ADVISORY NOTICE

TO: Specialists, Registered Option Traders ("ROTs") and Floor Brokers

FROM: On-Floor Surveillance

DATE: March 20, 2017

RE: Obligations of Phlx Market Makers

On-Floor Surveillance reminds Phlx Market Makers of their obligations to make markets.

Obligation to Make a Market

Specialists and Registered Options Traders ("ROTs") may be called upon by a Floor Broker or Options Exchange Official, to make a market. Specifically, Specialists and ROTs may be required to make a two-sided market for any option series trading in the same crowd where the Specialist or ROT is located. See NASDAQ PHLX, LLC ("Phlx") Rule 1014(c) and Rule 1014(d).

Example 1 A Floor Broker enters the trading crowd and explicitly requests a two-sided market in any option series from the trading crowd. The trading crowd must provide a two-sided market within the option quote spread parameters specified in Phlx Rule 1014(c)(i)(A)(1)(a).

Example 2 A Floor Broker enters the trading crowd and solicits the trading crowd for a single bid (or offer) as specified in Phlx Rule 1033(a) “Bids and Offers”, the trading crowd may discuss, negotiate, and if applicable, agree to a trade. The trading crowd would not be obligated to make a two-sided market.

Example 3 A Floor Broker enters the trading crowd and explicitly requests a market in any option series from the trading crowd. If at least one participant of the trading crowd provides a two-sided market would satisfy the Floor Broker’s request.

Example 4 A Floor Broker enters the trading crowd seeking to cross or facilitate a buy and sell order in any option series in accordance to Phlx Rule 1064(a) and 1064(b) and explicitly request a market in any option series from the trading crowd. After the trading crowd is given an opportunity to make a market, if no market is given or the trading crowd expresses no interest, the Floor Broker may cross the orders with no obligation from the trading crowd to make a two-sided market.

Notwithstanding the examples above, a ROT who is deemed acting in a manner inconsistent with just and equitable principles of trade in his/her participation on a trade may be subject to fines as specified in Phlx Option Floor Procedure Advice ("OFPA") B-1, “Responsibility to Make Markets.”

Notwithstanding that Specialists and ROTs are exempt from strike price interval, bid/ask differential and continuity rules requirements for an options series until nine months from expiration, Specialists and ROTs are obligated to provide a two-sided market when they are requested to make a market as noted above. See Phlx Rule 1012(a)(i)(D).
ROTs who fail to make a market may be subject to fines as specified in Phlx Option Floor Procedure Advice ("OFPA") B-1, entitled “Responsibility to Make Markets.”

**Bid/Ask Differentials**

Specialists and ROTs are also reminded that in accordance when making a two-sided market, the bid/ask differentials must be stated in a loud and audible manner and within the required quote spread parameters within a trading crowd. Members must comply with the requisite differentials when responding to a request for a two-sided market. See Phlx Rule 1014(c)(i)(A)(1)(a).

<table>
<thead>
<tr>
<th>Current Option Bid</th>
<th>Maximum Quote Spread</th>
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</thead>
<tbody>
<tr>
<td>Less than $2.00</td>
<td>$0.25</td>
</tr>
<tr>
<td>$2.00 to less than $5.00</td>
<td>$0.40</td>
</tr>
<tr>
<td>$5.00 to less than $10.00</td>
<td>$0.50</td>
</tr>
<tr>
<td>$10.00 to less than $20.00</td>
<td>$0.80</td>
</tr>
<tr>
<td>$20.00 and greater</td>
<td>$1.00</td>
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</tbody>
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**Bid/Ask Differentials for Complex Orders**

Quote spread parameters must be observed at all times. With respect to Complex Orders (i.e., spreads, straddles or combinations), the quote spread parameters will be the sum of the bid/ask differential of each individual leg.

**Example**

A Complex Order consisting of ABC May 10 calls with a market of 1.00 (bid) to 1.25 (offer) and ABC May 5 calls with a market of 3.50 (bid) to 3.90 (offer) would have a valid spread quote of 2.25 (bid) at 2.90 (offer). This reflects $0.25 quote width on the May 10 calls and $0.40 quote width on the May 5 calls, resulting in a sum bid/ask differential of $0.65.

Market Makers who fail to make a market within the specific bid/ask differentials may be subject to fines as specified in Phlx Option Floor Procedure Advice OFPA F-6, entitled “Option Quote Parameters.”

Any questions regarding this advisory may be addressed to Michael Blackson, Senior Director of On-Floor Surveillance at michael.blackson@nasdaq.com or +1 215 496 5295.