



8011-01

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-85519; File No. SR-Phlx-2019-07]

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend and Relocate the Qualified Contingent Cross Orders Rules
April 5, 2019.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 27, 2019, 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 Substance of the Proposed Rule Change

The Exchange proposes to relocate Qualified Contingent Cross (“QCC”) Orders which are submitted electronically (“Electronic QCC Orders”)³ and QCC Orders which are transacted on the Floor (“Floor QCC Orders”)⁴ (collectively “QCC Orders”). The Electronic QCC Orders would be relocated from Phlx Rule 1080(o) to new Phlx Rule 1088. The Floor QCC Orders are

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Qualified Contingent Cross Order is comprised of an originating order to buy or sell at least 1,000 contracts, or 10,000 contracts in the case of Mini Options that is identified as being part of a qualified contingent trade coupled with a contra-side order or orders totaling an equal number of contracts. See Rule 1080(o).

⁴ A Floor Qualified Contingent Cross Order is comprised of an originating order to buy or sell at least 1,000 contracts, or 10,000 contracts in the case of Mini Options, that is identified as being part of a qualified contingent trade, coupled with a contra-side order or orders totaling an equal number of contracts. See Rule 1064(e).

located at Rule 1064(e). Also, the Exchange proposes to amend the current rule text at Phlx Rule 1080(o) as well as the current rule text in Phlx Rule 1064(e) to more accurately reflect the manner in which contingency orders are handled with regard to stop orders and revise the Exchange's functionality with regard to how QCC Orders are handled with regard to All-or-None Orders. Finally, the Exchange proposes to update cross-references to Rule 1080(o) to reflect proposed Rule 1088.

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: (i) relocate Electronic QCC Orders, currently located at Phlx Rule 1080(o), to new Phlx Rule 1088; (ii) amend the current rule text at Phlx Rule 1080(o) and Phlx Rule 1064 to more accurately reflect the manner in which contingency orders are handled with regard to stop orders and revise the Exchange's functionality with regard to how QCC Orders are handled with regard to All-or-None Orders; and (iii) update cross-references to Rule

1080(o) to reflect proposed Rule 1088. The Exchange also proposes to delete “(p)” within Rule 1080, which is currently reserved.⁵

Background

In 2011, Phlx adopted an Electronic QCC Order type⁶ for execution of orders within the System.⁷ The QCC order type facilitates the execution of stock/option Qualified Contingent Trades that satisfy the requirements of the trade through exemption in connection with Rule 611(d) of Regulation NMS (“QCT Trade Exemption”).⁸ Specifically, Phlx Rule 1080(o) provides that a Phlx Order Entry Firm effectuating a trade in the System pursuant to the Regulation NMS QCT Trade Exemption to Rule 611(a) can cross the options leg of the trade on Phlx as a QCC Order immediately upon entry and without order exposure if no Customer orders⁹ exist on the Exchange’s order book at the same price. As set forth in Rule 1080(o), the Electronic QCC Order must: (i) be for at least 1,000 contracts, (ii) meet the six requirements of Rule 1080(o)(3) which are modeled on the QCT Trade Exemption, (iii) be executed at a price at or between the National Best Bid and Offer (“NBBO”); and (iv) be rejected if a Customer order

⁵ The Exchange is removing Rule 1080(o) and therefore proposes to remove (p) which is simply reserved.

⁶ See Securities and Exchange Act Release No. 64249 (April 7, 2011), 76 FR 20773, 20774 (April 13, 2011) (SR-Phlx-2011-47).

⁷ System is defined at Phlx Rule 1000(b)(45).

⁸ See Securities Exchange Act Release No. 54389 (August 31, 2006), 71 FR 52829 (September 7, 2006); Securities Exchange Act Release No. 57620 (April 4, 2008) 73 FR 19271 (April 9, 2008).

⁹ Phlx will reject a QCC Order that attempts to execute when any Customer orders are resting on the Exchange limit order book at the same price. The Exchange proposes to amend the term “customer” to “public customer.” For purposes of this rule change the term “public customer” shall mean a person or entity that is not a broker or dealer in securities and is not a professional as defined within Phlx Rule 1000(b)(14).

is resting on the Exchange book at the same price.¹⁰ Separately, the Exchange received approval to permit market participants to effectuate Floor QCC Orders.¹¹

Relocation

The Exchange is proposing to relocate the text relating to Electronic QCC Orders, currently located at Phlx Rule 1080(o), to new Phlx Rule 1088. The Exchange believes that this relocation will aid market participants in locating Phlx's Rule regarding Electronic QCC Orders which is currently within a much larger rule.

Amendments

The Exchange proposes to amend the rule text related to Electronic QCC Orders, currently contained in Rule 1080(o), which text is being relocated to Rule 1088, as well as the rule text related to Floor QCC Orders in Rule 1064(e) as noted below. Specifically, with respect to the current text of Rule 1080(o), which applies to Electronic QCC Orders, the Exchange proposes to amend the rule text which is being relocated to Rule 1088 to specifically note that an Electronic QCC Order is comprised of an originating *electronic* order. This will serve to further distinguish proposed Rule 1088, which applies to Electronic QCC Orders, from Rule 1064(e), which applies to Floor QCC Orders. Also, the Exchange proposes to remove the word "PHLX" from the current rule text in Rule 1080(o) before the word "System" when relocating the text to

¹⁰ While the Electronic QCC Order would not provide exposure for price improvement for the options leg of a stock-option order, the options leg must be executed at the NBBO or better.

¹¹ See Securities Exchange Act Release No. 64688 (June 16, 2011), 76 FR 36606 (June 22, 2011) (SR-Phlx-2011-56) (a rule change to establish a qualified contingent cross order for execution on the floor of the Exchange). A Floor QCC Order must: (i) be for at least 1,000 contracts, (ii) meet the six requirements of Rule 1080(o)(3) which are modeled on the QCT Trade Exemption, (iii) be executed at a price at or between the NBBO and (iv) be rejected if a Customer order is resting on the Exchange book at the same price. In order to satisfy the 1,000-contract requirement, a Floor QCC Order must be for 1,000 contracts and could not be, for example, two 500-contract orders or two 500-contract legs. See Phlx Rule 1064(e).

proposed Rule 1088(a)(2). The Exchange uses the defined term “System” elsewhere in the rule.¹²

The Exchange proposes to add new rule text, which is currently not contained in Rule 1080(o) or Rule 1064(e), to make clear the handling of contingency orders with respect to QCC Orders. The Exchange proposes to add a new Commentary .01 to proposed Rule 1088, which contains the relocated text from Rule 1080(o) and also proposes to add a new Commentary .03 to Rule 1064 to provide for the interaction of certain contingency orders as they relate to QCC Orders. The new commentary seeks to address: (i) certain order types on Phlx, which unlike other order types, are not displayed as part of Phlx’s best bid or offer (“PBBO”); and (ii) repricing on the order book.

Non-Displayed Contingency Orders

The Phlx contingency orders, which are non-displayed are exclusively: (i) All-or-None Orders¹³ and (ii) stop orders¹⁴ (collectively “Non-Displayed Contingency Orders”). These Non-Displayed Contingency Orders are not protected orders generally. An All-or-None Order would not be protected, unless the size of the contingency may be satisfied.¹⁵ Similar to other markets,

¹² See footnote 7 above.

¹³ An All-or None Order may only be submitted by a public customer. All-or-None Orders are non-displayed and non-routable. All-or-None Orders are executed in price-time priority among all public customer orders if the size contingency can be met. The Acceptable Trade Range protection in Rule 1099(a) is not applied to All-Or-None Orders. See Phlx Rule 1078.

¹⁴ A stop order is a limit or market order to buy or sell at a limit price when a trade or quote on the Exchange for a particular option contract reaches a specified price. A stop-market or stop-limit order shall not be triggered by a trade that is reported late or out of sequence or by a complex order trading with another complex order.

¹⁵ A “Protected Bid” or “Protected Offer” means a Bid or Offer in an options series, respectively, that: (i) is disseminated pursuant to the Options Price Reporting Authority (“OPRA”) Plan; and (ii) is the Best Bid or Best Offer, respectively, displayed by an Eligible Exchange. See Phlx Rule 1083(o). Phlx Rule 1083 defines a “Protected Bid” or

a stop order would be unprotected until such order is triggered by either the occurrence of a transaction or posting on the order book.¹⁶ The Exchange notes that these Non-Displayed Contingency Orders are distinct from other order types. As provided for in current Rule 1080(o)(1), QCC Orders are immediately executed upon entry into the System by an Order Entry Firm provided that (i) no Customer Orders are at the same price on the Exchange's limit order book and (ii) the price is at or between the better of the NBBO. The "NBBO" is the best Protected Bid and Protected Offer as defined in the Options Order Protection and Locked/Crossed Markets Plan; Protected Bids and Protected Offers that are displayed at a price but available on the Exchange at a better non-displayed price shall be included in the NBBO at their better non-displayed price for purposes of this rule.¹⁷ Rule 1083(o) defines a "Protected Bid" or "Protected Offer" as a Bid or Offer in an options series, respectively, that: (i) is disseminated pursuant to the OPRA Plan;¹⁸ and (ii) is the Best Bid or Best Offer, respectively,

"Protected Offer" as a Bid or Offer in an options series, respectively, that: (i) is disseminated pursuant to the Options Price Reporting Authority ("OPRA") Plan; and (ii) is the Best Bid or Best Offer, respectively, displayed by an Eligible Exchange. Once triggered, stop orders are treated as any other disseminated orders and would be displayed on OPRA.

¹⁶ See NYSE Arca, Inc. Rule 6.62-O. Stop Orders (including Stop Limit Orders) shall not have standing in any Order Process in the Consolidated Book and shall not be displayed. A QCC Order could trigger a Stop Order.

¹⁷ See Reg. NMS Rule 600(a)(42). National best bid and national best offer means, with respect to quotations for an NMS security, the best bid and best offer for such security that are calculated and disseminated on a current and continuing basis by a plan processor pursuant to an effective national market system plan; provided, that in the event two or more market centers transmit to the plan processor pursuant to such plan identical bids or offers for an NMS security, the best bid or best offer (as the case may be) shall be determined by ranking all such identical bids or offers (as the case may be) first by size (giving the highest ranking to the bid or offer associated with the largest size), and then by time (giving the highest ranking to the bid or offer received first in time).

¹⁸ "OPRA Plan" means the plan filed with the SEC pursuant to Section 11Aa(1)(C)(iii) of the Exchange Act, approved by the SEC and declared effective as of January 22, 1976, as from time to time amended.

displayed by an Eligible Exchange. Non-Displayed Contingency Orders are not disseminated to OPRA and not part of the displayed PBBO. The Exchange notes that a Non-Displayed Contingency Order would never trade with the paired QCC Order. A stop order would not impact the execution of a QCC Order until the stop order is elected¹⁹ by either the occurrence of a transaction or posting on the order book, at which point it would become a protected order and cause a rejection of the QCC Order provided it is a public customer order at the same price as the QCC Order and the price is at or between the NBBO. Today, an All-or-None Order would not cause a paired QCC Order to be automatically cancelled. The Exchange proposes to amend its current operation with respect to All-or-None Orders such that an All-or-None Order would cause a QCC Order to be automatically cancelled provided that the size of a QCC Order is greater than or equal to the size of the public customer All-or-None Order on the Exchange's limit order book and provided that the price of the public customer All-or-None Order locks or crosses the QCC Order. Below are some examples:

Example 1: QCC cancels back when QCC size is greater than public customer all-or-none (represented as "AON" for purposes of the below examples)

The PBBO used in QCC entry price validation does include resting AON orders when they could be satisfied by size of the incoming QCC

Minimum Price Variation ("MPV"): Penny
PBBO: \$1.00 (10) x \$1.20 (10)

Enter AON public customer Order to Sell 5 @ \$1.18

PBBO remains: \$1.00 (10) x \$1.20 (10)

¹⁹ Stop orders are inactive until they are "elected." Stop orders are elected when either the bid (offer) is updated to a price equal to or greater (less) than the stop price of a Buy (Sell) Stop order or an execution on the Exchange occurs at a price equal to or greater (less) than the stop price of a Buy(Sell) stop order. Stop order election takes place at the end of the transaction that caused the election and at that time the stop order enters the book as a new market or limit order depending on the participant instructions. Note: stop orders that are "electable" upon entry are rejected.

PBBO (with AON): \$1.00 (10) x \$1.18 (5)

Enter single QCC for 1000 @ \$1.19

QCC cancels back to participant due to public customer AON @ \$1.18

Example 2: QCC trades through AON when QCC size is less than AON

The PBBO used in QCC entry price validation does include resting AON orders when they could be satisfied by size of the incoming QCC

MPV: Penny

PBBO: \$1.00 (10) x \$1.20 (10)

Enter AON public customer order to Sell 5000 @ \$1.18

PBBO remains: \$1.00 (10) x \$1.20 (10)

PBBO (with AON): \$1.00 (10) x \$1.18 (5000)

Enter single QCC for 1000 @ \$1.19

QCC prints @ \$1.19 (Note, the 5000 lot public customer AON cannot be satisfied by the 1000 lot QCC)

Example 3: QCC blocked by public customer order behind AON that could not be satisfied by QCC

The PBBO used in QCC entry price validation does include resting AON orders when they could be satisfied by size of the incoming QCC

MPV: Penny

PBBO: \$1.00 (10) x \$1.20 (10)

Enter AON public customer order to Sell 5000 @ \$1.18

Enter public customer Order to sell 1 @ \$1.19

PBBO adjusts: \$1.00 (10) x \$1.19 (1)

PBBO (with AON): \$1.00 (10) x \$1.18 (5000)

Enter single QCC for 1000 @ \$1.19

QCC cancels back to participant due to public customer order @ \$1.19 (Note, the 5000 lot public customer AON cannot be satisfied by the 1000 lot QCC and therefore this does not cause the cancel)

Example 4: QCC cancels back due to AON that could be satisfied by QCC

The PBBO used in QCC entry price validation does include resting AON orders when they could be satisfied by size of the incoming QCC

MPV: Penny

PBBO: \$1.00 (10) x \$1.20 (10)

Enter AON public customer order to Sell 5@ \$1.18

Enter public customer order to sell 1 @ \$1.19

PBBO adjusts: \$1.00 (10) x \$1.19 (1)

PBBO (with AON): \$1.00 (10) x \$1.18 (5)

Enter single QCC for 1000 @ \$1.19

QCC cancels back to participant due to public customer AON @ \$1.18

Example 5: Stop Order triggered by incoming QCC

MPV: Penny

PBBO: \$1.00 (10) x \$1.20 (10)

Enter Stop-Limit order to sell 10 contracts with a Stop price of \$1.18 and a limit price of \$1.19

Enter single QCC for 1000 @ \$1.18

QCC prints @ \$1.18 since the QCC price is better than the NBBO. The \$1.18 execution of the QCC causes the sell stop order to be elected. Election of the stop order causes the order to be entered onto the book offered at \$1.19. PBBO updates to be \$1.00 (10) x \$1.19 (10).

With respect to stop orders, the Exchange's proposal does not expand how Non-Displayed Contingency Orders are handled by the System, rather the Exchange is proposing to add transparency to its rules with respect to these non-protected order types. With the Exchange's proposal to amend the current handling of All-or-None Orders, if the size of a QCC Order is greater than or equal to the size of the resting public customer All-or-None Order, the

QCC Order would be automatically cancelled²⁰ provided that the price of the public customer All-or-None Order is the same as, or better than, the price of the QCC Order. A market participant that elects to enter an All-or-None Order is choosing to request that the order be executed only if a certain contingency is met. The Exchange provides market participants the opportunity to enter limit orders, which unlike All-or-None Orders, are protected and displayed. Market participants electing to utilize the All-or-None Order type will have no standing on the order book in relation to an incoming QCC Order because All-or-None Orders are not protected, unless the size of a public customer All-or-None Order could be satisfied by the size of the QCC Order, and provided that the price of the public customer All-or-None Order is the same as, or better than, the price of the QCC Order. The Exchange believes that it provides market participants with an array of order types and allows market participants to determine the manner in which they would like to be executed.

Repricing

Certain orders are repriced on Phlx because the order locks or crosses the ABBO.²¹ With respect to Do-Not-Route or “DNR” Orders, where the best away market is at an inferior price level to the PBBO, the System will automatically re-price that order 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 NBBO to Phlx XL II participants and other market participants only if the re-priced order

²⁰ The System would technically accept the order upon entry and then upon a review of the Order Book send a message to the market participant automatically cancelling an order because of the resting public customer All-or-None Order.

²¹ ABBO shall mean the away best bid or offer.

locks or crosses the ABBO.²² With respect to the automatic re-pricing from its one minimum price variation inferior to the original away best bid/offer price the Exchange notes that other markets also re-price orders to avoid locked and/or crossed markets,²³ and such repricing impacts the execution price of a QCC Order. The Exchange may have a quote or order that will not be displayed at its actual better price. For example, an order limit price may lock an away market, in which case the order is displayed one minimum increment away from the away market price but remains part of the Exchange's internal BBO²⁴ at the locking price. The Exchange is proposing to add newly proposed Rule 1088(a)(1) and current Rule 1064(e)(1) to make clear that the price of the QCC Order must be at or between not just the NBBO, but the better of the PBBO and the NBBO to immediately execute. The Exchange notes that it protects re-priced orders that

²² See Phlx Rule 1080(m)(iv)(A). Further, with respect to routable orders, the same repricing takes place for FIND and SRCH Orders.

A FIND Order received during open trading that is marketable against the PBBO when the ABBO is inferior to the PBBO will be traded at the PBBO price. If the FIND Order has size remaining after exhausting the PBBO, it may: (1) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to and including the ABBO price, or (2) be entered into the Phlx XL II book at its limit price, or one MPV away from the ABBO if locking or crossing the ABBO. See Phlx Rule 1080(m)(iv)(B).

A SRCH Order is a customer order that is routable at any time. A SRCH Order may trade at the Phlx price if that price is equal to or better than the ABBO or, if the ABBO is better than the Phlx price, orders have been routed to better priced markets for their full size; or (2) be routed to better priced markets if the ABBO price is the best price, and/or (3) be placed on the Phlx XL II book at its limit price if not participating in the Phlx opening at the opening price and not locking or crossing the ABBO. Once on the order book, the SRCH Order is eligible for routing if it is locked or crossed by an away market. See Phlx Rule 1080(m)(iv)(C).

²³ See Miami International Securities Exchange LLC ("MIAX") Rule 515(h)(2) which provides that if trading interest exists on the MIAX Book that is subject to the liquidity refresh pause or managed interest process pursuant to Rule 515(c), or a route timer pursuant to Rule 529 when the Exchange receives a Qualified Contingent Cross Order, the System will reject the Qualified Contingent Cross Order.

²⁴ The words "internal BBO" refer to the actual better price of an order resting on Phlx's order book which is not displayed, but available for execution.

are part of the Exchange's internal BBO at the locked pricing with an away market. This preserves the priority of interest which may be available at an internal price, internal BBO, which is better than the displayed PBBO and NBBO and permits executions only at prices which are at or better than the best price available. Repricing does not expand how QCC Orders are handled by the System, rather the Exchange is proposing to add transparency to its rules with respect to how QCC Orders are handled when there are re-priced orders on the book which are available at a price better than the displayed PBBO and NBBO.

Public Customer

Specifying the term "public customer" in place of the term "customer" within the rule text will make clear the meaning of that term. For purposes of this rule change the term "public customer" shall mean a person or entity that is not a broker or dealer in securities and is not a professional as defined within Phlx Rule 1000(b)(14).

Cross-References

The Exchange proposes to update cross-references to Electronic QCC Orders within Rule 1080(o) within other Exchange rules to cite the new electronic rule.²⁵

Implementation

The Exchange would implement the changes proposed herein prior to May 31, 2019. The Exchange would issue an Options Trader Alert announcing the exact date of implementation in advance.²⁶

²⁵ See Phlx's Pricing Schedule at Options 7, Section 1, B. and Section 4 and Phlx Rule 1064.

²⁶ See Options Trader Alert 2018-47.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,²⁷ in general, and furthers the objectives of Section 6(b)(5) of the Act,²⁸ in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest by amending the rule text relating to QCC Orders to correct and make clear the current rule text.

The Exchange believes that the amendments to add the word “electronic” in proposed Rule 1088(a) and the deletion of the word “PHLX” in proposed Rule 1088(a)(2) are non-substantive amendments which simply add specificity and conform the rule text, respectively. Further, the proposals to update the cross-references to Rule 1080(o) to proposed Rule 1088 will correct the citations within the Rulebook for accuracy.

The Exchange’s proposal to add new Commentary .01 to Rule 1088 and new Commentary .03 to Rule 1064 for QCC Orders is consistent with the Act because the proposed functionalities are consistent with the public customer protection provisions Phlx provides when a QCC order is submitted to the System. The Exchange notes that Non-Displayed Contingency Order Types are distinct from other order types. The Exchange offers an array of order types which do not have similar limitations and would be protected orders and are displayed. Other markets have stop orders which require a triggering (or “electing”) event prior to being protected.²⁹

With respect to stop orders, the Exchange’s proposal does not expand how Non-Displayed Contingency Orders are handled by the System, rather the Exchange is proposing to

²⁷ 15 U.S.C. 78f(b).

²⁸ 15 U.S.C. 78f(b)(5).

²⁹ See note 16 above.

add transparency to its rules with respect to these non-protected order types. The proposal would clarify that stop orders which have not been elected are not protected orders and are thus not considered for the acceptance or execution of QCC Orders. With respect to All-or-None Orders, the Exchange's proposal to automatically cancel a QCC Order, provided the size of a QCC Order is greater than or equal to the size of the resting public customer All-or-None Order and the price of the public customer All-or-None Order is the same as, or better than, the price of the QCC Order, is consistent with Act. Today, QCC Orders are immediately executed upon entry into the System by an Order Entry Firm provided that (i) no Customer Orders are at the same price on the Exchange's limit order book and (ii) the price is at or between the better of the NBBO for all other order types, with the exception of All-or-None Orders. The Exchange is extending the same level of protection to public customer All-or-None Orders in the case of QCC Orders that today is provided to all other order types submitted by public customers.³⁰ By automatically cancelling a QCC Order with a size greater than or equal to the size of a resting public customer All-or-None Order, provided the QCC price locks or crosses the All-or-None Order, will cause those public customer All-or-None orders to be prioritized.

The Exchange's proposal to add rule text to make clear that with respect to Non-Displayed Contingency Orders, the price of the QCC Order must be at or between not just the NBBO, but the better of the internal PBBO and the NBBO to immediately execute adds more transparency to the Exchange's Rules. The Exchange notes that other markets also re-price orders to avoid locked and/or crossed markets,³¹ and such repricing impacts the execution price of a QCC Order. The Exchange protects re-priced orders at their "actual" price rather than their

³⁰ See note 6 above. Public customer priority existed at the adoption of Phlx's QCC Order functionality.

³¹ See note 23 above.

displayed price which preserves the priority of interest which may be available at an internal price, internal BBO, which is better than the displayed PBBO and NBBO and permits executions only at prices which are at or better than the best price available and continues to facilitate the execution of qualified contingent trades, thereby benefitting the market as a whole. Repricing does not expand how QCC Orders are handled by the System. The proposed text adds transparency with respect to how QCC Orders are handled when there are re-priced orders on the book which are available at a price better than the displayed PBBO and NBBO.

Finally, specifying the term “public customer” in place of the term “customer” within the rule text will make clear the meaning of that term.

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 proposals to add the word “electronic” in proposed Rule 1088(a) and delete the word “PHLX” in proposed Rule 1088(a)(2) are non-substantive amendments which simply add specificity and conforms the rule text. The Exchange’s proposal to amend cross-references will bring greater clarity to the Exchange’s rules.

The Exchange’s proposal to describe how Non-Displayed Contingency Orders are handled by the System does not impose an undue burden on competition, rather the rule text adds transparency to the rules because it describes how these non-protected order types are handled. The Exchange’s proposal to automatically cancel a QCC Order, provided the size of a QCC Order is greater than or equal to the size of the resting public customer All-or-None Order and the price of the public customer All-or-None Order is the same as, or better than, the price of the QCC Order, does not impose an undue burden on competition because the Exchange will uniformly cancel all QCC Orders if there is a public customer All-or-None Order resting on the

order book with eligible size. The Exchange is extending the same level of protection to public customer All-or-None Orders in the case of QCC Orders that today is provided to all other order types submitted by public customers and therefore uniformly prioritizing all public customer orders.

The Exchange's proposal to add rule text to make clear that with respect to Non-Displayed Contingency Orders, the price of the QCC Order must be at or between not just the NBBO, but the better of the internal PBBO and the NBBO to immediately execute does not impose an undue burden on competition. This rule text adds more transparency to the Exchange's Rules. The Exchange notes that other markets also re-price orders to avoid locked and/or crossed markets,³² and such repricing impacts the execution price of a QCC Order. Repricing does not expand how QCC Orders are handled by the System. The Exchange's proposal would add transparency to its rules with respect to how QCC Orders are handled when there are re-priced orders on the order book which are available at a price better than the displayed PBBO and NBBO. The Exchange uniformly reprices orders within the System. Specifying the term "public customer" in place of the term "customer" within the rule text will make clear the meaning of that term.

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

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any unsolicited written comments from members or other interested parties.

³² See note 23 above.

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 Act³³ and subparagraph (f)(6) of Rule 19b-4 thereunder.³⁴

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 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-2019-07 on the subject line.

³³ 15 U.S.C. 78s(b)(3)(A)(iii).

³⁴ 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.

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-2019-07. 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 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-2019-07, 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.³⁵

³⁵ 17 CFR 200.30-3(a)(12).

Eduardo A. Aleman,
Deputy Secretary.

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