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December 17, 2018

**Via Electronic Mail (rule-comments@sec.gov)**

Brent J. Fields  
Secretary  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549

Re: Nasdaq PHLX LLC; Notice of Filing of Proposed Rule Change to Establish Rules Governing the Give Up of a Clearing Member by a Member Organization on Exchange Transactions (File No. SR-PHLX-2018-72)

Dear Mr. Fields:

The Securities Industry and Financial Markets Association (“SIFMA”)<sup>1</sup> appreciates the opportunity to comment on the above-referenced filing (the “Filing” or the “Phlx Filing”) made by Nasdaq PHLX LLC (“Phlx” or “Exchange”) with the Securities and Exchange Commission (“SEC” or “Commission”). In the Filing, Phlx proposes to amend Rule 1037<sup>2</sup> to establish requirements related to the give up of a Clearing Member by a member organization on Exchange transactions. SIFMA supports the Phlx proposal because it would reduce a significant source of risk for clearing firms.

Phlx Rule 1052 currently provides that every Clearing Member shall be responsible for the clearance of the Exchange options transactions of such Clearing Member and of each member organization who gives up the name of such Clearing Member in an Exchange options transaction, provided the Clearing Member has authorized such member organization to give up its name with respect to Exchange options transactions. This process runs counter to the practices used by clearing firms to approve and onboard a new executing broker because Phlx rules do not require an agreement between the Clearing Member and the member organization before the member organization can give up the Clearing Member.

SIFMA was approached by its clearing firm members to review the current give up practice since it is a significant source of risk. Accordingly, SIFMA began advocating with the

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<sup>1</sup> SIFMA is the voice of the U.S. securities industry. We represent the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets, raising over \$2.5 trillion for businesses and municipalities in the U.S., serving clients with over \$20 trillion in assets and managing more than \$67 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

<sup>2</sup> See Release No. 34-84624 (November 19, 2018), 83 FR 60547 (November 26, 2018).

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Exchanges and SEC for a modification to the current practice and commends Phlx for addressing risks to clearing firms by amending the rule to prevent unauthorized give ups.

In the filing, Phlx states that:

Rule 1037, which is currently reserved, will be titled as “Authorization to Give Up” and will provide that for each transaction in which a member organization participates, the member organization may indicate, at the time of the trade, with respect to floor trading only, or through post trade allocation, any OCC number of a Clearing Member through which a transaction will be cleared (“Give Up”), provided the Clearing Member has not elected to “Opt In,” as defined in paragraph (b) of the proposed Rule, and restrict one or more of its OCC number(s) (“Restricted OCC Number”). A member organization may Give Up a Restricted OCC Number provided the member organization has written authorization as described in paragraph (b)(ii) (“Authorized Member Organization”).”<sup>3</sup>

SIFMA agrees with the proposed changes to Rule 1037, including the ability for a Clearing Member to “Opt In” as described above since the proposed rule requires authorization from the Clearing Member prior to a member organization being permitted to give up the clearing firm.

Phlx’s proposal is a critical first step to reduce risk in listed-options clearing. The current listed-options give up process can create unlimited risk since clearing firms have no ability to monitor credit limits and exposure before being given up. Under Phlx’s proposed rule change, clearing firms *will* have the flexibility to implement structural changes, i.e. agreements between the Clearing Member and the member organization, that are consistent with basic principles of risk management. The new agreements will allow the clearing firm to properly assess and enforce credit limits for authorized executing brokers and their clients. SIFMA also agrees with Phlx that the “proposed Opt In process strikes the right balance between the various views and interests across the industry.”<sup>4</sup>

SIFMA agrees that the planned implementation date should occur no later than by the end of Q1 2019.<sup>5</sup> SIFMA members agree that this timeframe will provide Clearing Members with ample time to authorize member organizations as give ups.

\* \* \*

SIFMA has spent considerable time educating and advocating with the U.S. listed-options Exchanges about the risk associated with the give up practice. SIFMA supports the Phlx filing to propose new rules to alleviate the risks associated with clearing listed-options. SIFMA promotes strong risk management and resilient markets and mandates that *each* U.S. listed-options Exchange modify their give up rules as proposed by Phlx in their rule filing.

SIFMA greatly appreciates the Commission’s consideration of our comments on File No. SR-PHLX-2018-72 and would be pleased to discuss these comments in greater detail with the

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<sup>3</sup> See 83 FR at 60548.

<sup>4</sup> See 83 FR at 60549

<sup>5</sup> Ibid.

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staff. If you have any questions, please contact Ellen Greene at (212) 313-1287 or [egreene@sifma.org](mailto:egreene@sifma.org).

Sincerely,

A handwritten signature in blue ink that reads "Ellen Greene".

Ellen Greene  
Managing Director

cc: The Honorable Jay Clayton, Chairman, SEC  
The Honorable Robert J. Jackson Jr., Commissioner, SEC  
The Honorable Hester M. Peirce, Commissioner, SEC  
The Honorable Elad Roisman, Commissioner, SEC  
The Honorable Kara M. Stein, Commissioner, SEC

Brett Redfearn, Director, Division of Trading and Markets, SEC  
David S. Shillman, Associate Director, Division of Trading and Markets, SEC  
Richard Holley, Assistant Director, Division of Trading and Markets, SEC

Thomas Wittman, Executive Vice President, Nasdaq