



8011-01p
SECURITIES AND EXCHANGE COMMISSION
[Release No. 34-82035; File No. SR-Phlx-2017-89]

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Its Index Options Rules to Be More Clear and Conformed More Closely to Those of the Options Clearing Corporation (“OCC”) and Other Exchanges
November 8, 2017.

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 November 1, 2017, Nasdaq PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend its index options rules to be more clear and conformed more closely to those of the Options Clearing Corporation (“OCC”) and other exchanges.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 is proposing to amend its index options rules in a number of respects to be more clear and reflective of current market practice, and to be conformed more closely to OCC rules and those of other exchanges in order to minimize the potential for confusion, in addition to other index option rule changes as discussed below.

Definition and Use of the Term "Closing Index Value"

The Exchange currently assigns the term "closing index value" a meaning which differs from that term's meaning on other exchanges, which presents the potential for needless confusion. Rule 1000A(b)(8) currently provides that the closing index value in respect of a particular index means (a) with respect to P.M.-settled options, the current index value calculated at the close of business on the day of exercise, or, if the day of exercise is not a trading day, on the last trading day before exercise, or (b) with respect to A.M.-settled options, the opening price of each component issue on the primary market on the day of exercise, or, if the day of exercise is not a trading day, on the last trading day before exercise. This definition is proposed to be deleted. The Exchange now proposes to define the term "closing index value" to mean simply the last index value reported on a business day. The new definition tracks the definition of "closing index value" on CBOE, ISE and NOM.³

³ CBOE Rule 24.1, ISE Rule 2001(e) and NOM Chapter XIV, Section 2(e), for example, all define "closing index value" as the last index value reported on a business day.

The substantive provisions of the index rules that currently refer to “closing index value” are proposed to be amended as well as discussed below, in light of this amendment to the definition of that term. The use of more consistent terminology across exchanges, both in the definition itself and in substantive provisions using the defined term, should minimize potential for confusion, especially in the context of multiply listed index options. It is in the public interest to avoid use of different terminology across different exchanges to describe the same concept.

Substitute the Term “Current Index Value” for the term “Closing Index Value”

The term “current index value” is defined in Rule 1000A(b)(7) in respect of a particular index as “the level of the index that is derived from the reported prices of the underlying securities that are the basis of the index, as reported by the reporting authority for the index.” Other options exchanges define “current index value” in a similar fashion.⁴

However, the Exchange currently uses the term “closing index value” in provisions where other exchanges use the term “current index value.” In order to use more consistent terminology across exchanges, the Exchange proposes to replace the term “closing index value” with the term “current index value” in Rules 1000A(b)(1), (2) and (6). Thus the term “put” will be defined in Rule 1000A(b)(1) as an option contract under which the holder of the option has the right, in accordance with the terms and provisions of the option, to sell to the Options Clearing Corporation the current index value times the index multiplier. Rule 1000A(b)(2) would be revised to define the term “call” as an option contract under which the holder of the

⁴ CBOE Rule 24.1(g), ISE Rule 2001(e) and NOM Chapter XIV, Section 2(e), for example, all define the term “current index value” with respect to a particular index options contract in relevant part as the level of the underlying index reported by the reporting authority for the index, or any multiple or fraction of such reported level specified by the exchange.

option has the right, in accordance with the terms of the option, to purchase from OCC the current index value times the index multiplier. Similarly, the term “index multiplier” would be defined to mean the amount specified in the contract by which the current index value is to be multiplied to arrive at the value required to be delivered to the holder of a call or by the holder of a put upon valid exercise of the contract. In all three of the revised definitions, the only change proposed is the substitution of the term “current index value” for the existing term “closing index value” which itself is proposed to be revised as discussed below to be consistent with the definition of that term on other exchanges.⁵

Current Rule 1000A(b)(8) defining “closing index value” already points to the current index value. Specifically, it defines “closing index value” to mean, with respect to P.M.-settled options, the current index value calculated at the close of business on the day of exercise, or, if the day of exercise is not a trading day, on the last trading day before exercise. In view of the amendment to Rule 1101A(d) discussed below providing generally that the current index value used to settle the exercise of an index options contract is the closing index value (proposed to be defined as the last index value reported on a business day) for the day, the net effect of these amendments with respect to P.M.-settled options is for the most part a change in terminology only, to be consistent with terminology used by other options exchanges. Currently, with respect

⁵ Upon implementation of the proposed amendments, the Exchange will be using terminology that is consistent with definitions of “put”, “call” and “index multiplier” on CBOE, ISE and NOM. See CBOE Rules 24.1(a), 24.1(b), and 24.1(f); ISE Rules 2001(c), 2001(i) and 2001(l); and NOM Chapter XIV, Sections 2(d), 2(i) and 2(m). The amendments will also give the terms “put”, “call” and “index multiplier” definitions that are consistent with the existing Phlx definition of “exercise price” which is the specific price per unit at which the current index value may be purchased in the case of a call or sold in the case of a put upon the exercise of an option. Unlike the current Phlx definitions of “put”, “call” and “index multiplier”, the current Phlx definition of “exercise price” is consistent with the definition of “exercise price” on other exchanges. See, e.g., CBOE Rule 24.1(d), ISE Rule 2001(f) and NOM Chapter XIV, Section 2(f), all of which define “exercise price” using the defined term “current index value”.

to P.M.-settled options the relevant value for Rules 1000A(b)(1), (2) and (6) is the “index value calculated at the close of business on the day of exercise”. As amended, the relevant value would be “the last index value reported on a business day”. Both formulations express the same concept. These definitional changes are not intended to change current practice with respect to P.M.-settled options.

New Definition of “A.M. Settled Index Option”

The Exchange proposes to add a new definition of A.M. settled index option. Consistent with the CBOE, ISE and NOM definitions of this term, new Rule 1000A(18) would define “A.M. settled index option” as an index option for which the current index value at expiration shall be determined as provided in Rule 1101A(e).⁶

The Exchange proposes to adopt new Rule 1101A(d), Index Values for Settlement, which recites that OCC rules specify that, unless the rules of the Exchange provide otherwise, the current index value used to settle the exercise of an index options contract is the closing index value for the day on which the index options contract is exercised in accordance with OCC rules, or if such day is not a business day, for the most recent business day. Other options exchanges have similar rules.⁷

As an exception to the baseline rule set forth in Rule 1101A(d) regarding settlement based on closing index values, the Exchange proposes to add new Rule 1101A(e) to provide that the last day of trading for A.M.-settled index options shall be the business day preceding the business day of expiration, or, in the case of an option contract expiring on a day that is not a

⁶ See the consistent definitions of “A.M.-settled index option” in CBOE Rule 24.1(r), ISE Rule 2001(c), and NOM Chapter XIV, Section 2(c). Like proposed Phlx Rule 1000A(b)(18), each of these definitions incorporates by reference a separate rule governing the determination of the current settlement value at expiration.

⁷ See, e.g., CBOE Rule 24.9.05 and ISE Rule 2009(e).

business day, the business day preceding the last day of trading in the underlying securities prior to the expiration date. Under the new rule the current index value at the expiration of an A.M.-settled index option will be determined on the last day of trading in the underlying securities prior to expiration, by reference to the reported level of such index as derived from first reported sale (opening) prices of the underlying securities on the primary market on such day.⁸ The current language of Rule 1000A(b)(8)(b) suggests that exercise settlement values for A.M. settled options are always based upon opening prices. In fact, however, closing prices are used in the case of an early exercise. This new language makes clear that for A.M.-settled index options opening prices of the underlying securities determine the current index value used to settle an exercise only on the last day of trading prior to expiration, consistent with market practice and OCC processes regarding A.M. settlement. Exercise of an American style A.M.-settled option prior to the day of expiration will result in settlement based upon closing prices in the underlying market, consistent with proposed new Rule 1101A(d) and OCC rules. The new language in 1101A(d) and (e) corrects existing Exchange Rule 1000A(b)(8) which does not make this distinction and is at variance with existing market practice and OCC settlement processes.

Proposed Rule 1101A(e) incorporates one exception. In the event that the primary market for an underlying security is open for trading on that day, but that particular security does not open for trading on that day, the price of that security, for the purposes of calculating the current index value at expiration, will be the last reported sale price of the security.⁹

Finally, new language is added to Rule 1101A(e) which specifically identifies the six

⁸ See ISE Rule 2009(a)(5) and NOM Chapter XIV, Section 11(a)(5), which are similar.

⁹ NOM and ISE rules contain similar exceptions. See NOM Chapter XIV Section 11(a)(5) and ISE Rule 2009(a)(5).

A.M.-settled index options that are currently approved for trading on the Exchange.¹⁰ The listing of these A.M.-settled index options is consistent with proposed new Rule 1101A(d), which recites that the Rules of the Options Clearing Corporation specify that, unless the Rules of the Exchange provide otherwise (which Rule 1101A(e) is doing by identifying AM-settled index options), the current index value used to settle the exercise of an index options contract shall be the closing index value for the day on which the index options contract is exercised in accordance with the Rules of the Options Clearing Corporation or, if such day is not a business day, for the most recent business day. It is also consistent with the existing Commentary to Rule 1000A(b)(8) which provides that for any series of index options the Exchange may, in its discretion, provide that the calculation of the final index settlement value of any index on which options are traded at the Exchange will be determined by reference to the prices of the constituent stocks at a time other than the close of trading on the last trading day before expiration.

Deletion of Rule 1044A, Delivery and Payment

Rule 1044A, Delivery and Payment, currently provides that in accordance with the applicable Rules of the Options Clearing Corporation, the settlement of index option contracts will be by the delivery of the difference between the closing index value on the day of exercise and the exercise price times the index multiplier. The Exchange proposes to delete this provision, given the proposed amendment to the defined term “closing index value” as discussed above. The Exchange has not found a similar rule on other options exchanges and believes it to

¹⁰ The change is being made in conformance with Article XVII, Section 5 of the OCC By-Laws. Article XVII, Section 5 of the OCC By-Laws provides that an Exchange may provide **by rule** that the current index value shall be determined by reference to the reported level of such index at a time or times other than the close of trading. Other options exchanges identify individual AM-settled options in their rules. See, e.g., CBOE Rule 24.9(a)(4).

be unnecessary given the definitions of put, call and index multiplier, which imply that settlement will be by the delivery of the difference between the closing index value on the day of exercise and the exercise price, times the index multiplier. OCC Bylaws provide for the calculation of the exercise settlement amount by reference the [sic] difference between the aggregate exercise price and the aggregate current index value on the day of the exercise.¹¹

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹² in general, and furthers the objectives of Section 6(b)(5) of the Act,¹³ 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 adding clarity to the rules, correcting the description of the manner of calculation of the exercise settlement amount in the case of early exercise of A.M.-settled options to conform with OCC rules and processes, and conforming index option terminology more closely to that used by OCC and other exchanges that list index options. In addition to correcting the inaccuracy regarding early exercise of A.M.-settled index options, the proposed rule change would result in Exchange index option rules that are substantially similar to rules that are currently in place on other options exchanges as discussed in detail above, thereby reducing potential investor confusion. The Exchange believes that the proposed changes will provide greater clarity to members and the public regarding the Exchange's index option rules.

¹¹ See also Article XVII of the OCC Bylaws.

¹² 15 U.S.C. 78f(b).

¹³ 15 U.S.C. 78f(b)(5).

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

The Exchange does not believe the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, as the added clarity and the increased conformity to index rules of other options exchanges and acknowledgement of OCC rules will benefit all market participants trading Exchange listed index options. The proposed rule change does not affect competition in that it conforms the Phlx index rulebook to OCC rules and to existing market practice, and will apply equally to all market participants transacting in index options on the Exchange.

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 Act¹⁴ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹⁵

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

¹⁴ 15 U.S.C. 78s(b)(3)(A)(iii).

¹⁵ 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.

(iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2017-89 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-2017-89. 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-2017-89, 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.¹⁶

Eduardo A. Aleman,
Assistant Secretary.

¹⁶ 17 CFR 200.30-3(a)(12).

[FR Doc. 2017-24656 Filed: 11/14/2017 8:45 am; Publication Date: 11/15/2017]