

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="22"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2012"/> - * <input type="text" value="32"/> Amendment No. (req. for Amendments *) <input type="text"/>
Proposed Rule Change by NASDAQ OMX PHLX LLC. Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934		
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>
Section 19(b)(2) * <input type="checkbox"/>		Section 19(b)(3)(A) * <input checked="" type="checkbox"/>
Section 19(b)(3)(B) * <input type="checkbox"/>		Section 19(b)(3)(B) * <input type="checkbox"/>
Rule		
Pilot <input type="checkbox"/>		<input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4)
Extension of Time Period for Commission Action * <input type="text"/>		<input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5)
Date Expires * <input type="text"/>		<input type="checkbox"/> 19b-4(f)(3) <input checked="" type="checkbox"/> 19b-4(f)(6)
Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>	
Description Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *). <input type="text" value="Proposed rule change relating to Price Improvement XL (PIXL)."/>		
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 * <input type="text" value="Richard"/>	Last Name * <input type="text" value="Rudolph"/>	
Title * <input type="text" value="Associate General Counsel"/>		
E-mail * <input type="text" value="richard.rudolph@nasdaqomx.com"/>		
Telephone * <input type="text" value="(215) 496-5074"/>	Fax <input type="text"/>	
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 <input type="text" value="03/09/2012"/>		
By <input type="text" value="Richard S. Rudolph"/>	<input type="text" value="Associate General Counsel"/>	
(Name *)	(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.		
<input type="button" value="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)

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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)

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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

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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

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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

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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

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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 Proposed Rule Change

NASDAQ OMX PHLX, Inc. (“Phlx” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder², proposes to amend Rule 1080(n), Price Improvement XL (“PIXLSM”), to correct Rule 1080(n)(i)(A)(2) pertaining to PIXL Orders (described below) for the account of a public customer with a size of less than 50 contracts. The amended rule would reflect the correct price at which an Initiating Member (described below) must guarantee the execution of a PIXL Order (described below) that the Initiating Member submits into a PIXL Auction (described below).

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 is set forth below.

Brackets indicate deletions; underlining indicates new text.

Phlx XL and Phlx XL II

Rule 1080 (a)-(m) No change

(n) Price Improvement XL (“PIXL”)

A member may electronically submit for execution an order it represents as agent on behalf of a public customer, broker dealer, or any other entity (“PIXL Order”) against principal interest or against any other order (except as provided in sub-paragraph (n)(i)(E) below) it represents as agent (an “Initiating Order”) provided it submits the PIXL Order for electronic execution into the PIXL Auction (“Auction”) pursuant to this Rule.

(i) Auction Eligibility Requirements. All options traded on the Exchange are eligible for PIXL. A member (the “Initiating Member”) may initiate an Auction provided all of the following are met:

(A) if the PIXL Order is for the account of a public customer:

(1) and is for a size of 50 contracts or more, the Initiating Member must stop the entire PIXL Order at a price that is equal to or better than the National

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Best Bid/Offer ("NBBO") on the opposite side of the market from the PIXL Order, provided that such price must be at least one minimum price improvement increment (as determined by the Exchange but not smaller than one cent) better than any limit order on the limit order book on the same side of the market as the PIXL Order.

(2) and is for a size of less than 50 contracts, the Initiating Member must stop the entire PIXL Order at a price that is the better of: (i) the Exchange's Best Bid or Offer ("PBBO") price on the opposite side of the market from the PIXL Order improved by at least one minimum price improvement increment, or (ii) the PIXL Order's limit price (if the order is a limit order), provided in either case that such price is at or better than the NBBO, and at least one minimum price improvement increment better than any limit order on the book on the same side of the market as the PIXL Order. This sub-paragraph (A)(2) shall be effective for a pilot period scheduled to expire July 18, 2012.

(B) – (F) No change.

(ii) - (vii) No change.

(o) 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 correct Exchange Rule 1080(n), which governs the Exchange's price improvement auction mechanism, PIXL.³ In the PIXL mechanism, a member (an "Initiating Member") must guarantee the execution of (*i.e.*, "stop") an order it represents as agent ("PIXL Order") against principal interest or against any other order it represents as agent (an "Initiating Order") in the PIXL Auction ("Auction"), in which other participants may compete with the Initiating Member's order to execute against the PIXL Order. The correction concerns rule text respecting public customer PIXL Orders for less than 50 contracts that are entered into the Auction.

Exchange Rule 1080(n)(i) describes the circumstances under which an Initiating Member may initiate an Auction. Rule 1080(n)(i)(A)(1) states that if the PIXL Order is for the account of a public customer and is for a size of 50 contracts or more, the Initiating Member must stop the entire PIXL Order at a price that is equal to or better than the National Best Bid/Offer ("NBBO") on the opposite side of the market from the PIXL Order, provided that such price must be at least one minimum price improvement increment (as determined by the Exchange but not smaller than one cent) better than any limit order on the limit order book on the same side of the market as the PIXL Order. The purpose of this provision is to ensure that public customer PIXL Orders for 50 contracts or more are guaranteed at least the NBBO but do not trade ahead of other limit orders already on the Exchange's limit order book at the existing limit price.

³ For a complete description of PIXL, see Securities Exchange Act Release No. 63027 (October 1, 2010), 75 FR 62160 (October 7, 2010) (SR-Phlx-2010-108).

Currently, Exchange Rule 1080(n)(i)(A)(2) states that if the PIXL Order is for the account of a public customer and is for a size of less than 50 contracts, the Initiating Member must stop the entire PIXL Order at a price that is the better of: (i) the PHLX Best Bid/Offer (“PBBO”) price on the opposite side of the market from the PIXL Order improved by at least one minimum price improvement increment, or (ii) the PIXL Order’s limit price (if the order is a limit order), provided in either case that such price is *better than the NBBO* (emphasis added), and at least one minimum price improvement increment better than any limit order on the book on the same side of the market as the PIXL Order.

In its filing to adopt the rules governing PIXL, and in the Notice of Filing of Proposed Rule Change published in the Federal Register,⁴ the Exchange described its intent concerning the price at which an Initiating Member must stop a PIXL Order for the account of a public customer for a size of less than 50 contracts:

“[i]f the PIXL Order is for the account of a public customer and is for a size of less than 50 contracts, the Initiating Member must stop the entire PIXL Order at a price that is the better of: (i) The PBBO price on the opposite side of the market from the PIXL Order improved by at least one minimum price improvement increment, or (ii) the PIXL Order’s limit price (if the order is a limit order), provided in either case that such price is *at or better than the NBBO*. (emphasis added).⁵

Despite this representation in the Notice of Filing, current Rule 1080(n)(i)(A)(2) states, in relevant part, “[p]rovided in either case that such price is *better than the NBBO* (emphasis

⁴ See Securities Exchange Act Release No. 62678 (August 10, 2010), 75 FR 50021 (August 16, 2010) (SR-Phlx-2010-108) (Notice of Filing of Proposed Rule Change by NASDAQ OMX PHLX, Inc. Relating to a Proposed Price Improvement System, Price Improvement XL (PIXLSM)).

⁵ Id. at p. 50021.

added). By way of the omission of the words “at or” from Rule 1080(n)(i)(A)(2), the current rule does not accurately describe the operation of PIXL, and does not reflect Exchange’s intent to permit Initiating Members to submit contra-side interest on the opposite side of the market from its public customer PIXL Order with a size of less than 50 contracts at a price that is at or better than the NBBO.

Stop Price

Respecting contra-side interest on the opposite side of the market from its public customer PIXL Order with a size of less than 50 contracts, an Initiating Member must stop such PIXL Order at a price that is (i) improved over the PBBO, and (ii) at or better than the NBBO.

The following scenarios illustrate this requirement:

- if the PBBO is inferior to the NBBO, the Initiating Member must improve the PBBO and stop the PIXL Order at a price that is at the NBBO price or better than the NBBO price.
- if the PBBO is equal to the NBBO, the Initiating Member must improve the PBBO and stop the PIXL Order at a price that is better than the NBBO price, since the only way to improve the PBBO price is to improve the NBBO price.

The effect of this is that the PIXL Order will be guaranteed execution at a price that is better than the PBBO and at least as good as (“at”) the NBBO while providing the opportunity for execution at a price better than the NBBO. This is consistent with current Exchange rules describing the requirements for an Initiating Member to initiate an Auction respecting both public customer and non-public customer orders.⁶

⁶ To initiate the Auction, the Initiating Member must mark the PIXL Order for Auction processing, and specify either: (a) a single price at which it seeks to execute the PIXL Order (a “stop price”); (b) that it is willing to automatically match as principal or as agent on behalf of an Initiating Order the price and size of all PAN responses, and trading interest (“auto-match”) in which case the PIXL Order will be stopped at the NBBO on the Initiating

Limit orders on the same side of the market as the PIXL Order will have priority at all prices in the PIXL Auction. The PIXL Order must, in order to initiate an Auction, be submitted with a better price than resting limit orders on the limit order book.

The Notice of Filing illustrates the Exchange's intent in establishing the price at which an Initiating Member must stop a PIXL Order for less than 50 contracts. The Exchange therefore proposes simply to add the words "at or" to Rule 1080(n)(i)(A)(2) to reflect the actual price at which Initiating Members must stop public customer PIXL Orders with a size of less than 50 contracts.

Rule 1080(n)(i)(A)(2) is part of a pilot that is effective for a period scheduled to expire July 18, 2012.⁷

b. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,⁸ in general and with Section 6(b)(5) of the Act,⁹ in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a

Order side (if 50 contracts or greater) or, if less than 50 contracts, the better of: (i) the PBBO price on the opposite side of the market from the PIXL Order improved by one minimum price improvement increment, or (ii) the PIXL Order's limit price (if the order is a limit order), provided in either case that such price is at or better than the NBBO. See Exchange Rule 1080(n)(i)(A)(2).

⁷ See Securities Exchange Act Release No. 65043 (August 5, 2011), 76 FR 49824 (August 11, 2011) (SR-Phlx-2011-104).

⁸ 15 U.S.C. 78f.

⁹ 15 U.S.C. 78f(b)(5).

free and open market and a national market system, and, in general, to protect investors and the public interest; and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers, or to regulate by virtue of any authority conferred by the Act matters not related to the purposes of the Act or the administration of the Exchange.

The Exchange believes that the proposed rule change is also consistent with Section 6(b)(8) of the Act¹⁰ in that it does not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

The Exchange believes this proposal will increase the likelihood that participants will initiate Auctions for public customer PIXL Orders with a size of fewer than 50 contracts because the Initiating Member can guarantee such public customer orders price improvement over the PBBO while providing an opportunity for price improvement over the NBBO. The Exchange believes the proposal will also encourage increased participation in PIXL by participants willing to trade with orders of fewer than 50 contracts at prices better than PBBO and at least equal to the NBBO. This increased participation should result in a greater number of opportunities for price improvement.

The Exchange notes that both the Boston Options Exchange Group LLC (“BOX”) and the International Securities Exchange, LLC (“ISE”) allow entry of orders into Price Improvement Period (“PIP”)¹¹ and Price Improvement Mechanism (“PIM”)¹², respectively, at the NBBO without distinguishing between orders of more than or fewer than 50 contracts. Because

¹⁰ 15 U.S.C. 78f(b)(8).

¹¹ See Securities Exchange Act Release No. 34-59654 (March 30, 2009), 74 FR 15551 (April 6, 2009) (SR-BX-2009-08) (order approving proposed rule change allowing entry of orders into PIP at the NBBO when BOX’s best bid or offer is inferior to the NBBO with no order size distinction).

BOX and ISE are currently able to offer their customers price improvement at the NBBO for orders of fewer than 50 contracts at the NBBO in PIP and PIM, respectively, the Exchange believes that it is important for competitive purposes that it be able to offer the same opportunities to its customers for price improvement via PIXL.

Additionally, an Initiating Member must always improve the PBBO - a PIXL Order may not be stopped at a price that is the same as that of a limit order resting on the limit order book, thus protecting investors who have submitted such resting limit orders, and thereby protecting the public interest.

This correction also protects investors and the public interest by accurately representing the price at which customer orders entered into the Auction are guaranteed an execution, making the process transparent in the marketplace as a whole. In particular, the Exchange believes this proposed rule change provides additional flexibility for Initiating Members to obtain executions on behalf of their customers while continuing to provide price improvement through meaningful, competitive PIXL Auctions. The Exchange also believes that that proposed rule change will ultimately enhance competition in the PIXL Auctions and provide customers with additional opportunities for price improvement. These changes are consistent with changes made by other exchanges and they serve to remove impediments to and to perfect the mechanism of a free and open market and a national market system.

¹² See Securities Exchange Act Release No. 34-57847 (May 21, 2008), 73 FR 30987 (May 29, 2008) (SR-ISE-2008-29) (order approving proposed rule change allowing entry of orders into PIM at the NBBO when ISE's best bid or offer is inferior to the NBBO with no order size distinction).

4. Self-Regulatory Organization's Statement on Burden on Competition

PHLX does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

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 Act¹³ and Rule 19b-4(f)(6)¹⁴ 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. The Exchange believes that the proposed rule change is “non-controversial” and therefore appropriate for filing pursuant to Rule 19b-4(f)(6).

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

¹³ 15 U.S.C. 78s(b)(3)(A).

¹⁴ 17 CFR 240.19b-4(f)(6).

filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement. Furthermore, a proposed rule change filed pursuant to Rule 19b-4(f)(6) normally does not become operative for 30 days after the date of its filing.

The Exchange notes that the Commission has previously provided guidance regarding the appropriate analysis for when a self-regulatory organization may submit a proposed rule change under Rule 19b-4(f)(6) for immediate effectiveness.¹⁵ The instant proposed rule change, a simple correction that accurately describes the current PIXL function, is substantially similar to rules that are currently in place on another options exchange. Specifically, the ISE PIM protects limit orders on its limit order book in the same manner as PIXL; this has been reviewed and approved by the Commission,¹⁶ and the instant proposal does not raise any new policy or regulatory issues, and is consistent with such prior approval. Therefore, the instant proposal is properly filed for immediate effectiveness pursuant to Rule 19b-4(f)(6).

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

The proposed rule change is based on Boston Options Exchange Group, LLC (“BOX”) Rules Chapter V, Section 18 and International Securities Exchange, LLC (“ISE”) Rule 723.

9. Exhibits

1. Completed notice of proposed rule change for publication in the Federal Register.

¹⁵ Specifically, the Commission has stated that it believes that a proposed trading rule change appropriately may be filed as an immediately effective rule so long as each policy issue raised by the proposed trading rule (i) has been considered previously by the Commission when the Commission approved another exchange's trading rule (that was subject to notice and comment) pursuant to Section 19(b)(2) of the Exchange Act. See Securities Exchange Act Release No. 58092 (July 3, 2008), 73 FR 40144 (July 11, 2008) (Commission Guidance and Amendment to the Rules Relating to Organization and Program Management Concerning Proposed Rule Changes Filed by Self-Regulatory Organizations).

¹⁶ See supra note 12.

Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. _____ ; File No. SR-Phlx-2012-32)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by NASDAQ OMX PHLX LLC Relating to Price Improvement XL ("PIXLSM")

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹, and Rule 19b-4² thereunder, notice is hereby given that on March 9, 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 Rule 1080(n), Price Improvement XL ("PIXLSM"), to correct Rule 1080(n)(i)(A)(2) pertaining to PIXL Orders (described below) for the account of a public customer with a size of less than 50 contracts. The amended rule would reflect the correct price at which an Initiating Member (described below) must guarantee the execution of a PIXL Order (described below) that the Initiating Member submits into a PIXL Auction (described below).

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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 correct Exchange Rule 1080(n), which governs the Exchange's price improvement auction mechanism, PIXL.³ In the PIXL mechanism, a member (an "Initiating Member") must guarantee the execution of (*i.e.*, "stop") an order it represents as agent ("PIXL Order") against principal interest or against any other order it represents as agent (an "Initiating Order") in the PIXL Auction ("Auction"), in which other participants may compete with the Initiating Member's order to execute against the PIXL Order. The correction concerns rule text respecting public customer PIXL Orders for less than 50 contracts that are entered into the Auction.

Exchange Rule 1080(n)(i) describes the circumstances under which an Initiating Member may initiate an Auction. Rule 1080(n)(i)(A)(1) states that if the PIXL Order is for the account of a public customer and is for a size of 50 contracts or more, the Initiating Member must stop the entire PIXL Order at a price that is equal to or better than the National Best Bid/Offer ("NBBO") on the opposite side of the market from the

³ For a complete description of PIXL, see Securities Exchange Act Release No. 63027 (October 1, 2010), 75 FR 62160 (October 7, 2010) (SR-Phlx-2010-108).

PIXL Order, provided that such price must be at least one minimum price improvement increment (as determined by the Exchange but not smaller than one cent) better than any limit order on the limit order book on the same side of the market as the PIXL Order.

The purpose of this provision is to ensure that public customer PIXL Orders for 50 contracts or more are guaranteed at least the NBBO but do not trade ahead of other limit orders already on the Exchange's limit order book at the existing limit price.

Currently, Exchange Rule 1080(n)(i)(A)(2) states that if the PIXL Order is for the account of a public customer and is for a size of less than 50 contracts, the Initiating Member must stop the entire PIXL Order at a price that is the better of: (i) the PHLX Best Bid/Offer ("PBBO") price on the opposite side of the market from the PIXL Order improved by at least one minimum price improvement increment, or (ii) the PIXL Order's limit price (if the order is a limit order), provided in either case that such price is *better than the NBBO* (emphasis added), and at least one minimum price improvement increment better than any limit order on the book on the same side of the market as the PIXL Order.

In its filing to adopt the rules governing PIXL, and in the Notice of Filing of Proposed Rule Change published in the Federal Register,⁴ the Exchange described its intent concerning the price at which an Initiating Member must stop a PIXL Order for the account of a public customer for a size of less than 50 contracts:

“[i]f the PIXL Order is for the account of a public customer and is for a size of less than 50 contracts, the Initiating Member must stop the entire PIXL Order at a price that is the better of: (i) The PBBO price on the

⁴ See Securities Exchange Act Release No. 62678 (August 10, 2010), 75 FR 50021 (August 16, 2010) (SR-Phlx-2010-108) (Notice of Filing of Proposed Rule Change by NASDAQ OMX PHLX, Inc. Relating to a Proposed Price Improvement System, Price Improvement XL (PIXLSM)).

opposite side of the market from the PIXL Order improved by at least one minimum price improvement increment, or (ii) the PIXL Order's limit price (if the order is a limit order), provided in either case that such price is *at or better* than the NBBO. (emphasis added).⁵

Despite this representation in the Notice of Filing, current Rule 1080(n)(i)(A)(2) states, in relevant part, “[p]rovided in either case that such price is *better than the NBBO* (emphasis added). By way of the omission of the words “at or” from Rule 1080(n)(i)(A)(2), the current rule does not accurately describe the operation of PIXL, and does not reflect Exchange’s intent to permit Initiating Members to submit contra-side interest on the opposite side of the market from its public customer PIXL Order with a size of less than 50 contracts at a price that is at or better than the NBBO.

Stop Price

Respecting contra-side interest on the opposite side of the market from its public customer PIXL Order with a size of less than 50 contracts, an Initiating Member must stop such PIXL Order at a price that is (i) improved over the PBBO, and (ii) at or better than the NBBO. The following scenarios illustrate this requirement:

- if the PBBO is inferior to the NBBO, the Initiating Member must improve the PBBO and stop the PIXL Order at a price that is at the NBBO price or better than the NBBO price.
- if the PBBO is equal to the NBBO, the Initiating Member must improve the PBBO and stop the PIXL Order at a price that is better than the NBBO price, since the only way to improve the PBBO price is to improve the NBBO price.

⁵ Id. at p. 50021.

The effect of this is that the PIXL Order will be guaranteed execution at a price that is better than the PBBO and at least as good as (“at”) the NBBO while providing the opportunity for execution at a price better than the NBBO. This is consistent with current Exchange rules describing the requirements for an Initiating Member to initiate an Auction respecting both public customer and non-public customer orders.⁶

Limit orders on the same side of the market as the PIXL Order will have priority at all prices in the PIXL Auction. The PIXL Order must, in order to initiate an Auction, be submitted with a better price than resting limit orders on the limit order book.

The Notice of Filing illustrates the Exchange’s intent in establishing the price at which an Initiating Member must stop a PIXL Order for less than 50 contracts. The Exchange therefore proposes simply to add the words “at or” to Rule 1080(n)(i)(A)(2) to reflect the actual price at which Initiating Members must stop public customer PIXL Orders with a size of less than 50 contracts.

Rule 1080(n)(i)(A)(2) is part of a pilot that is effective for a period scheduled to expire July 18, 2012.⁷

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,⁸ in general and with Section 6(b)(5) of the Act,⁹ in

⁶ To initiate the Auction, the Initiating Member must mark the PIXL Order for Auction processing, and specify either: (a) a single price at which it seeks to execute the PIXL Order (a “stop price”); (b) that it is willing to automatically match as principal or as agent on behalf of an Initiating Order the price and size of all PAN responses, and trading interest (“auto-match”) in which case the PIXL Order will be stopped at the NBBO on the Initiating Order side (if 50 contracts or greater) or, if less than 50 contracts, the better of: (i) the PBBO price on the opposite side of the market from the PIXL Order improved by one minimum price improvement increment, or (ii) the PIXL Order’s limit price (if the order is a limit order), provided in either case that such price is at or better than the NBBO. See Exchange Rule 1080(n)(i)(A)(2).

⁷ See Securities Exchange Act Release No. 65043 (August 5, 2011), 76 FR 49824 (August 11, 2011) (SR-Phlx-2011-104).

that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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; and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers, or to regulate by virtue of any authority conferred by the Act matters not related to the purposes of the Act or the administration of the Exchange.

The Exchange believes that the proposed rule change is also consistent with Section 6(b)(8) of the Act¹⁰ in that it does not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

The Exchange believes this proposal will increase the likelihood that participants will initiate Auctions for public customer PIXL Orders with a size of fewer than 50 contracts because the Initiating Member can guarantee such public customer orders price improvement over the PBBO while providing an opportunity for price improvement over the NBBO. The Exchange believes the proposal will also encourage increased participation in PIXL by participants willing to trade with orders of fewer than 50 contracts at prices better than PBBO and at least equal to the NBBO. This increased participation should result in a greater number of opportunities for price improvement.

⁸ 15 U.S.C. 78f.

⁹ 15 U.S.C. 78f(b)(5).

¹⁰ 15 U.S.C. 78f(b)(8).

The Exchange notes that both the Boston Options Exchange Group LLC (“BOX”) and the International Securities Exchange, LLC (“ISE”) allow entry of orders into Price Improvement Period (“PIP”)¹¹ and Price Improvement Mechanism (“PIM”)¹², respectively, at the NBBO without distinguishing between orders of more than or fewer than 50 contracts. Because BOX and ISE are currently able to offer their customers price improvement at the NBBO for orders of fewer than 50 contracts at the NBBO in PIP and PIM, respectively, the Exchange believes that it is important for competitive purposes that it be able to offer the same opportunities to its customers for price improvement via PIXL.

Additionally, an Initiating Member must always improve the PBBO - a PIXL Order may not be stopped at a price that is the same as that of a limit order resting on the limit order book, thus protecting investors who have submitted such resting limit orders, and thereby protecting the public interest.

This correction also protects investors and the public interest by accurately representing the price at which customer orders entered into the Auction are guaranteed an execution, making the process transparent in the marketplace as a whole. In particular, the Exchange believes this proposed rule change provides additional flexibility for Initiating Members to obtain executions on behalf of their customers while continuing to provide price improvement through meaningful, competitive PIXL Auctions. The Exchange also believes that that proposed rule change will ultimately enhance competition in the PIXL Auctions and

¹¹ See Securities Exchange Act Release No. 34-59654 (March 30, 2009), 74 FR 15551 (April 6, 2009) (SR-BX-2009-08) (order approving proposed rule change allowing entry of orders into PIP at the NBBO when BOX’s best bid or offer is inferior to the NBBO with no order size distinction).

¹² See Securities Exchange Act Release No. 34-57847 (May 21, 2008), 73 FR 30987 (May 29, 2008) (SR-ISE-2008-29) (order approving proposed rule change allowing entry of orders into PIM at the NBBO when ISE’s best bid or offer is inferior to the NBBO with no order size distinction).

provide customers with additional opportunities for price improvement. These changes are consistent with changes made by other exchanges and they serve to remove impediments to and to perfect the mechanism of a free and open market and a national market system.

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 Section 19(b)(3)(A) of the Act¹³ and Rule 19b-4(f)(6)¹⁴ thereunder.

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

¹³ 15 U.S.C. 78s(b)(3)(A).

¹⁴ 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.

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-2012-32 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-2012-32. 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 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-2012-32 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.¹⁵

Kevin M. O'Neill
Deputy Secretary

¹⁵ 17 CFR 200.30-3(a)(12).