable orders or quotes that are executable against a Market Maker's disseminated quotation that are received prior to the time the Percentage-Based Threshold is engaged are automatically executed at the disseminated price up to the Market Maker's disseminated size, regardless of whether such an execution results in executions in excess of the Market Maker's Specified Engagement Size. In the event that the specialist's quote is removed by the Percentage-Based Threshold and there are no other Market Makers quoting in the particular option, the System will automatically provide two-sided quotes that comply with the Exchange's Rules concerning quote spread parameters on behalf of the specialist until such time as the specialist revises the quotation. All quotations generated by the Exchange on behalf of a specialist shall be considered "firm quotations" and shall be the obligation of the specialist.

The Exchange's amendments to the current rule text are described below in greater detail. The Exchange proposes to amend the current rule to first define a specialist, Streaming Quote Trader or Remote Streaming Quote Trader as a Market Maker and replace the term "Phlx XL Participant" with the term "Market Maker."[11] The proposed term "Market Maker" will be utilized throughout proposed Rule 1095(i).

Counting Program

Proposed Rule 1095(i) provides, as in the current rule, the Percentage-Based Threshold determines: (i) the percentage that the number of contracts executed in that series represents relative to the Market Maker's disseminated[12] size of each side in that series ("Series Percentage"); and (ii) the sum of the Series Percentage in the option issue ("Issue Percentage"). An offset occurs during the Percentage-Based Specified Time Period.[13] The Exchange proposes to amend the rule text in proposed Rule 1095(i) to state that the Percentage-Based Specified Time Period operates on a rolling basis among all series in an option in that there may be multiple Percentage-Based Specified Time Periods occurring simultaneously and such Percentage-Based Specified Time periods may overlap. The Exchange proposes to amend the rule text of proposed Rule 1095(i) to state that the Percentage-Based Specified Time Period commences for an option every time an execution occurs in any series in such option and continues until the System removes quotes as described in current Rule 1095(iv), which is being

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[11]   The Exchange automatically removes a Market Maker's quotes in all series of an underlying security submitted through designated Phlx protocols, as specified by the Exchange, during a specified time period established by the Market Maker not to exceed 15 seconds, this time period is not being amended.

[12]   The disseminated size is the original size quoted by the Participant.

[13]   A specified time period is established by the Market Maker and may not to exceed 15 seconds. See proposed Rule 1095(i).

amended to include the Percentage-Based Specified Time Period, or the Percentage-Based

Specified Time Period expires.

Rounding

The Exchange proposes to add amended rule text to proposed Rule 1095(i) to state that if

the Issue Percentage, rounded to the nearest integer, equals or exceeds a percentage established

by a Market Maker, not less than 100% ("Specified Percentage"), the System automatically

remove a Market Maker's quotes in all series of the underlying security submitted through

designated Phlx protocols, as specified by the Exchange, during the Percentage-Based Specified

Time Period.[14] The current text of Rule 1093 states that the Percentage-Based Threshold is

engaged when the counting program determines that the Issue Percentage equals or exceeds a

percentage established by the Market Maker, not less than 100%. The Exchange's proposal adds

amended rule text to proposed Rule 1095(i) to state, that if the Issue Percentage, *rounded to the*

nearest integer, equals or exceeds a percentage established by the Market Maker, not less than

100% ("Specified Percentage"), the System automatically removes a Market Maker's quotes in

all series of an underlying security submitted through designated Phlx protocols, as specified by

the Exchange, during the Percentage-Based Specified Time Period.

Today, the System tracks and calculates the net impact of positions in the same option

issue during the Percentage-Based Specified Time Period. The System tracks transactions, i.e.,

the sum of buy-side put percentages, the sum of sell-side put percentages, the sum of buy-side

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[14]   The System's count of the number of contracts executed is based on trading interest
          resting on the Exchange book. The Volume-Based Specified Time Period, in current
          Rule 1095(ii), designated by the Market Maker must be the same time period as
          designated for purposes of the Percentage-Based Threshold. The Exchange references
          protocols more specifically in this rule. The Exchange counts SQF quotes only in
          determining the number of contracts traded and removed by the System. See note 8.

call percentages, and the sum of sell-side call percentages, and then calculates the absolute value of the difference between the buy-side puts and the sell-side puts plus the absolute value of the difference between the buy-side calls and the sell-side calls. With this proposal, when these values are rounded, if that number is greater than the Specified Percentage, the Percentage-Based Threshold would be triggered.

Reset

The Exchange proposes to amend the manner in which the System resets. The System will automatically removes [sic] quotes in all option series of an underlying security when the Percentage-Based Threshold is reached and then the Percentage-Based Specified Time Period is reset. The System will send a Purge Notification Message[15] to the Market Maker for all affected options when the threshold has been reached. Pursuant to this proposal, when the System removes quotes as a result of the Percentage-Based Threshold, the Market Maker will be required to send a re-entry indicator to re-enter the System.[16] If a Market Maker requests the System to remove quotes in all options series in an underlying issue, the System will automatically reset the Percentage–Based Specified Time Period(s) and new Percentage-Based Specified Time Period(s) will commence for the Percentage-Based Threshold. With this proposal, when the System removes quotes as a result of the Percentage-Based Threshold, the Market Maker will be required to send a re-entry indicator to re-enter the System. The proposed rule text adds specificity to the manner in which the Market Maker re-enters the market after a trigger.

Firm Quote

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[15]   A message entitled "Purge Notification Message" is systemically sent to the Market Maker upon the removal of quotes due to the Percentage-Based Threshold. See proposed Rule 1095(iii).

[16]   The re-entry indicator must be marked as such to cause the System to reset.

The Exchange represents that its proposal operates consistently with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS.

2.   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[17] in general, and furthers the objectives of Section 6(b)(5) of the Act[18] 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 enhancing the risk protections available to Exchange members. Each of the proposed amendments does not raise a novel regulatory issue, rather these proposed amendments provide for operational transparency.

The proposed rule text continues to offer Market Makers a risk protection tool, in addition to other available risk tools,[19] to decrease risk and increase stability. The Exchange offers this risk tool to Market Makers, in order to encourage them to provide as much liquidity as possible and encourage market making generally, the proposal removes impediments to and perfects the mechanism of a free and open market and a national market system and protect investors and the public interest. Further, it is important to note that any interest that is executable against a Market Maker's quotes that are received[20] by the Exchange prior to the trigger of the Percentage-Based Threshold, which is processed by the System, automatically executes at the price up to the Market Maker's size. Further, the Purge Notification Message is

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[17]   15 U.S.C. 78f(b).

[18]   15 U.S.C. 78f(b)(5).

[19]   See note 5.

[20]   The time of receipt for an order or quote is the time such message is processed by the Exchange book.

accepted by the System in the order of receipt in the queue and is processed in that order so that interest that is already accepted into the System is processed prior to the message.

Counting Program

The Exchange's amendment to the operation of the counting program to describe that it operates on rolling basis, with a time window after each transaction, not singular and sequential time segments is consistent with the Act because the purpose of the risk tool is to provide Market Makers with the ability to monitor its transactions. The proposed counting program provides a tracking method for Market Makers related to the specified time period. The System captures information to determine whether a removal of quotes is necessary. The proposed function of this counting program will enable the Exchange to provide the Market Maker with information relative to that Market Maker's interest currently at risk in the market.

Rounding

The Exchange's amendment which states that if the Issue Percentage, rounded to the nearest integer, equals or exceeds the Specified Percentage, the System automatically removes a Market Maker's quotes in all series of an underlying security is consistent with the Act because investors will be protected by providing Market Makers with a risk tool which allows Market Makers to properly set their risk protections at a level that they are able to meet their obligations and also manage their risk. This specificity provides more detail so that Market Makers may properly set their risk controls. Understanding the manner in which the System will round is important in determining when the System will trigger a risk control. Also, today, Phlx discusses rounding in its Rulebook.[21] Rounding to the nearest integer is not novel.

Reset

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[21] See Phlx Rule at 1014 regarding Market Maker allocations.

The Exchange's proposal to amend the rule text related to resets provides guidance to Market Makers as to the manner in which they may re-enter the System after a removal of quotes. This amendment is consistent with the Act because the Exchange desires to provide Market Makers with access to the market at all times. Market Makers perform an important function in the marketplace and the Exchange desires to provide its market participants with access to the market. If the Market Maker is removed from the market due to a trigger of the Percentage-Based risk tool, the Exchange will permit re-entry to the market provided the Market Maker sends a re-entry indicator to re-enter the System. This is important because it informs the Exchange that the Market Maker is ready to re-enter the market. Also, the Exchange currently has risk mechanisms in place which provides guidance as to the manner in which a Market Maker may re-enter the System after a removal of quotes.[22]

Quoting Obligations – Market Makers

The Exchange further represents that the System operates consistently with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS. Specifically, with respect to Market Makers, their obligation to provide continuous two-sided quotes on a daily basis is not diminished by the removal of such quotes by the Percentage-Based Threshold. Market Makers are required to provide continuous two-sided quotes on a daily basis.[23] Market Makers that utilize the Percentage-Based Threshold will not be relieved of the obligation to provide continuous two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a Market Maker for failing to meet the continuous quoting

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[22] See Phlx Rule 1095(vi).

[23] See Rule 1014 titled "Obligations and Restrictions Applicable to Specialists and Registered Options Traders."

obligation each trading day.

Finally, the Exchange believes that its proposal to provide Market Makers the optionality to either select the Percentage-Based Threshold or Volume-Based Threshold as one of their risk tools will also protect investors and is consistent with the Act. Today, Market Makers are required to utilize the Percentage-Based Threshold. With this proposal, Market Makers will have the ability to select their mandatory risk as between the Percentage-Based Threshold or Volume-Based Threshold.

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 Percentage-Based Threshold is meant to protect Market Makers from inadvertent exposure to excessive risk. Accordingly, this proposal will have no impact on competition. Specifically, the proposal does not impose a burden on intra-market or inter-market competition, rather, it provides Market Makers with the opportunity to avail themselves of similar risk tools which are currently available on other exchanges.[24] Market Makers quote across many series in an option creates the possibility of "rapid fire" executions that can create large, unintended principal positions that expose Market Makers. The Percentage-Based Threshold permits Market Makers to monitor risk arising from multiple executions across multiple options series of a single underlying security.

The Exchange is proposing this rule change to continue to permit Market Makers to reduce their risk in the event the Market Maker is suffering from a system issue or due to the occurrence of unusual or unexpected market activity. Reducing such risk will enable Market

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[24]   See Section 8 of the 19b4.

Makers to enter quotations without any fear of inadvertent exposure to excessive risk, which in turn will benefit investors through increased liquidity for the execution of their orders. Such increased liquidity benefits investors because they receive better prices and because it lowers volatility in the options market. Reducing risk by utilizing the proposed risk protections enables Market Makers, specifically, to enter quotations with larger size, which in turn will benefit investors through increased liquidity for the execution of their orders. Such increased liquidity benefits investors because they receive better prices and because it lowers volatility in the options market.

Counting Program

The Exchange's amendment to the operation of the counting program to describe that it operates on rolling basis, with a time window after each transaction, not singular and sequential time segments does not create an undue burden on competition, rather, it provides the Market Maker with clarity as to the manner in which the System counts quotes and thereby provides Market Makers with an increased ability to monitor transactions.

Rounding

The Exchange's amendment to add that if the Issue Percentage, rounded to the nearest integer, equals or exceeds the Specified Percentage, the System automatically removes a Market Maker's quotes in all series of an underlying security does not create an undue burden on competition because this amendment also provides the Market Maker with clarity as to the manner in which the System will remove quotes and thereby provides Market Makers with an increased ability to monitor transactions and set risk limits.

Reset

The amendment to the rule text concerning resetting does not create an undue burden on competition. The Exchange proposes to amend the manner in which a Market Maker may re-enter the System after a removal of quotes. This amendment provides information to Market Makers as to the procedure to re-enter the System after a trigger. This information is intended to provide Market Makers with access to the market.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act[25] and subparagraph (f)(6) of Rule 19b-4 thereunder.[26]

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.

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[25] 15 U.S.C. 78s(b)(3)(a)(iii).

[26] 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the 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.

IV.   Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2015-83 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-Phlx-2015-83. 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 Web site (http://www.sec.gov/rules/sro.shtml).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the

Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-Phlx-2015-83 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.[27]

Robert W. Errett,
Deputy Secretary.

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[27] 17 CFR 200.30-3(a)(12).

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