

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–83033; File No. SR–Phlx–2018–14]

Self-Regulatory Organizations; Nasdaq PHLX LLC; Order Approving a Proposed Rule Change, as Modified by Amendment Nos. 1, 2, and 3, To Adopt Protections for Butterfly Spreads and Box Spreads

April 11, 2018.

I. Introduction

On February 9, 2018, Nasdaq PHLX LLC (“Phlx” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”) ¹ and Rule 19b–4 thereunder, ² a proposed rule change to amend Phlx Rule 1098, “Complex Orders on the System,” to adopt protections for Complex Orders that are box spreads or butterfly spreads. ³ On February 21, 2018, the Exchange filed Amendment No. 1 to the proposed rule change, which superseded the original filing in its entirety. The proposed rule change, as modified by Amendment No. 1, was published for comment in the **Federal Register** on March 1, 2018. ⁴ On April 9, 2018, the Exchange filed Amendment No. 2 to the proposal. On April 10, 2018, the Exchange filed Amendment No. 3 to the proposal, which superseded Amendment No. 2 in its entirety. ⁵ The Commission received no comments

regarding the proposed rule change. This order approves the proposed rule change, as modified by Amendment Nos. 1, 2, and 3.

II. Description of the Proposed Rule Change, as Modified by Amendment Nos. 1, 2, and 3

As described more fully in the Notice, the Exchange proposes to amend Phlx Rule 1098 to adopt protections that will prevent the execution of a butterfly spread ⁶ or a box spread ⁷ at a price outside of specified minimum and maximum values (the “Butterfly Spread Protection” and the “Box Spread Protection,” respectively). ⁸ Under the Butterfly Spread Protection, a butterfly spread that is priced higher than the Maximum Value ⁹ or lower than the Minimum Value ¹⁰ will be cancelled. A butterfly spread entered as a market order will be accepted but will be restricted from trading at a price that is higher than the Maximum Value or lower than the Minimum Value. ¹¹ Similarly, under the Box Spread Protection, a box spread that is priced

higher than the Maximum Value ¹² or lower than the Minimum Value ¹³ will be cancelled. A box spread entered as a market order will be accepted but will be restricted from trading at a price that is higher than the Maximum Value or lower than the Minimum Value. ¹⁴ The Butterfly Spread Protection and the Box Spread Protection apply to orders being auctioned and to auction responses, and they apply throughout the trading day, including during the pre-market, the opening process, and trading halts. ¹⁵

The Phlx states that the proposal is responsive to member input and will provide members with additional functionality that will assist them in managing risk. ¹⁶ In addition, the Phlx states that the buffer allowance from the minimum and maximum values permitted for the execution of butterfly and box spreads will provide market participants with flexibility to manage their business. ¹⁷ The Phlx notes that it currently offers similar order protection features for Complex Orders to avoid erroneous trades, including the Strategy Price Protection and the Acceptable Complex Execution (“ACE”) Parameter. ¹⁸

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange. ¹⁹ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act, ²⁰ which requires, among other things, that the rules of a national securities exchange be

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b–4.

³ For purposes of the electronic trading of Complex Orders, 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).

⁴ See Securities Exchange Act Release No. 82766 (February 23, 2018), 83 FR 8914 (March 1, 2018) (“Notice”).

⁵ In Amendment No. 3, the Phlx revised the proposal to (1) replace references in proposed Phlx Rule 1098(i)(i) to “Complex Order” with “Butterfly Spread,” and to “Complex Market Order” with “Butterfly Spread entered as a Market Order;” (2) revise proposed Phlx Rule 1098(i)(i)(a) to indicate that the Initial Maximum Value is the distance between the strike price of the leg with the mid-point and either of the outer leg strike prices; (3) replace references in proposed Phlx Rule 1098(j)(i) to “Complex Order” with “Box Spread” and to “Complex Market Order” with “Box Spread entered as a Market Order;” (4) amend proposed Phlx Rules 1098(i)(i) and (j)(i) to refer to “an order being auctioned,” rather than an “auction;” and (5) delete the reference to “spread” in proposed Phlx Rule 1098(j)(i)(b). Because Amendment No. 3 makes only clarifying and technical changes, and does not present unique or novel regulatory issues, it is not subject to notice and comment.

⁶ 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. See proposed Phlx Rule 1098(i).

⁷ 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. See proposed Phlx Rule 1098(j).

⁸ See Notice, 83 FR at 8915.

⁹ For a butterfly spread, the Maximum Value is calculated by adding the Initial Maximum Value (the distance between strike price of the leg with the mid-point strike and either of the outer leg strike prices) and the Maximum Value Buffer. 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. See proposed Phlx Rule 1098(i)(i)(a).

¹⁰ For a butterfly spread, the Minimum Value is calculated by subtracting the Minimum Value Buffer (a configurable absolute dollar value set by the Exchange and announced via a notice to members) from the Initial Minimum Value of zero. See proposed Phlx Rule 1098(i)(i)(b). The Phlx notes that the Minimum Value could be less than zero. See Notice, 83 FR at 8915. The Phlx states that a market participant seeking to trade out of a position at intrinsic value might not find a contra-side willing to trade without a premium. The Phlx notes that an incremental allowance outside of the minimum/maximum value would allow for a small premium to offset commissions associated with trading and could incentivize participants to take the other side of a spread trading at intrinsic value. The Phlx further notes that a participant might find it financially beneficial to pay a small premium to close out its position rather than carry the position to expiration and take delivery. See *id.*

¹¹ See proposed Phlx Rule 1098(i)(i).

¹² For a box spread, the Maximum Value is calculated by adding the Initial Maximum Value (the distance between the strike prices of each pair of leg strike prices) and the Maximum Value Buffer. 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. See proposed Phlx Rule 1098(j)(i)(a).

¹³ For a box spread, the Minimum Value is calculated by subtracting the Minimum Value Buffer (a configurable absolute dollar value set by the Exchange and announced via a notice to members) from the Initial Minimum Value of zero. See proposed Phlx Rule 1098(j)(i)(b).

¹⁴ See proposed Phlx Rule 1098(j)(i).

¹⁵ See proposed Phlx Rules 1098(i)(i) and (ii), and 1098(j)(i) and (ii).

¹⁶ See Notice, 83 FR at 8916.

¹⁷ See *id.* at 8917.

¹⁸ See *id.* at 8915. See also Phlx Rules 1098(g) (Strategy Price Protection) and 1098(h)(i) (ACE Parameter).

¹⁹ In approving this proposed rule change, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²⁰ 15 U.S.C. 78f(b)(5).

designed to prevent fraudulent and manipulative acts and practices, 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.

The Commission believes that the Butterfly Spread Protection and the Box Spread Protection will help market participants mitigate risk by preventing the execution of butterfly and box spreads at prices that are outside of specified minimum and maximum values. The Commission notes that the Phlx has indicated that the protections are responsive to input from Phlx members.²¹ In addition, the Commission notes that another options exchange has adopted similar price protections.²²

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,²³ that the proposed rule change (SR-Phlx-2018-14), as modified by Amendment Nos. 1, 2, and 3, is approved.

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

Eduardo A. Aleman,
Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

Proposed Collection; Comment Request

Upon Written Request, Copies Available From: Securities and Exchange Commission, Office of FOIA Services, Washington, DC 20549-2736

Extension:

Rule 15g-4, SEC File No. 270-347, OMB Control No. 3235-0393

Notice is hereby given that pursuant to the Paperwork Reduction Act of 1995 ("PRA") (44 U.S.C. 3501 *et seq.*), the Securities and Exchange Commission ("Commission") is soliciting comments on the existing collection of information provided for in Rule 15g-4—Disclosure of compensation to brokers or dealers (17 CFR 240.15g-4) under the Securities Exchange Act of 1934 (15 U.S.C. 78a *et seq.*). The Commission plans to submit this existing collection of information to

the Office of Management and Budget ("OMB") for extension and approval.

Rule 15g-4 requires brokers and dealers effecting transactions in penny stocks for or with customers to disclose the amount of compensation received by the broker-dealer in connection with the transaction. The purpose of the rule is to increase the level of disclosure to investors concerning penny stocks generally and specific penny stock transactions.

The Commission estimates that approximately 195 broker-dealers will spend an average of 87 hours annually to comply with this rule. Thus, the total compliance burden is approximately 16,965 burden-hours per year.

Written comments are invited on: (a) Whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information shall have practical utility; (b) the accuracy of the agency's estimates of the burden of the proposed collection of information; (c) ways to enhance the quality, utility, and clarity of the information to be collected; and (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology. Consideration will be given to comments and suggestions submitted in writing within 60 days of this publication.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information under the PRA unless it displays a currently valid OMB control number.

Please direct your written comments to: Pamela Dyson, Acting Director/Chief Information Officer, Securities and Exchange Commission, c/o Remi Pavlik-Simon, 100 F Street NE, Washington, DC 20549 or send an email to PRA_Mailbox@sec.gov.

Dated: April 11, 2018.

Eduardo A. Aleman,
Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

Submission for OMB Review; Comment Request

Upon Written Request, Copies Available From: Securities and Exchange Commission, Office of FOIA Services, 100 F Street NE, Washington, DC 20549-2736

Extension:

Rule 6e-2 and Form N-6EI-1, SEC File No. 270-177, OMB Control No. 3235-0177

Notice is hereby given that, pursuant to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 *et seq.*), the Securities and Exchange Commission ("Commission") has submitted to the Office of Management and Budget a request for extension of the previously approved collection of information discussed below.

Rule 6e-2 (17 CFR 270.6e-2) under the Investment Company Act of 1940 ("Act") (15 U.S.C. 80a) is an exemptive rule that provides separate accounts formed by life insurance companies to fund certain variable life insurance products, exemptions from certain provisions of the Act, subject to conditions set forth in the rule.

Rule 6e-2 provides a separate account with an exemption from the registration provisions of section 8(a) of the Act if the account files with the Commission Form N-6EI-1 (17 CFR 274.301), a notification of claim of exemption.

The rule also exempts a separate account from a number of other sections of the Act, provided that the separate account makes certain disclosure in its registration statements (in the case of those separate account that elect to register), reports to contract holders, proxy solicitations, and submissions to state regulatory authorities, as prescribed by the rule.

Since 2008, there have been no filings of Form N-6EI-1 by separate accounts. Therefore, there has been no cost or burden to the industry since that time. The Commission requests authorization to maintain an inventory of one burden hour for administrative purposes.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid control number.

The public may view the background documentation for this information collection at the following website, www.reginfo.gov. Comments should be directed to: (i) Desk Officer for the Securities and Exchange Commission, Office of Information and Regulatory Affairs, Office of Management and Budget, Room 10102, New Executive Office Building, Washington, DC 20503, or by sending an email to: ShaguftaAhmed@omb.eop.gov; and (ii) Pamela Dyson, Director/Chief Information Officer, Securities and Exchange Commission, c/o Remi Pavlik-Simon, 100 F Street NE, Washington, DC 20549 or send an email to: PRA_Mailbox@sec.gov. Comments must be submitted to OMB within 30 days of this notice.

²¹ See Notice, 83 FR at 8916.

²² See CBOE Rule 6.53C, Interpretation and Policy .08(g).

²³ 15 U.S.C. 78s(b)(2).

²⁴ 17 CFR 200.30-3(a)(12).