

Required fields are shown with yellow backgrounds and asterisks.

Filing 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"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input checked="" type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010 Section 806(e)(1) <input type="checkbox"/> Section 806(e)(2) <input type="checkbox"/>	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) <input type="checkbox"/>
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Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**  
Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

**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 action.

First Name * Angela	Last Name * Dunn
Title * Associate General Counsel	
E-mail * angela.dunn@nasdaqomx.com	
Telephone * (215) 496-5692	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.  
(Title \*)

Date 10/30/2013	Executive Vice President and General Counsel
By Edward S. Knight	<input style="width: 100%; height: 40px;" type="text"/>
(Name *)	<input style="width: 100%; height: 20px;" type="text" value="Edward S Knight"/>

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.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information \***

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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 \***

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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 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies**

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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, security-based swap submission, or advance notice 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**

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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 the Proposed Rule Change

(a) NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> proposes to adopt a strategy fee cap applicable to box spreads.

While the changes proposed herein are effective upon filing, the Exchange has designated that the amendments be operative on November 1, 2013.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and a copy of applicable portion of the Pricing Schedule is attached hereto as Exhibit 5.

(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 July 17, 2013. 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 Angela Saccomandi Dunn, Associate General Counsel, at (215) 496-5692.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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

a. Purpose

The purpose of this filing is to amend the strategy fee caps which are currently located in Section II, entitled “Multiply Listed Options.”<sup>3</sup> Today, the Exchange caps fees on certain dividend, merger, short stock interest, reversal and conversion and jelly roll strategy floor option transactions. The Exchange is proposing to also cap fees on box spread strategy transactions.

A box spread strategy synthesizes long and short stock positions to create a profit. Specifically, a long call and short put at one strike is combined with a short call and long put at a different strike to create synthetic long and synthetic short stock positions, respectively. The Exchange proposes to include this definition in Section II of the Pricing Schedule in the section entitled “Strategies Defined.”

The Exchange proposes to offer a strategy cap for box spreads. Today, Specialist,<sup>4</sup> Market Maker,<sup>5</sup> Professional,<sup>6</sup> Firm<sup>7</sup> and Broker-Dealer<sup>8</sup> floor option

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<sup>3</sup> This includes options overlying equities, ETFs, ETNs and indexes which are Multiply Listed

<sup>4</sup> A “Specialist” is an Exchange member who is registered as an options specialist pursuant to Rule 1020(a).

<sup>5</sup> A “market maker” includes Registered Options Traders (Rule 1014(b)(i) and (ii)), which includes Streaming Quote Traders (see Rule 1014(b)(ii)(A)) and Remote Streaming Quote Traders (see Rule 1014(b)(ii)(B)). Directed Participants are also market makers.

<sup>6</sup> The term “Professional” means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). See Rule 1000(b)(14).

transaction charges in Multiply Listed Options are capped at \$1,250 for dividend, merger and short stock interest strategies executed on the same trading day in the same options class when such members are trading in their own proprietary accounts, and option transaction charges in Multiply Listed Options are capped at \$700 for reversal and conversion and jelly roll strategies executed on the same trading day in the same options class. Floor option transaction charges in Multiply Listed Options for dividend, merger, short stock interest, reversal and conversion and jelly roll strategies combined are further capped at \$35,000 per member organization, per month when such members are trading in their own proprietary accounts (“Monthly Strategy Cap”). Reversal and conversion and jelly roll strategy executions are not included in the Monthly Strategy Cap for a Firm. Further, to qualify for a strategy fee cap, the buy and sell side of a transaction must originate from the Exchange floor.

The Exchange proposes to cap Specialist, Market Maker, Professional, Firm and Broker-Dealer floor option transaction charges in Multiply Listed Options at \$700 for box spread strategies executed on the same trading day in the same options class. Further, the Exchange will include box spreads in the Monthly Strategy Cap so that floor option transaction charges in Multiply Listed Options for dividend, merger, short stock interest, reversal and conversion, jelly roll and box spread strategies combined will continue to be capped at \$35,000 per member organization, per month when such members are trading in their own proprietary accounts for purposes of the Monthly

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<sup>7</sup> The term “Firm” applies to any transaction that is identified by a member or member organization for clearing in the Firm range at OCC.

<sup>8</sup> The term “Broker-Dealer” applies to any transaction which is not subject to any of the other transaction fees applicable within a particular category.

Strategy Cap, except for a Firm. Similar to reversal and conversion and jelly roll strategy executions, box spreads will not be included in the Monthly Strategy Cap for a Firm. The Exchange proposes to note for purposes of clarity in the Pricing Schedule that, as is the case today for reversal and conversion and jell roll strategy executions, box spreads are included in the Monthly Firm Fee Cap.<sup>9</sup> The Exchange proposes to amend the text of the Pricing Schedule describing the applicability of the Monthly Market Maker Cap<sup>10</sup> and the Monthly Firm Fee Cap to clarify how box spread strategies will be included or excluded from these caps as defined herein. For purposes of clarity, the Exchange proposes to note in the Pricing Schedule that all strategy executions are excluded from the Monthly Market Maker Cap.

In order to receive the applicable strategy caps today, members are required to designate on the trade ticket whether the trade involves a dividend, merger, short stock interest, reversal and conversion or jelly roll strategy by entering the proper code on the

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<sup>9</sup> Firms are subject to a maximum fee of \$75,000 (“Monthly Firm Fee Cap”). Firm Floor Option Transaction Charges and QCC Transaction Fees, as defined in this section above, in the aggregate, for one billing month may not exceed the Monthly Firm Fee Cap per member organization when such members are trading in their own proprietary account. All dividend, merger, and short stock interest strategy executions (as defined in this Section II) are excluded from the Monthly Firm Fee Cap. Reversal and conversion strategy executions (as defined in this Section II) are included in the Monthly Firm Fee Cap. QCC Transaction Fees are included in the calculation of the Monthly Firm Fee Cap.

<sup>10</sup> Specialists and Market Makers are subject to a “Monthly Market Maker Cap” of \$550,000 for: (i) electronic and floor Option Transaction Charges; (ii) QCC Transaction Fees (as defined in Exchange Rule 1080(o) and Floor QCC Orders, as defined in 1064(e)); and (iii) fees related to an order or quote that is contra to a PIXL Order or specifically responding to a PIXL auction. The trading activity of separate Specialist and Market Maker member organizations is aggregated in calculating the Monthly Market Maker Cap if there is Common Ownership between the member organizations. All dividend, merger, short stock interest and reversal and conversion strategy executions (as defined in this Section II) are excluded from the Monthly Market Maker Cap.

trading ticket<sup>11</sup> and into the system, or directly into the Floor Broker Management System<sup>12</sup> (“FBMS”).<sup>13</sup> In the alternative, members may request Exchange staff on the trading floor to input the code into the system.<sup>14</sup> The Exchange will require members to enter a “Z3” on the trading ticket in order to receive the strategy cap for a box spread strategy. The Exchange will note the required designation in a memorandum to floor members when it announces the availability of the strategy cap for box spread strategies.

b. Statutory Basis

The Exchange believes that its proposal to amend its Pricing Schedule is consistent with Section 6(b) of the Act<sup>15</sup> in general, and furthers the objectives of Section

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<sup>11</sup> The Exchange has designated “Z1” for dividend strategies, “Z2” for short stock interest and merger strategies, “Z3” for box spread strategies and “Z4” for reversal and conversion and jelly roll strategies.

<sup>12</sup> FBMS is designed to enable Floor Brokers and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. FBMS also is designed to establish an electronic audit trail for options orders represented and executed by Floor Brokers on the Exchange, such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order. See Exchange Rule 1080, Commentary .06.

<sup>13</sup> See Securities Exchange Act Release No. 65228 (August 30, 2011), 76 FR 55453 (September 7, 2011) (SR-Phlx-2012-73) (notice of filing and immediate effectiveness of proposed rule change relating to reversal and conversion strategies).

<sup>14</sup> The system refers to PHLX XL®, the Exchange’s automated trading system. The Exchange believes that providing members the ability to request Exchange staff to mark a Strategy Trade on the day the strategy is executed would provide members with a means to ensure the Strategy Trade is properly marked for purposes of pricing in the event that a floor broker inadvertently forgot to mark a trade. Therefore, the Exchange requires that members executing Strategy Trades either: (1) enter a code on the trading ticket and into the system; (2) enter a code directly into FBMS; or (3) request that the information be input into the system by Exchange staff on the trading floor, on the day the order was executed, to take advantage of certain pricing caps for which they may qualify.

<sup>15</sup> 15 U.S.C. 78f(b).

6(b)(4) and (b)(5) of the Act<sup>16</sup> in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system which Phlx operates or controls, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes that adopting a strategy cap for box spreads is reasonable because it should encourage members and member organizations to transact a greater number of box spread strategies on the Exchange's trading floor in order that they may benefit from the fee cap. The Exchange also believes that it is reasonable to permit box spread strategy executions to count toward the Monthly Strategy Cap when members are trading in their own proprietary account to receive the benefit of the combined executions, which will include the ability to achieve the Monthly Strategy Cap by transacting box spreads as well as dividend, merger, short stock interest, reversal and conversion and jelly roll strategies. In addition, other options exchanges offer fee caps for box spreads, namely NYSE Arca, Inc. ("NYSE Arca")<sup>17</sup> and NYSE MKT LLC ("NYSE MKT"),<sup>18</sup> for strategies.

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<sup>16</sup> 15 U.S.C. 78f(b)(4), (5).

<sup>17</sup> NYSE Arca offers a \$750 cap on transaction fees for Strategy Executions involving (a) reversals and conversions, (b) box spreads, (c) short stock interest spreads, (d) merger spreads, and (e) jelly rolls. The cap applies to each Strategy Execution executed in standard option contracts on the same trading day in the same option class. See NYSE Arca General Options and Trading Permit (OTP) Fees.

<sup>18</sup> NYSE MKT offers a \$750 cap on transaction fees for Strategy Executions involving (a) reversals and conversions, (b) box spreads, (c) short stock interest spreads, (d) merger spreads, and (e) jelly rolls. The cap applies to all Strategy Executions executed in standard option contracts on the same trading day in the same option class. See NYSE Amex Options Fee Schedule.

The Exchange believes that adopting a strategy cap for box spreads is equitable and not unfairly discriminatory because all market participants that are assessed transaction fees will have an opportunity to cap floor option transaction charges in Multiply Listed Options with respect to box spreads. In addition, the Exchange believes that it is equitable and not unfairly discriminatory to continue to require that all fee cap strategies, including box spreads, which combine executions for purposes of the Monthly Strategy Cap, must be traded in a member's own proprietary account. The Exchange is not amending the calculation of the Monthly Strategy Cap which will continue to impose the same requirements on members for all strategies to qualify for the Monthly Strategy Caps.

The Exchange's proposal to exclude Firm floor options transaction charges related to reversal and conversion strategies, jelly rolls, and now box spreads, from the Monthly Strategy Cap is reasonable because these fees would be capped as part of the Monthly Firm Fee Cap, which applies only to Firms. The Exchange believes that the exclusion of Firm floor options transaction charges related to reversal and conversion strategies, jelly rolls and now box spreads from the Monthly Strategy Cap is equitable and not unfairly discriminatory because Firms, unlike other market participants, have the ability to cap transaction fees up to \$75,000 per month with the Monthly Firm Fee Cap. The Exchange would include floor option transaction charges related to box spread strategies in the Monthly Strategy Cap for Professionals, and Broker Dealers, when such members are trading in their own proprietary accounts, because these market participants are not subject to the Monthly Firm Fee Cap or other similar cap. While Specialists and Market Makers are subject to a Monthly Market Maker Cap on both electronic and floor

options transaction charges, box spreads would be excluded from the Monthly Market Maker Cap, as all other strategy transactions are excluded from this cap.<sup>19</sup> For the reasons described above, the Exchange believes including box spread strategies in the Monthly Firm Fee Cap is reasonable, equitable and not unfairly discriminatory because the cap provides an incentive for Firms to transact floor transactions on the Exchange, which brings increased liquidity and order flow to the floor for the benefit of all market participants.<sup>20</sup>

The Exchange believes that its proposal to apply box spread fee caps to orders originating from the Exchange floor is reasonable because members pay floor brokers to execute trades on the Exchange floor. The Exchange believes that offering fee caps to members executing floor transactions defrays brokerage costs associated with executing strategy transactions and continues to incentivize members to utilize the floor for certain executions.<sup>21</sup> The Exchange believes that its proposal to apply box spread strategy fee caps to orders originating from the Exchange floor is equitable and not unfairly discriminatory because today all other strategy fee caps are only applicable for floor transactions. The Exchange believes that a requirement that both the buy and sell sides of

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<sup>19</sup> The reversal and conversion strategy and jelly roll executions are excluded from the Monthly Market Maker Cap. See Section II of the Pricing Schedule.

<sup>20</sup> Firms are eligible to cap floor options transactions charges and QCC Transaction Fees as part of the Monthly Firm Fee Cap. QCC Transaction Fees apply to QCC Orders as defined in Exchange Rule 1080(o) and Floor QCC Orders as defined in 1064(e). See Section II of the Pricing Schedule.

<sup>21</sup> The Exchange's proposal would only apply the fee cap to options transaction charges where buy and sell sides originate from the Exchange floor. See proposed rule text in Section II of the Pricing Schedule.

the order originate from the floor to qualify for the fee cap constitutes equal treatment of members.

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 because the proposed changes apply uniformly to all members that incur transaction charges for box spreads.<sup>22</sup> Further, other options exchanges today offer fee caps<sup>23</sup> on box spread strategies; therefore, the Exchange believes the proposal is consistent with robust competition and does not provide any unnecessary burden on competition. Further, floor members pay floor brokers to execute trades on the Exchange floor. The Exchange believes that offering fee caps on box spreads to members executing floor transactions and not electronic executions does not create an unnecessary burden on competition because the fee cap defrays brokerage costs associated with executing box spread strategy transactions, similar to other strategies today. Also, requiring that both the buy and sell sides of the order originate from the floor to qualify for the fee cap constitutes equal treatment of members.

The Exchange operates in a highly competitive market, comprised of twelve options exchanges, in which market participants can easily and readily direct order flow to competing venues if they deem fee levels at a particular venue to be excessive or rebates to be inadequate. Accordingly, the fee caps that are proposed by the Exchange, as described in the proposal, are influenced by these robust market forces and therefore must

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<sup>22</sup> Customers are not assessed options transaction charges in Section II of the Pricing Schedule.

<sup>23</sup> Supra notes 17 and 18.

remain competitive with fees caps at other venues and therefore must continue to be reasonable and equitably allocated to those members that opt to direct orders to the Exchange rather than competing venues.

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

Not applicable.

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)(ii) of the Act,<sup>24</sup> the Exchange has designated this proposal as establishing or changing a due, fee, or other charge imposed on any person, whether or not the person is a member of the self-regulatory organization, which renders the proposed rule change effective upon filing.

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. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

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<sup>24</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

11. Exhibits

1. Notice of proposed rule for publication in the Federal Register.
5. Applicable portion of the Exchange's Pricing Schedule.

Exhibit 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-Phlx-2013-109)

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Regarding Box Spread Strategies

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 30, 2013, 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 adopt a strategy fee cap applicable to box spreads.

While the changes proposed herein are effective upon filing, the Exchange has designated that the amendments be operative on November 1, 2013.

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaqomxphlx.cchwallstreet.com/>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 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 this filing is to amend the strategy fee caps which are currently located in Section II, entitled “Multiply Listed Options.”<sup>3</sup> Today, the Exchange caps fees on certain dividend, merger, short stock interest, reversal and conversion and jelly roll strategy floor option transactions. The Exchange is proposing to also cap fees on box spread strategy transactions.

A box spread strategy synthesizes long and short stock positions to create a profit. Specifically, a long call and short put at one strike is combined with a short call and long put at a different strike to create synthetic long and synthetic short stock positions, respectively. The Exchange proposes to include this definition in Section II of the Pricing Schedule in the section entitled “Strategies Defined.”

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<sup>3</sup> This includes options overlying equities, ETFs, ETNs and indexes which are Multiply Listed

The Exchange proposes to offer a strategy cap for box spreads. Today, Specialist,<sup>4</sup> Market Maker,<sup>5</sup> Professional,<sup>6</sup> Firm<sup>7</sup> and Broker-Dealer<sup>8</sup> floor option transaction charges in Multiply Listed Options are capped at \$1,250 for dividend, merger and short stock interest strategies executed on the same trading day in the same options class when such members are trading in their own proprietary accounts, and option transaction charges in Multiply Listed Options are capped at \$700 for reversal and conversion and jelly roll strategies executed on the same trading day in the same options class. Floor option transaction charges in Multiply Listed Options for dividend, merger, short stock interest, reversal and conversion and jelly roll strategies combined are further capped at \$35,000 per member organization, per month when such members are trading in their own proprietary accounts (“Monthly Strategy Cap”). Reversal and conversion and jelly roll strategy executions are not included in the Monthly Strategy Cap for a Firm. Further, to qualify for a strategy fee cap, the buy and sell side of a transaction must originate from the Exchange floor.

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<sup>4</sup> A “Specialist” is an Exchange member who is registered as an options specialist pursuant to Rule 1020(a).

<sup>5</sup> A “market maker” includes Registered Options Traders (Rule 1014(b)(i) and (ii)), which includes Streaming Quote Traders (see Rule 1014(b)(ii)(A)) and Remote Streaming Quote Traders (see Rule 1014(b)(ii)(B)). Directed Participants are also market makers.

<sup>6</sup> The term “Professional” means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). See Rule 1000(b)(14).

<sup>7</sup> The term “Firm” applies to any transaction that is identified by a member or member organization for clearing in the Firm range at OCC.

<sup>8</sup> The term “Broker-Dealer” applies to any transaction which is not subject to any of the other transaction fees applicable within a particular category.

The Exchange proposes to cap Specialist, Market Maker, Professional, Firm and Broker-Dealer floor option transaction charges in Multiply Listed Options at \$700 for box spread strategies executed on the same trading day in the same options class. Further, the Exchange will include box spreads in the Monthly Strategy Cap so that floor option transaction charges in Multiply Listed Options for dividend, merger, short stock interest, reversal and conversion, jelly roll and box spread strategies combined will continue to be capped at \$35,000 per member organization, per month when such members are trading in their own proprietary accounts for purposes of the Monthly Strategy Cap, except for a Firm. Similar to reversal and conversion and jelly roll strategy executions, box spreads will not be included in the Monthly Strategy Cap for a Firm. The Exchange proposes to note for purposes of clarity in the Pricing Schedule that, as is the case today for reversal and conversion and jell roll strategy executions, box spreads are included in the Monthly Firm Fee Cap.<sup>9</sup> The Exchange proposes to amend the text of the Pricing Schedule describing the applicability of the Monthly Market Maker Cap<sup>10</sup> and the

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<sup>9</sup> Firms are subject to a maximum fee of \$75,000 (“Monthly Firm Fee Cap”). Firm Floor Option Transaction Charges and QCC Transaction Fees, as defined in this section above, in the aggregate, for one billing month may not exceed the Monthly Firm Fee Cap per member organization when such members are trading in their own proprietary account. All dividend, merger, and short stock interest strategy executions (as defined in this Section II) are excluded from the Monthly Firm Fee Cap. Reversal and conversion strategy executions (as defined in this Section II) are included in the Monthly Firm Fee Cap. QCC Transaction Fees are included in the calculation of the Monthly Firm Fee Cap.

<sup>10</sup> Specialists and Market Makers are subject to a “Monthly Market Maker Cap” of \$550,000 for: (i) electronic and floor Option Transaction Charges; (ii) QCC Transaction Fees (as defined in Exchange Rule 1080(o) and Floor QCC Orders, as defined in 1064(e)); and (iii) fees related to an order or quote that is contra to a PIXL Order or specifically responding to a PIXL auction. The trading activity of separate Specialist and Market Maker member organizations is aggregated in calculating the Monthly Market Maker Cap if there is Common Ownership between the member organizations. All

Monthly Firm Fee Cap to clarify how box spread strategies will be included or excluded from these caps as defined herein. For purposes of clarity, the Exchange proposes to note in the Pricing Schedule that all strategy executions are excluded from the Monthly Market Maker Cap.

In order to receive the applicable strategy caps today, members are required to designate on the trade ticket whether the trade involves a dividend, merger, short stock interest, reversal and conversion or jelly roll strategy by entering the proper code on the trading ticket<sup>11</sup> and into the system, or directly into the Floor Broker Management System<sup>12</sup> (“FBMS”).<sup>13</sup> In the alternative, members may request Exchange staff on the trading floor to input the code into the system.<sup>14</sup> The Exchange will require members to

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dividend, merger, short stock interest and reversal and conversion strategy executions (as defined in this Section II) are excluded from the Monthly Market Maker Cap.

<sup>11</sup> The Exchange has designated “Z1” for dividend strategies, “Z2” for short stock interest and merger strategies, “Z3” for box spread strategies and “Z4” for reversal and conversion and jelly roll strategies.

<sup>12</sup> FBMS is designed to enable Floor Brokers and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. FBMS also is designed to establish an electronic audit trail for options orders represented and executed by Floor Brokers on the Exchange, such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order. See Exchange Rule 1080, Commentary .06.

<sup>13</sup> See Securities Exchange Act Release No. 65228 (August 30, 2011), 76 FR 55453 (September 7, 2011) (SR-Phlx-2012-73) (notice of filing and immediate effectiveness of proposed rule change relating to reversal and conversion strategies).

<sup>14</sup> The system refers to PHLX XL®, the Exchange’s automated trading system. The Exchange believes that providing members the ability to request Exchange staff to mark a Strategy Trade on the day the strategy is executed would provide members with a means to ensure the Strategy Trade is properly marked for purposes of pricing in the event that a floor broker inadvertently forgot to mark a trade. Therefore, the Exchange requires that members executing Strategy Trades either: (1) enter a code on the trading ticket and into

enter a “Z3” on the trading ticket in order to receive the strategy cap for a box spread strategy. The Exchange will note the required designation in a memorandum to floor members when it announces the availability of the strategy cap for box spread strategies.

## 2. Statutory Basis

The Exchange believes that its proposal to amend its Pricing Schedule is consistent with Section 6(b) of the Act<sup>15</sup> in general, and furthers the objectives of Section 6(b)(4) and (b)(5) of the Act<sup>16</sup> in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system which Phlx operates or controls, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes that adopting a strategy cap for box spreads is reasonable because it should encourage members and member organizations to transact a greater number of box spread strategies on the Exchange’s trading floor in order that they may benefit from the fee cap. The Exchange also believes that it is reasonable to permit box spread strategy executions to count toward the Monthly Strategy Cap when members are trading in their own proprietary account to receive the benefit of the combined executions, which will include the ability to achieve the Monthly Strategy Cap by transacting box spreads as well as dividend, merger, short stock interest, reversal and conversion and jelly roll strategies. In addition, other options exchanges offer fee caps

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the system; (2) enter a code directly into FBMS; or (3) request that the information be input into the system by Exchange staff on the trading floor, on the day the order was executed, to take advantage of certain pricing caps for which they may qualify.

<sup>15</sup> 15 U.S.C. 78f(b).

<sup>16</sup> 15 U.S.C. 78f(b)(4), (5).

for box spreads, namely NYSE Arca, Inc. (“NYSE Arca”)<sup>17</sup> and NYSE MKT LLC (“NYSE MKT”),<sup>18</sup> for strategies.

The Exchange believes that adopting a strategy cap for box spreads is equitable and not unfairly discriminatory because all market participants that are assessed transaction fees will have an opportunity to cap floor option transaction charges in Multiply Listed Options with respect to box spreads. In addition, the Exchange believes that it is equitable and not unfairly discriminatory to continue to require that all fee cap strategies, including box spreads, which combine executions for purposes of the Monthly Strategy Cap, must be traded in a member’s own proprietary account. The Exchange is not amending the calculation of the Monthly Strategy Cap which will continue to impose the same requirements on members for all strategies to qualify for the Monthly Strategy Caps.

The Exchange’s proposal to exclude Firm floor options transaction charges related to reversal and conversion strategies, jelly rolls, and now box spreads, from the Monthly Strategy Cap is reasonable because these fees would be capped as part of the Monthly Firm Fee Cap, which applies only to Firms. The Exchange believes that the exclusion of Firm floor options transaction charges related to reversal and conversion

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<sup>17</sup> NYSE Arca offers a \$750 cap on transaction fees for Strategy Executions involving (a) reversals and conversions, (b) box spreads, (c) short stock interest spreads, (d) merger spreads, and (e) jelly rolls. The cap applies to each Strategy Execution executed in standard option contracts on the same trading day in the same option class. See NYSE Arca General Options and Trading Permit (OTP) Fees.

<sup>18</sup> NYSE MKT offers a \$750 cap on transaction fees for Strategy Executions involving (a) reversals and conversions, (b) box spreads, (c) short stock interest spreads, (d) merger spreads, and (e) jelly rolls. The cap applies to all Strategy Executions executed in standard option contracts on the same trading day in the same option class. See NYSE Amex Options Fee Schedule.

strategies, jelly rolls and now box spreads from the Monthly Strategy Cap is equitable and not unfairly discriminatory because Firms, unlike other market participants, have the ability to cap transaction fees up to \$75,000 per month with the Monthly Firm Fee Cap. The Exchange would include floor option transaction charges related to box spread strategies in the Monthly Strategy Cap for Professionals, and Broker Dealers, when such members are trading in their own proprietary accounts, because these market participants are not subject to the Monthly Firm Fee Cap or other similar cap. While Specialists and Market Makers are subject to a Monthly Market Maker Cap on both electronic and floor options transaction charges, box spreads would be excluded from the Monthly Market Maker Cap, as all other strategy transactions are excluded from this cap.<sup>19</sup> For the reasons described above, the Exchange believes including box spread strategies in the Monthly Firm Fee Cap is reasonable, equitable and not unfairly discriminatory because the cap provides an incentive for Firms to transact floor transactions on the Exchange, which brings increased liquidity and order flow to the floor for the benefit of all market participants.<sup>20</sup>

The Exchange believes that its proposal to apply box spread fee caps to orders originating from the Exchange floor is reasonable because members pay floor brokers to execute trades on the Exchange floor. The Exchange believes that offering fee caps to members executing floor transactions defrays brokerage costs associated with executing

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<sup>19</sup> The reversal and conversion strategy and jelly roll executions are excluded from the Monthly Market Maker Cap. See Section II of the Pricing Schedule.

<sup>20</sup> Firms are eligible to cap floor options transactions charges and QCC Transaction Fees as part of the Monthly Firm Fee Cap. QCC Transaction Fees apply to QCC Orders as defined in Exchange Rule 1080(o) and Floor QCC Orders as defined in 1064(e). See Section II of the Pricing Schedule.

strategy transactions and continues to incentivize members to utilize the floor for certain executions.<sup>21</sup> The Exchange believes that its proposal to apply box spread strategy fee caps to orders originating from the Exchange floor is equitable and not unfairly discriminatory because today all other strategy fee caps are only applicable for floor transactions. The Exchange believes that a requirement that both the buy and sell sides of the order originate from the floor to qualify for the fee cap constitutes equal treatment of members.

#### B. Self-Regulatory Organization's Statement on Burden on Competition

The 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 because the proposed changes apply uniformly to all members that incur transaction charges for box spreads.<sup>22</sup> Further, other options exchanges today offer fee caps<sup>23</sup> on box spread strategies; therefore, the Exchange believes the proposal is consistent with robust competition and does not provide any unnecessary burden on competition. Further, floor members pay floor brokers to execute trades on the Exchange floor. The Exchange believes that offering fee caps on box spreads to members executing floor transactions and not electronic executions does not create an unnecessary burden on competition because the fee cap defrays brokerage costs associated with executing box spread strategy transactions, similar to other strategies today. Also, requiring that both the buy and sell

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<sup>21</sup> The Exchange's proposal would only apply the fee cap to options transaction charges where buy and sell sides originate from the Exchange floor. See proposed rule text in Section II of the Pricing Schedule.

<sup>22</sup> Customers are not assessed options transaction charges in Section II of the Pricing Schedule.

<sup>23</sup> Supra notes 17 and 18.

sides of the order originate from the floor to qualify for the fee cap constitutes equal treatment of members.

The Exchange operates in a highly competitive market, comprised of twelve options exchanges, in which market participants can easily and readily direct order flow to competing venues if they deem fee levels at a particular venue to be excessive or rebates to be inadequate. Accordingly, the fee caps that are proposed by the Exchange, as described in the proposal, are influenced by these robust market forces and therefore must remain competitive with fees caps at other venues and therefore must continue to be reasonable and equitably allocated to those members that opt to direct orders to the Exchange rather than competing venues.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.<sup>24</sup> 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.

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<sup>24</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

#### 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](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2013-109 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-2013-109. 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-2013-109 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.<sup>25</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>25</sup> 17 CFR 200.30-3(a)(12).

**Exhibit 5**

*New text is underlined; deleted text is in brackets.*

**NASDAQ OMX PHLX LLC<sup>1</sup> PRICING SCHEDULE**

\* \* \* \* \*

**II. Multiply Listed Options Fees (Includes options overlying equities, ETFs, ETNs and indexes which are Multiply Listed<sup>9</sup>)**

\* \* \* \* \*

• Specialists and Market Makers are subject to a “Monthly Market Maker Cap” of \$550,000 for: (i) electronic and floor Option Transaction Charges; (ii) QCC Transaction Fees (as defined in Exchange Rule 1080(o) and Floor QCC Orders, as defined in 1064(e)); and (iii) fees related to an order or quote that is contra to a PIXL Order or specifically responding to a PIXL auction. The trading activity of separate Specialist and Market Maker member organizations will be aggregated in calculating the Monthly Market Maker Cap if there is Common Ownership between the member organizations. All dividend, merger, short stock interest, [and] reversal and conversion, [and] jelly roll and box spread strategy executions (as defined in this Section II) will be excluded from the Monthly Market Maker Cap. In addition, Specialists or Market Makers that (i) are on the contra-side of an electronically-delivered and executed Customer order; and (ii) have reached the Monthly Market Maker Cap will be assessed a \$0.16 per contract fee.

• Firms are subject to a maximum fee of \$75,000 (“Monthly Firm Fee Cap”). Firm Floor Option Transaction Charges and QCC Transaction Fees, as defined in this section above, in the aggregate, for one billing month will not exceed the Monthly Firm Fee Cap per member organization when such members are trading in their own proprietary account. All dividend, merger, and short stock interest strategy executions (as defined in this Section II) will be excluded from the Monthly Firm Fee Cap. Reversal and conversion, [strategy and] jelly roll and box spread strategy executions (as defined in this Section II) will be included in the Monthly Firm Fee Cap. QCC Transaction Fees are included in the calculation of the Monthly Firm Fee Cap. Member organizations must notify the Exchange in writing of all accounts in which the member is not trading in its own proprietary account. The Exchange will not make adjustments to billing invoices where transactions are commingled in accounts which are not subject to the Monthly Firm Fee Cap.

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*Strategies Defined:*

• A **dividend strategy** is defined as transactions done to achieve a dividend arbitrage involving the purchase, sale and exercise of in-the-money options of the same class, executed the first business day prior to the date on which the underlying stock goes ex-dividend.

- A **merger strategy** is defined as transactions done to achieve a merger arbitrage involving the purchase, sale and exercise of options of the same class and expiration date, executed the first business day prior to the date on which shareholders of record are required to elect their respective form of consideration, i.e., cash or stock.
- A **short stock interest strategy** is defined as transactions done to achieve a short stock interest arbitrage involving the purchase, sale and exercise of in-the-money options of the same class.
- **Reversal and conversion strategies** are transactions that employ calls and puts of the same strike price and the underlying stock. Reversals are established by combining a short stock position with a short put and a long call position that shares the same strike and expiration. Conversions employ long positions in the underlying stock that accompany long puts and short calls sharing the same strike and expiration.
- A **jelly roll strategy** is defined as transactions created by entering into two separate positions simultaneously. One position involves buying a put and selling a call with the same strike price and expiration. The second position involves selling a put and buying a call, with the same strike price, but with a different expiration from the first position.
- A **box spread strategy** is a strategy that synthesizes long and short stock positions to create a profit. Specifically, a long call and short put at one strike is combined with a short call and long put at a different strike to create synthetic long and synthetic short stock positions, respectively.

*Strategy Caps:*

To qualify for a strategy cap, the buy and sell side of a transaction must originate from the Exchange floor.

<b>Floor Options Transactions - Multiply Listed Options</b>	<b>Strategy</b>	<b>Qualification</b>	<b>Cap</b>
Specialist, Market Maker, Professional, Firm and Broker-Dealer	dividend, merger and short stock interest strategies	executed on the same trading day in the same options class when such members are trading in their own proprietary accounts.	\$1,250
Specialist, Market Maker, Professional, Firm and Broker-Dealer	reversal and conversion strategies	executed on the same trading day in the same options class	\$700

Specialist, Market Maker, Professional, Firm and Broker-Dealer	jelly rolls	executed on the same trading day in the same options class	\$700
<u>Specialist, Market Maker, Professional, Firm and Broker-Dealer</u>	<u>box spreads</u>	<u>executed on the same trading day in the same options class</u>	<u>\$700</u>
Per member organization	dividend, merger, short stock interest, reversal and conversion, [and] jelly roll <u>and box spread</u> strategies (“Monthly Strategy Cap”) <sup>1</sup>	combined executions in a month when trading in own proprietary accounts	\$35,000

<sup>1</sup> Reversal and conversion, [and] jelly roll and box spread strategy executions will not be included in the Monthly Strategy Cap for a Firm. Reversal and conversion, [and] jelly roll and box spread strategy executions (as defined in this Section II) are included in the Monthly Firm Fee Cap. All dividend, merger, short stock interest, reversal and conversion, [and] jelly roll and box spread strategy executions (as defined in this Section II) will be excluded from the Monthly Market Maker Cap.

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