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Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2012 - * 12
Amendment No. (req. for Amendments *)

Proposed Rule Change by NASDAQ OMX PHLX LLC.

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * ☑ Amendment * ☐ Withdrawal ☐

Section 19(b)(2) * ☐ Section 19(b)(3)(A) * ☑ Section 19(b)(3)(B) * ☐

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☑ 19b-4(f)(6)

Pilot ☐ Extension of Time Period for Commission Action * ☐ Date Expires *

Exhibit 2 Sent As Paper Document ☐ Exhibit 3 Sent As Paper Document ☐

Description

Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *).

Proposed rule change relating to disseminated quotations

Contact Information

Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name * Richard Last Name * Rudolph
Title * Associate General Counsel
E-mail * richard.rudolph@nasdaqomx.com
Telephone * (215) 496-5074 Fax

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.

Date 01/25/2012
By Richard S. Rudolph (Name *)
Associate General Counsel (Title *)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Richard Rudolph,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information (required) Add Remove View	The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.
Exhibit 1 - Notice of Proposed Rule Change (required) Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications Add Remove View Exhibit Sent As Paper Document ☐	Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.
Exhibit 3 - Form, Report, or Questionnaire Add Remove View Exhibit Sent As Paper Document ☐	Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.
Exhibit 4 - Marked Copies Add Remove View	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
Exhibit 5 - Proposed Rule Text Add Remove View	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.
Partial Amendment Add Remove View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

NASDAQ OMX PHLX LLC ("Phlx" or "Exchange"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] proposes to amend Exchange Rules 1017, Openings in Options, and 1082, Firm Quotations, to describe the manner in which the PHLX XL® automated options trading system[3] will disseminate quotations when (i) there is an "Opening Imbalance" (as described below) in a particular series, and (ii) there is a "Quote Exhaust" quote condition (as described below) present in a particular series.

In addition, the current rules describing the Exchange's disseminated quotations during an Opening Imbalance and a Quote Exhaust condition are subject to a pilot scheduled to expire February 29, 2012. The Exchange proposes to discontinue the pilot and to adopt the proposed new rules on a permanent basis.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1. The text of the proposed rule change is set forth below.

Brackets indicate deletions; underlining indicates new text

Openings In Options

Rule 1017. (a)- (k) No change.

(l) Opening Process

(i) - (v) No change.

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[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b-4.

[3] This proposal refers to "PHLX XL" as the Exchange's automated options trading system. In May 2009 the Exchange enhanced the system and adopted corresponding rules referring to the system as "Phlx XL II." See Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32). The Exchange intends to submit a separate technical proposed rule change that would change all references to the system from "Phlx XL II" to "PHLX XL" for branding purposes.

(vi) Imbalance Process. If all opening marketable size cannot be completely executed at or within the OQR without trading through the ABBO, the Phlx XL II system will automatically institute the following imbalance process:

(A) - (B) No change.

(C) If opening quotes, Opening Sweeps and orders submitted during the Imbalance Timer, or other changes to the ABBO, would not allow the entire imbalance amount to trade at the Exchange at or within the OQR without trading through the ABBO, the Phlx XL II system will:

(1) – (6) No change.

(7) If after that number of times, the Phlx XL II system still cannot route and/or trade the entire imbalance amount, the Phlx XL II system will open as many contracts as possible by routing to other markets at prices better than the Exchange opening price for their disseminated size, trading available contracts on the Exchange at the Exchange opening price, and routing contracts to other markets at prices equal to the Exchange opening price at their disseminated size. In this situation, the Phlx XL II system will price any contracts routed to other markets at the Exchange opening price. Any unexecuted contracts from the imbalance not traded or routed will be displayed in the Exchange quote at the opening price for the remaining size for a period not to exceed ten seconds and subsequently cancelled back to the entering participant if they remain unexecuted and priced through the opening price, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. [For a pilot period scheduled to expire February 29, 2012, d] D During this display time period, the Phlx XL II system will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange [price of $0.00, with a size of one contract] if the imbalance is a sell imbalance, or (ii) a[n] non-firm offer for the price and size of the next available offer(s) on the Exchange [price of $0.00, with a size of zero contracts] if the imbalance is a buy imbalance.

(8) No change.

(D) No change.

(vii) – (x) No change.

Firm Quotations

Rule 1082. (a) Definitions.

(i) No change.

(ii) The term "disseminated size" shall mean with respect to the disseminated price for any quoted options series:

(A) Except as provided in sub-paragraph (a)(ii)(C)(3) below, at least the sum of the size associated with limit orders, specialists' quotations, SQTs' quotations, and RSQTs' (as defined in Rule 1014(b)(ii)(B)) quotations.

(B)

(1) – (2) No change.

(3) *****

(a) No change.

(b) During the Quote Exhaust Timer, the Exchange will disseminate the reference price for the remaining size, provided that such price does not lock an away market, in which case, the Exchange will disseminate a bid and offer that is one Minimum Price Variation ("MPV") from the away market price. [For a pilot period scheduled to expire February 29, 2012, t] <u>T</u>he Exchange will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a <u>non-firm</u> bid <u>for the price and size of the next available bid(s) on the Exchange</u> [price of $0.00, with a size of zero contracts] if the remaining size is a seller, or (ii) a[n] <u>non-firm</u> offer <u>for the price and size of the next available offer(s) on the Exchange</u> [price of $0.00, with a size of zero contracts] if the remaining size is a buyer. If the remaining contracts in the initiating quote or order are either traded or cancelled during the Quote Exhaust Timer, the Quote Exhaust Timer will be terminated and normal trading will resume.

(c) – (f) No change.

(g) *****

(i) – (iii) No change.

(iv) Initiating quote or order crosses Best Price. If the initiating quote or order crosses the Best Price, the Phlx XL II system will execute, route order volume, and/or post the initiating quote or order as set forth below:

(A) If the Best Price is the Exchange's next available price

(1) - (2) No change.

(3) and is equal to the Acceptable Range price, the Phlx XL II system will execute the initiating quote or order at the Exchange's next available price up to the Exchange's disseminated size, and any remaining volume from the execution on the Exchange will be posted at the Acceptable Range price for the remaining size, for a period of time not to exceed ten seconds and then cancelled after such period of time has elapsed, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. [For a pilot period scheduled to expire February 29, 2012, d] During this up to ten second period, the Phlx XL II system will disseminate on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange [price of $0.00, with a size of zero contracts] if the remaining size is a seller, or (ii) a[n] non-firm offer for the price and size of the next available offer(s) on the Exchange [price of $0.00, with a size of zero contracts] if the remaining size is a buyer.

(4) and is also equal to both the ABBO price and the Acceptable Range price, any remainder order volume from the execution on the Exchange will be routed away, and if after such routing, there still remain unexecuted contracts, the remainder will be posted on the Phlx at the Acceptable Range price for a period not to exceed ten seconds, and then cancelled after this time has elapsed, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. [For a pilot period scheduled to expire February 29, 2012, d] During this up to ten second period, the Phlx XL II system will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange [price of $0.00, with a size of zero contracts] if the remaining size is a seller, or (ii) a[n] non-firm offer for the price and size of the next available offer(s) on the Exchange [price of $0.00, with a size of zero contracts] if the remaining size is a buyer.

(B) If the Best Price is the ABBO:

(1) No change.

(2) and is equal to the Acceptable Range price, the initiating order will be routed away and if after routing there remain unexecuted contracts, the remainder of the order will be posted on the Phlx at the ABBO price for a period not to exceed ten seconds, and cancelled after this time has elapsed, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. [For a pilot period scheduled to expire February 29, 2012, d] <u>D</u>uring this period, the Phlx XL II system will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a <u>non-firm</u> bid <u>for the price and size of the next available bid(s) on the Exchange</u> [price of $0.00, with a size of zero contracts] if the remaining size is a seller, or (ii) a[n] <u>non-firm</u> offer <u>for the price and size of the next available offer(s) on the Exchange</u> [price of $0.00, with a size of zero contracts] if the remaining size is a buyer.

(C) If the Best Price is the Acceptable Range Price standing alone, the initiating quote or order will be posted on the Exchange at the Acceptable Range Price for a period of time not to exceed ten seconds, and cancelled after this time has elapsed, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. [For a pilot period scheduled to expire February 29, 2012, d] <u>D</u>uring this up to ten second period, the Phlx XL II system will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a <u>non-firm</u> bid <u>for the price and size of the next available bid(s) on the Exchange</u> [price of $0.00, with a size of zero contracts] if the remaining size is a seller, or (ii) a[n] <u>non-firm</u> offer <u>for the price and size of the next available offer(s) on the Exchange</u> [price of $0.00, with a size of zero contracts] if the remaining size is a buyer.

(v) No change.

(vi) If, after trading at the Phlx and/or routing, there is a remainder of the initiating order, and such remainder is still marketable, the entire process of evaluating the Best Phlx price and the ABBO will be repeated until: (A) the order size is exhausted, or (B) the order reaches its limit price. If there still remain unexecuted contracts after routing but the order has reached its limit price, the remainder will be posted at the order's limit price, except that, when the limit price crosses the Acceptable Range Price, the remainder will be posted at the Acceptable Range Price for a period of time not to exceed ten seconds and then cancelled after such period of time has elapsed, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order.

[For a pilot period scheduled to expire February 29, 2012, d] During this up to ten second period, the Phlx XL II system will disseminate on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange [price of $0.00, with a size of zero contracts] if the remaining size is a seller, or (ii) a[n] non-firm offer for the price and size of the next available offer(s) on the Exchange [price of $0.00, with a size of zero contracts] if the remaining size is a buyer.

(4) No change.

(iii) - (iv) No change.

(b) – (d) No change.

Commentary: No change.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange on August 19, 2011. Exchange staff will advise the Board of Directors of any action taken pursuant to delegated authority. No other action by the Exchange is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to Richard S. Rudolph, Associate General Counsel, at (215) 496-5074.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

a. Purpose

The purpose of the proposed rule change is to establish a quote condition in which one side of an option quotation (bid or offer) disseminated by the Exchange will be designated as non-firm during an “Opening Imbalance” or a “Quote Exhaust” while the opposite side of the market from the "non-firm" bid or offer remains firm for the Exchange's disseminated price and size. The proposed rule would not be effective on a pilot basis. The Exchange is proposing that this rule change would be effective on a permanent basis.[4]

Background

In June, 2009, the Exchange added several significant enhancements to its automated options trading platform (now known as PHLX XL), and adopted rules to reflect those enhancements.[5] As part of the system enhancements, the Exchange proposed to disseminate a "non-firm" quote condition on a bid or offer whose size is exhausted in certain situations. The non-exhausted side of the Exchange's disseminated quotation would remain firm at its disseminated price up to its disseminated size. At the time, however, the Options Price Reporting Authority ("OPRA") only disseminated option quotations for which both sides of the quotation were marked "non-firm." OPRA did not have the ability to disseminate a "non-firm" condition for one side of a quotation while the other side of the quotation remained firm.

Accordingly, the Exchange proposed, on a pilot basis, to disseminate quotations in such a circumstance with a (i) a bid price of $0.00, with a size of one contract if the remaining size is a seller, or (ii) an offer price of $200,000, with a size of one contract if the remaining size is a buyer.

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[4] The Exchange has previously indicated its intention to implement the non-firm bid or offer functionality. See, e.g. Securities Exchange Act Release No. 65670 (November 2, 2011), 76 FR 69308 (November 8, 2011) (SR-Phlx-2011-144).

[5] See Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009)(SR-Phlx-2009-32).

The Exchange subsequently modified the manner in which the PHLX XL system disseminated quotes when one side of the quote was exhausted but the opposite side still had marketable size at the disseminated price, as described in detail below.[6]

On October 7, 2010, the U.S. options exchanges, as participants in the OPRA Plan, voted to make technological changes that would enable OPRA to support a one-sided non-firm quote condition. These technological changes presented the opportunity for OPRA and the participants to design, test, and deploy modifications to their systems, and to disseminate this quote condition to quotation vendors, that will support the one-sided non-firm quote condition.

On November 9, 2010, OPRA submitted to the Commission, for immediate effectiveness, an amendment to the Plan for Reporting of Consolidated Options Last Sale Reports and Quotation Information (the “OPRA Plan”).[7] The amendment made identical changes to Section 4.04 of OPRA's Data Recipient Interface Specification and Section 4.15 of its Participant Interface Specification (both Specifications are collectively referred to herein as the “OPRA Spec”), which govern the format in which options market information is input to and disseminated from the OPRA Processor, in order to add message type codes specifying that either the bid side or the offer side, but not both sides, of a quotation is not firm.[8] OPRA also made a conforming change to Appendix D of the OPRA Spec describing Best Bid and Offer (BBO) calculations.

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[6] See Securities Exchange Act Release No. 63024 (September 30, 2010), 75 FR 61799 (October 6, 2010)(SR-Phlx-2010-134).

[7] See Securities Exchange Act Release No. 63400 (November 30, 2010), 75 FR 76058 (December 7, 2010) (SR-OPRA-2010-04).

[8] Specifically, a quote with a notation of “X” would indicate that the disseminated offer is not firm (and the disseminated bid is firm); a quote with a notation of “Y” would indicate that the disseminated bid is not firm (and the disseminated offer is firm).

Pursuant to the amendment to the OPRA Plan (and the conforming amendments cited above), the Exchange now proposes to adopt, on a permanent basis, rules describing the PHLX XL system's disseminated quotations during an Opening Imbalance and during a Quote Exhaust condition.

Opening Imbalance

An Opening Imbalance occurs when all opening marketable size cannot be completely executed at or within an established Opening Quote Range ("OQR") for the affected series.[9] Currently, Exchange Rule 1017(l)(vi)(C)(7) states that any unexecuted contracts from the opening imbalance not traded or routed are displayed in the Exchange quote at the opening price for a period not to exceed ten seconds. After such period, contracts that remain unexecuted are cancelled back to the entering participant, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. During this display time period, the PHLX XL system disseminates a bid price of $0.00, with a size of one contract if the imbalance is a sell imbalance, or an offer price of $0.00, with a size of zero contracts if the imbalance is a buy imbalance.

The Exchange proposes to amend Rule 1017(l)(vi)(C)(7) to reflect the new manner in which the Exchange will disseminate quotations during the Opening Imbalance display period. Specifically, during this display time period, the PHLX XL system will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the imbalance is a sell imbalance, or (ii) a

[9] Where there is an imbalance at the price at which the maximum number of contracts can trade that is also at or within the lowest quote bid and highest quote offer, the PHLX XL system will calculate an OQR for a particular series, outside of which the PHLX XL system will not execute. See Exchange Rule 1017(l)(iii) and (iv).

non-firm offer for the price and size of the next available offer(s) on the Exchange if the imbalance is a buy imbalance.[10] The purpose of this provision is to indicate that the Exchange has exhausted all marketable interest, at or within the OQR, on one side of the market during the opening process yet has remaining unexecuted contracts on the opposite side of the market that are firm at the disseminated price and size.

Quote Exhaust

Quote Exhaust occurs when the market at a particular price level on the Exchange includes a quote, and such market is exhausted by an inbound contra-side quote or order ("initiating quote or order"), and following such exhaustion, contracts remain to be executed from the initiating quote or order.[11]

Rather than immediately executing at the next available price, the PHLX XL system employs a timer (a "Quote Exhaust Timer"), not to exceed one second, in order to allow market participants to refresh their quotes. During the Quote Exhaust Timer, PHLX XL currently disseminates the "Reference Price" (the most recent execution price) for the remaining size, provided that such price does not lock an away market, in which case, the Exchange currently disseminates a bid and offer that is one Minimum Price Variation ("MPV") from the away market price. During the Quote Exhaust Timer, the Exchange disseminates, on the opposite side of the market from the remaining contracts: (i) a bid price of $0.00, with a size of zero contracts if the remaining size is a seller, or (ii) an offer price of $0.00, with a size of zero contracts if the remaining size is a buyer.

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[10] If there are multiple bids or offers at the Exchange's next available price, the PHLX XL system will disseminate a bid or offer for the aggregate size on the Exchange at such price. See supra note 8.

[11] See Exchange Rule 1082(a)(ii)(B)(3).

The Exchange proposes to amend Rules 1082(a)(ii)(B)(3)(b), 1082(a)(ii)(B)(3)(g)(iv)(A)(3), 1082(a)(ii)(B)(3)(g)(iv)(A)(4), 1082(a)(ii)(B)(3)(g)(iv)(B)(2), and 1082(a)(ii)(B)(3)(g)(iv)(C) to reflect the new manner in which the Exchange will disseminate quotations during a Quote Exhaust condition. Specifically, during Quote Exhaust, the PHLX XL system will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer.[12] The purpose of this provision is to indicate that the Exchange has exhausted all marketable quotations on one side of the market yet has remaining unexecuted contracts on the opposite side of the market that are firm at the disseminated price and size.

Current Rule 1082(a)(ii)(B)(3)(g)(vi) describes what the PHLX XL system does if, after trading at the PHLX and/or routing, there are unexecuted contracts from the initiating order that are still marketable. In this situation, remaining contracts are posted for a period of time not to exceed 10 seconds and then cancelled after such period of time has elapsed, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. Currently, during the up to 10 second time period, the Exchange disseminates, on the opposite side of the market from remaining unexecuted contracts: (i) a bid price of $0.00, with a size of zero contracts if the remaining size is a seller, or (ii) an offer price of $0.00, with a size of zero contracts if the remaining size is a buyer.

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[12] Just as with an Opening Imbalance, if there are multiple bids or offers at the Exchange's next available price, the PHLX XL system will disseminate a bid or offer for the aggregate size on the Exchange at such price. See supra note 8.

The Exchange proposes to amend Rule 1082(a)(ii)(B)(3)(g)(vi) to reflect the new manner in which the Exchange will disseminate quotations during the up to 10 second time period. Specifically, during the up to 10 second time period, the PHLX XL system will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer. The purpose of this provision is to indicate that the Exchange has exhausted all marketable quotations on one side of the market, yet has remaining unexecuted contracts on the opposite side of the market that are firm at the disseminated price and size.

Discontinuation of Current Pilot

The current rules describing the Exchange's disseminated quotations during an Opening Imbalance and a Quote Exhaust condition are subject to a pilot scheduled to expire February 29, 2012. The Exchange proposes to discontinue the pilot and to adopt the proposed new rules on a permanent basis.

Implementation

The Exchange intends to implement the proposed changes to Rules 1017 and 1082 on March 1, 2012.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[13] in general, and furthers the objectives of Section 6(b)(5) of the Act[14] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect

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[13] 15 U.S.C. 78f(b).

[14] 15 U.S.C. 78f(b)(5).

the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

The Exchange further believes that the proposal is consistent with the SEC Quote Rule's provisions regarding non-firm quotations.[15] Specifically, Rule 602(a)(3)(i) provides that if, at any time a national securities exchange is open for trading, the exchange determines, pursuant to rules approved by the Commission, that the level of trading activities or the existence of unusual market conditions is such that the exchange is incapable of collecting, processing, and making available to vendors the data for a subject security required to be made available in a manner that accurately reflects the current state of the market on such exchange, such exchange shall immediately notify all specified persons of that determination and, upon such notification, the exchange is relieved of its obligations under paragraphs (a)(1) and (2) of Rule 602 relating to collecting and disseminating quotations, subject to certain other provisions of Rule 602(a)(3).

By disseminating a non-firm bid (offer), together with a firm offer (bid) in certain situations delineated above, the Exchange believes that it is adequately communicating that it is non-firm on the affected side of the market in compliance with the Quote Rule.

The proposed rule change promotes just and equitable principles of trade by informing investors that one side of the Exchange's disseminated quotation is exhausted and therefore non-firm, thus providing transparency to investors. This also removes impediments to and perfects the mechanism of a free and open market and a national market system by providing information to market participants who may be in the process of determining where to send their orders for execution. The proposed rule change protects investors and the public interest because it

[15] See 17 CFR 242.602(a)(3)(i) and (ii).

provides accurate information to the investing public concerning the Exchange's disseminated market.

4. 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.

5. 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.

6. Extension of Time Period for Commission Action

The Exchange does not consent to an extension of the time period for Commission action.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2).

Pursuant to Section 19(b)(3)(A) of the Act[16] and Rule 19b-4(f)(6)[17] thereunder, the Exchange has designated this proposal as one that effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

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

[16] 15 U.S.C. 78s(b)(3)(A).

[17] 17 CFR 240.19b-4(f)(6).

Exchange has satisfied this requirement. Furthermore, a proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act[18] normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)[19] permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

The proposed rule change is not based on the rules of another self-regulatory organization or of the Commission.

9. Exhibits

1. Notice of proposed rule for publication in the Federal Register.

[18] 17 CFR 240.19b-4(f)(6).

[19] 17 CFR 240.19b-4(f)(6).

Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-Phlx-2012-12)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by NASDAQ OMX PHLX LLC Relating to Exchange Disseminated Quotations

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1], and Rule 19b-4[2] thereunder, notice is hereby given that on January 25, 2012, NASDAQ OMX 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 amend Exchange Rule 1082, Firm Quotations, by modifying Exchange Rules 1017, Openings in Options, and 1082, Firm Quotations, to describe the manner in which the PHLX XL® automated options trading system[3] will disseminate quotations when (i) there is an "Opening Imbalance" (as described below) in

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[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b-4.

[3] This proposal refers to "PHLX XL" as the Exchange's automated options trading system. In May 2009 the Exchange enhanced the system and adopted corresponding rules referring to the system as "Phlx XL II." See Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32). The Exchange intends to submit a separate technical proposed rule change that would change all references to the system from "Phlx XL II" to "PHLX XL" for branding purposes.

a particular series, and (ii) there is a "Quote Exhaust" quote condition (as described below) present in a particular series.

In addition, the current rules describing the Exchange's disseminated quotations during an Opening Imbalance and a Quote Exhaust condition are subject to a pilot scheduled to expire February 29, 2012. The Exchange proposes to discontinue the pilot and to adopt the proposed new rules on a permanent basis.

The text of the proposed rule change is available on the Exchange's Website at http://www.nasdaqtrader.com/micro.aspx?id=PHLXRulefilings, 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 purpose of the proposed rule change is to establish a quote condition in which one side of an option quotation (bid or offer) disseminated by the Exchange will be designated as non-firm during an "Opening Imbalance" or a "Quote Exhaust" while the opposite side of the market from the "non-firm" bid or offer remains firm for the Exchange's disseminated price and size. The proposed rule would not be effective on a pilot basis. The Exchange is proposing that this rule change would be effective on a permanent basis.[4]

Background

In June, 2009, the Exchange added several significant enhancements to its automated options trading platform (now known as PHLX XL), and adopted rules to reflect those enhancements.[5] As part of the system enhancements, the Exchange proposed to disseminate a "non-firm" quote condition on a bid or offer whose size is exhausted in certain situations. The non-exhausted side of the Exchange's disseminated quotation would remain firm at its disseminated price up to its disseminated size. At the time, however, the Options Price Reporting Authority ("OPRA") only disseminated option quotations for which both sides of the quotation were marked "non-firm." OPRA did not have the ability to disseminate a "non-firm" condition for one side of a quotation while the other side of the quotation remained firm.

Accordingly, the Exchange proposed, on a pilot basis, to disseminate quotations in such a circumstance with a (i) a bid price of $0.00, with a size of one contract if the remaining size is a seller, or (ii) an offer price of $200,000, with a size of one contract if the remaining size is a buyer.

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[4] The Exchange has previously indicated its intention to implement the non-firm bid or offer functionality. See, e.g. Securities Exchange Act Release No. 65670 (November 2, 2011), 76 FR 69308 (November 8, 2011) (SR-Phlx-2011-144).

[5] See Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009)(SR-Phlx-2009-32).

The Exchange subsequently modified the manner in which the PHLX XL system disseminated quotes when one side of the quote was exhausted but the opposite side still had marketable size at the disseminated price, as described in detail below.[6]

On October 7, 2010, the U.S. options exchanges, as participants in the OPRA Plan, voted to make technological changes that would enable OPRA to support a one-sided non-firm quote condition. These technological changes presented the opportunity for OPRA and the participants to design, test, and deploy modifications to their systems, and to disseminate this quote condition to quotation vendors, that will support the one-sided non-firm quote condition.

On November 9, 2010, OPRA submitted to the Commission, for immediate effectiveness, an amendment to the Plan for Reporting of Consolidated Options Last Sale Reports and Quotation Information (the "OPRA Plan").[7] The amendment made identical changes to Section 4.04 of OPRA's Data Recipient Interface Specification and Section 4.15 of its Participant Interface Specification (both Specifications are collectively referred to herein as the "OPRA Spec"), which govern the format in which options market information is input to and disseminated from the OPRA Processor, in order to add message type codes specifying that either the bid side or the offer side, but not both sides, of a quotation is not firm.[8] OPRA also made a conforming change to Appendix D of the OPRA Spec describing Best Bid and Offer (BBO) calculations.

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[6] See Securities Exchange Act Release No. 63024 (September 30, 2010), 75 FR 61799 (October 6, 2010)(SR-Phlx-2010-134).

[7] See Securities Exchange Act Release No. 63400 (November 30, 2010), 75 FR 76058 (December 7, 2010) (SR-OPRA-2010-04).

[8] Specifically, a quote with a notation of "X" would indicate that the disseminated offer is not firm (and the disseminated bid is firm); a quote with a notation of "Y" would indicate that the disseminated bid is not firm (and the disseminated offer is firm).

Pursuant to the amendment to the OPRA Plan (and the conforming amendments cited above), the Exchange now proposes to adopt, on a permanent basis, rules describing the PHLX XL system's disseminated quotations during an Opening Imbalance and during a Quote Exhaust condition.

Opening Imbalance

An Opening Imbalance occurs when all opening marketable size cannot be completely executed at or within an established Opening Quote Range ("OQR") for the affected series.[9] Currently, Exchange Rule 1017(l)(vi)(C)(7) states that any unexecuted contracts from the opening imbalance not traded or routed are displayed in the Exchange quote at the opening price for a period not to exceed ten seconds. After such period, contracts that remain unexecuted are cancelled back to the entering participant, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. During this display time period, the PHLX XL system disseminates a bid price of $0.00, with a size of one contract if the imbalance is a sell imbalance, or an offer price of $0.00, with a size of zero contracts if the imbalance is a buy imbalance.

The Exchange proposes to amend Rule 1017(l)(vi)(C)(7) to reflect the new manner in which the Exchange will disseminate quotations during the Opening Imbalance display period. Specifically, during this display time period, the PHLX XL system will disseminate, on the opposite side of the market from remaining unexecuted

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[9] Where there is an imbalance at the price at which the maximum number of contracts can trade that is also at or within the lowest quote bid and highest quote offer, the PHLX XL system will calculate an OQR for a particular series, outside of which the PHLX XL system will not execute. See Exchange Rule 1017(l)(iii) and (iv).

contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the imbalance is a sell imbalance, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the imbalance is a buy imbalance.[10] The purpose of this provision is to indicate that the Exchange has exhausted all marketable interest, at or within the OQR, on one side of the market during the opening process yet has remaining unexecuted contracts on the opposite side of the market that are firm at the disseminated price and size.

Quote Exhaust

Quote Exhaust occurs when the market at a particular price level on the Exchange includes a quote, and such market is exhausted by an inbound contra-side quote or order ("initiating quote or order"), and following such exhaustion, contracts remain to be executed from the initiating quote or order.[11]

Rather than immediately executing at the next available price, the PHLX XL system employs a timer (a "Quote Exhaust Timer"), not to exceed one second, in order to allow market participants to refresh their quotes. During the Quote Exhaust Timer, PHLX XL currently disseminates the "Reference Price" (the most recent execution price) for the remaining size, provided that such price does not lock an away market, in which case, the Exchange currently disseminates a bid and offer that is one Minimum Price Variation ("MPV") from the away market price. During the Quote Exhaust Timer, the Exchange disseminates, on the opposite side of the market from the remaining contracts:

[10] If there are multiple bids or offers at the Exchange's next available price, the PHLX XL system will disseminate a bid or offer for the aggregate size on the Exchange at such price. See supra note 8.

[11] See Exchange Rule 1082(a)(ii)(B)(3).

(i) a bid price of $0.00, with a size of zero contracts if the remaining size is a seller, or (ii) an offer price of $0.00, with a size of zero contracts if the remaining size is a buyer.

The Exchange proposes to amend Rules 1082(a)(ii)(B)(3)(b), 1082(a)(ii)(B)(3)(g)(iv)(A)(3), 1082(a)(ii)(B)(3)(g)(iv)(A)(4), 1082(a)(ii)(B)(3)(g)(iv)(B)(2), and 1082(a)(ii)(B)(3)(g)(iv)(C) to reflect the new manner in which the Exchange will disseminate quotations during a Quote Exhaust condition. Specifically, during Quote Exhaust, the PHLX XL system will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer.[12] The purpose of this provision is to indicate that the Exchange has exhausted all marketable quotations on one side of the market yet has remaining unexecuted contracts on the opposite side of the market that are firm at the disseminated price and size.

Current Rule 1082(a)(ii)(B)(3)(g)(vi) describes what the PHLX XL system does if, after trading at the PHLX and/or routing, there are unexecuted contracts from the initiating order that are still marketable. In this situation, remaining contracts are posted for a period of time not to exceed 10 seconds and then cancelled after such period of time has elapsed, unless the member that submitted the original order has instructed the Exchange in writing to re-enter the remaining size, in which case the remaining size will be automatically submitted as a new order. Currently, during the up to 10 second time period, the Exchange disseminates, on the opposite side of the market from remaining

[12] Just as with an Opening Imbalance, if there are multiple bids or offers at the Exchange's next available price, the PHLX XL system will disseminate a bid or offer for the aggregate size on the Exchange at such price. See supra note 8.

unexecuted contracts: (i) a bid price of $0.00, with a size of zero contracts if the remaining size is a seller, or (ii) an offer price of $0.00, with a size of zero contracts if the remaining size is a buyer.

The Exchange proposes to amend Rule 1082(a)(ii)(B)(3)(g)(vi) to reflect the new manner in which the Exchange will disseminate quotations during the up to 10 second time period. Specifically, during the up to 10 second time period, the PHLX XL system will disseminate, on the opposite side of the market from remaining unexecuted contracts: (i) a non-firm bid for the price and size of the next available bid(s) on the Exchange if the remaining size is a seller, or (ii) a non-firm offer for the price and size of the next available offer(s) on the Exchange if the remaining size is a buyer. The purpose of this provision is to indicate that the Exchange has exhausted all marketable quotations on one side of the market, yet has remaining unexecuted contracts on the opposite side of the market that are firm at the disseminated price and size.

Discontinuation of Current Pilot

The current rules describing the Exchange's disseminated quotations during an Opening Imbalance and a Quote Exhaust condition are subject to a pilot scheduled to expire February 29, 2012. The Exchange proposes to discontinue the pilot and to adopt the proposed new rules on a permanent basis.

Implementation

The Exchange intends to implement the proposed changes to Rules 1017 and 1082 on March 1, 2012.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[13] in general, and furthers the objectives of Section 6(b)(5) of the Act[14] 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.

The Exchange further believes that the proposal is consistent with the SEC Quote Rule's provisions regarding non-firm quotations.[15] Specifically, Rule 602(a)(3)(i) provides that if, at any time a national securities exchange is open for trading, the exchange determines, pursuant to rules approved by the Commission, that the level of trading activities or the existence of unusual market conditions is such that the exchange is incapable of collecting, processing, and making available to vendors the data for a subject security required to be made available in a manner that accurately reflects the current state of the market on such exchange, such exchange shall immediately notify all specified persons of that determination and, upon such notification, the exchange is relieved of its obligations under paragraphs (a)(1) and (2) of Rule 602 relating to collecting and disseminating quotations, subject to certain other provisions of Rule 602(a)(3).

By disseminating a non-firm bid (offer), together with a firm offer (bid) in certain situations delineated above, the Exchange believes that it is adequately communicating that it is non-firm on the affected side of the market in compliance with the Quote Rule.

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[13] 15 U.S.C. 78f(b).

[14] 15 U.S.C. 78f(b)(5).

[15] <u>See</u> 17 CFR 242.602(a)(3)(i) and (ii).

The proposed rule change promotes just and equitable principles of trade by informing investors that one side of the Exchange's disseminated quotation is exhausted and therefore non-firm, thus providing transparency to investors. This also removes impediments to and perfects the mechanism of a free and open market and a national market system by providing information to market participants who may be in the process of determining where to send their orders for execution. The proposed rule change protects investors and the public interest because it provides accurate information to the investing public concerning the Exchange's disseminated market.

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.

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 after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act[16] and Rule 19b-4(f)(6)[17] thereunder.

[16] 15 U.S.C. 78s(b)(3)(A).

[17] 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

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-2012-12 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2012-12. 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

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the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

Commission will post all comments on the Commission's Internet Web site (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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-Phlx-2012-12 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.[18]

Kevin M. O'Neill
Deputy Secretary

[18] 17 CFR 200.30-3(a)(12).