

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 type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" 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 \*).

A proposal to amend the PIXL Auction Notification requirements under Rule 1080.

**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 \* Edith      Last Name \* Hallahan  
 Title \* Principal Associate General Counsel  
 E-mail \* edith.hallahan@nasdaqomx.com  
 Telephone \* (215) 496-5179      Fax

**Signature**  
Pursuant to the requirements of the Securities Exchange Act of 1934,  
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date 10/31/2013      Executive Vice President and General Counsel  
 By Edward S. Knight        
 (Name \*)

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 (“Exchange” or “Phlx”), 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> is filing with the Securities and Exchange Commission (“Commission”) a proposal to amend the PIXL<sup>3</sup> Auction Notification (“PAN”) requirements under Rule 1080(n) by no longer including the stop price in the PAN.

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

Proposed new language is underlined; deleted text is in brackets.

\* \* \* \* \*

**Rule 1080 Phlx XL and Phlx XL II**

\* \* \* \* \*

**(n) Price Improvement XL ("PIXL")**

(i)-(ii)(A)(1)-(2) No change.

(3) When the Exchange receives a PIXL Order for Auction processing, a PAN detailing the side[,] and size [and the stop price] of the PIXL Order will be sent over the Exchange's TOPO Plus Orders data feed and Specialized Quote Feed. [An updated PAN will also be sent over the Exchange's TOPO Plus Orders data feed if the Initiating Member improves the stop price of the PIXL Order. The updated PAN will include the side, size and improved stop price of the PIXL Order.]

(ii)(A)(4)-(vii) No change.

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

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

<sup>3</sup> The Exchange adopted PIXL in October 2010 as a price improvement mechanism that is a component of the Exchange's fully automated options trading system. See Securities Exchange Act Release No. 63027 (October 1, 2010), 75 FR 62160 (October 7, 2010)(SR-Phlx-2010-108)(order granting approval of price improvement system, PIXL).

\* \* \* \* \*

(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 (the “Board”) on July 17, 2013. Exchange staff will advise the Board of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to Edith Hallahan, Principal Associate General Counsel, The NASDAQ OMX Group, Inc., at 215-496-5179.

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 encourage better PAN responses and thereby attain more price improvement for PIXL orders. The PAN is a broadcast message sent over TOPO Plus Orders,<sup>4</sup> the Exchange’s market data feed for subscribers interested in the detailed information it offers, as well as over the Specialized Quote Feed (“SQF”) 6.0.<sup>5</sup>

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<sup>4</sup> Securities Exchange Act Release No. 60877 (October 26, 2009), 74 FR 56255 (October 30, 2009) (SR-Phlx-2009-92).

<sup>5</sup> Securities Exchange Act Release No. 63034 (October 4, 2010), 75 FR 62441 (October 8, 2010) (SR-Phlx-2010-124).

Background - Current PIXL and PAN

The PIXL mechanism is a process whereby members electronically submit orders they represent as agent against principal interest or other interest that they represent as agent. The submitted orders are stopped at a price and are subsequently entered into an auction seeking price improvement. An Exchange member may initiate a PIXL Auction (“Initiating Member”) by submitting a PIXL Order (“Initiating Order”) specifying one of the following:

- 1) a single price at which it seeks to execute the PIXL Order (a “stop price”);
- 2) that it is willing to automatically match as principal or as agent on behalf of an Initiating Order, the price and size of all trading interest, and responses to the PAN (known as “auto-match”), in which case the PIXL Order will be stopped at the National Best Bid/Offer (“NBBO”) on the Initiating Order side of the market; or
- 3) that it is willing to either: (i) stop the entire order at a single stop price and auto-match PAN responses, together with trading interest, at a price or prices that improve the stop price to a specified price above or below which the Initiating Member will not trade (a “Not Worse Than” or “NWT” price); (ii) stop the entire order at a single stop price and auto-match all PAN responses and trading interest at or better than the stop price; or (iii) stop the entire order at the NBBO on the Initiating Order side, and auto-match PAN responses and trading interest at a price or prices that improve the stop price up to the NWT price. In all cases, if the PBBO on the same side of the market as the PIXL Order represents a limit order

on the book, the stop price must be at least one minimum price improvement increment better than the booked limit order's limit price.

After the PIXL Order is entered, a PAN is broadcast<sup>6</sup> and a one-second blind Auction ensues. Any participant interested in the PIXL Order may respond to the PAN. At the conclusion of the Auction, the PIXL Order will be executed and allocated at the best price(s) among quotes, orders, and PAN responses.

Once the Initiating Member has submitted a PIXL Order for processing, such PIXL Order may not be modified or cancelled, and a member submitting the order has no ability to control the timing of the execution. The execution is carried out by the Exchange's Phlx XL automated options trading system and execution pricing is determined solely by the other orders and quotes that are present in the Phlx XL system at the time the Auction ends.

#### Proposal - Changes to Rule 1080(n) - PAN

The Exchange proposes to modify the PAN under Rule 1080(n)(ii)(A)(3) to no longer include the stop price. Currently, the PAN includes the stop price as well as side and size of the PIXL Order. If the Initiating Member improves the stop price, today, an updated PAN will be sent, identifying the side, size and improved stop price. The exchange proposes to change the PAN such that neither a stop price is shown nor is an updated PAN sent with an improved price.

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<sup>6</sup> The PAN is broadcast over the TOPO Plus Orders data feed as well as the Specialized Quote Feed. The Exchange is proposing to add reference to the Specialized Quote Feed in the rule, consistent with the effectiveness of sending the PAN over the Specialized Quote Feed. See supra note 5 at text accompanying note 11.

The Exchange believes that this should encourage PAN responses at the best possible price that the participant is willing to participate. This, in turn, should result in better execution prices, which is the “price improvement” that the PIXL functionality offers.

In other contexts, the Exchange has determined that showing the price of an order in an auction notification message is appropriate and useful. For instance, the Exchange recently determined to begin showing the price of a Complex Order in its auction message,<sup>7</sup> citing the need with respect to Complex Orders to attract additional responsive interest. Complex Orders are, by definition, more complex to trade, are a relatively new product, and are generally traded by a small cross-section of options customers, thereby necessitating the need to attract responsive interest.

The Exchange believes that the rationale for showing price differs respecting PIXL Orders, because PIXL Orders can be very different from Complex Orders. Specifically, PIXL orders can vary in size and type. A simple (non-complex) PIXL order for just a few contracts is more appropriate for exposure to aggressive price competition. PIXL orders are entered into PIXL precisely because the Initiating Member is interested in participating with the order, if needed, and rather than permitting the execution to occur automatically, the PIXL process offers an opportunity for an improved price. It is the sort of system feature that would benefit from a more blind auction.

When Phlx first adopted the PIXL process, Phlx determined to show the stop price, which many options exchanges do in their price improvement systems. At this

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<sup>7</sup> Securities Exchange Act Release No. 70271 (August 27, 2013), 78 FR 54340 (September 3, 2013)(SR-Phlx-2013-88).

time, the Exchange believes that, as discussed above, the process would benefit from not showing the stop price.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>8</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>9</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by providing more opportunity for price improvement for PIXL orders. Generally, in auctions, transparency of details accomplishes two main objectives. The first objective is to obtain a quality execution for the customer. The second goal is to ensure robust price competition. Because PIXL orders are entered with a stop price and a guarantee (in the form of a stop) of a reasonable execution price, the first objective is met when the order is entered. With respect to the second objective, the Exchange believes that excluding the stop price from the PAN should foster price competition from other participants in PIXL. Accordingly, Phlx participants will be motivated to be more aggressive and respond with their best price in order to participate in the PIXL execution. Not knowing the stop price creates an incentive for the responder to compete based on price and to make an independent decision, rather than merely join other participants' prices or improve the stop price minimally. Even though, without the stop price, less information is available to potential responding Phlx participants, the Exchange believes that, rather than harming the market

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<sup>8</sup> 15 U.S.C. 78f(b).

<sup>9</sup> 15 U.S.C. 78f(b)(5).



or customers in some way, the proposal should lead to more price competition. As a result of more price competition and an improved price improvement process, the Exchange believes that participants will use PIXL to increase the number of customer orders that are provided with the opportunity to receive price improvement over the NBBO. As a result, customers will benefit as will the market as a whole. Further, the Exchange believes that the proposed changes promote and foster competition among the options exchanges.

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. To the contrary, the proposal is pro-competitive because it will enable the Exchange to better compete with another options exchange that provides price improvement functionality without revealing the price.<sup>10</sup> With respect to intra-market competition, the proposal will apply to all participants receiving PANs equally and to all PANs. Moreover, as explained above, the proposal should encourage Phlx participants to compete amongst each other by responding with their best price for a particular option.

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.

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<sup>10</sup> See CBOE Rule 6.74A(b)(1)(B).

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)<sup>11</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>12</sup> in that it 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 proposal does not significantly affect the protection of investors or the public interest, because it will encourage better-priced responses to PIXL Orders. The proposal does not impose any significant burden on competition, because, as explained above, it will facilitate the Exchange's ability to compete with CBOE, who does not show the price of the order in their broadcast message within their respective price improvement program.<sup>13</sup>

Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

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: (i) necessary or appropriate in the public interest; (ii) for

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<sup>11</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>12</sup> 17 CFR 240.19b-4(f)(6).

<sup>13</sup> See CBOE Rule 6.74A(b)(1)(B).

the protection of investors; or (iii) 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.

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

The proposed rule change is based on CBOE Rule 6.74A.<sup>14</sup> The CBOE established an electronic auction system, AIM, exposing certain orders electronically in an auction to provide such orders with the opportunity to receive an execution at an improved price. CBOE's AIM, like PIXL, operates as a blind auction. The notification message disseminated by CBOE's AIM includes the side and size of the order and does not include the stop price.<sup>15</sup> By not including the stop price, this proposed change to the PAN will make the PAN similar to CBOE's AIM notification message. CBOE's AIM differs from PIXL in that only CBOE market makers can respond to its AIM auction, whereas PIXL responses are not limited in that way; the Exchange does not believe that this is a material difference for purposes of comparing the respective notification messages.

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

Not applicable.

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<sup>14</sup> See Securities Exchange Act Release No. 53222 (February 3, 2006), 71 FR 7089 (February 10, 2006) (SR-CBOE-2005-60).

<sup>15</sup> CBOE Rule 6.74A(b)(1)(B) states: "when the Exchange receives a properly designated Agency Order for Auction processing, a Request for Responses ("RFR") detailing the side and size of the order will be sent to all Trading Permit Holders that have elected to receive RFRs."

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

Not applicable.

11. Exhibits

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

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-Phlx-2013-112)

November \_\_, 2013

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the PIXL Auction Notification Requirements under Rule 1080

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 31, 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 amend the PIXL<sup>3</sup> Auction Notification (“PAN”) requirements under Rule 1080(n) by no longer including the stop price in the PAN.

The text of the proposed rule change is below; proposed new language is underlined; proposed deletions are in brackets.

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

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

<sup>3</sup> The Exchange adopted PIXL in October 2010 as a price improvement mechanism that is a component of the Exchange's fully automated options trading system. See Securities Exchange Act Release No. 63027 (October 1, 2010), 75 FR 62160 (October 7, 2010)(SR-Phlx-2010-108)(order granting approval of price improvement system, PIXL).

\* \* \* \* \*

**Rule 1080 Phlx XL and Phlx XL II**

\* \* \* \* \*

**(n) Price Improvement XL ("PIXL")**

(i)-(ii)(A)(1)-(2) No change.

(3) When the Exchange receives a PIXL Order for Auction processing, a PAN detailing the side[,] and size [and the stop price] of the PIXL Order will be sent over the Exchange's TOPO Plus Orders data feed and Specialized Quote Feed. [An updated PAN will also be sent over the Exchange's TOPO Plus Orders data feed if the Initiating Member improves the stop price of the PIXL Order. The updated PAN will include the side, size and improved stop price of the PIXL Order.]

(ii)(A)(4)-(vii) No change.

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**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 encourage better PAN responses and thereby attain more price improvement for PIXL orders. The PAN is a broadcast message sent over TOPO Plus Orders,<sup>4</sup> the Exchange's market data feed for subscribers interested in the detailed information it offers, as well as over the Specialized Quote Feed ("SQF") 6.0.<sup>5</sup>

Background - Current PIXL and PAN

The PIXL mechanism is a process whereby members electronically submit orders they represent as agent against principal interest or other interest that they represent as agent. The submitted orders are stopped at a price and are subsequently entered into an auction seeking price improvement. An Exchange member may initiate a PIXL Auction ("Initiating Member") by submitting a PIXL Order ("Initiating Order") specifying one of the following:

- 1) a single price at which it seeks to execute the PIXL Order (a "stop price");
- 2) that it is willing to automatically match as principal or as agent on behalf of an Initiating Order, the price and size of all trading interest, and responses to the PAN (known as "auto-match"), in which case the PIXL Order will be stopped at the National Best Bid/Offer ("NBBO") on the Initiating Order side of the market; or

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<sup>4</sup> Securities Exchange Act Release No. 60877 (October 26, 2009), 74 FR 56255 (October 30, 2009) (SR-Phlx-2009-92).

<sup>5</sup> Securities Exchange Act Release No. 63034 (October 4, 2010), 75 FR 62441 (October 8, 2010) (SR-Phlx-2010-124).

- 3) that it is willing to either: (i) stop the entire order at a single stop price and auto-match PAN responses, together with trading interest, at a price or prices that improve the stop price to a specified price above or below which the Initiating Member will not trade (a “Not Worse Than” or “NWT” price); (ii) stop the entire order at a single stop price and auto-match all PAN responses and trading interest at or better than the stop price; or (iii) stop the entire order at the NBBO on the Initiating Order side, and auto-match PAN responses and trading interest at a price or prices that improve the stop price up to the NWT price. In all cases, if the PBBO on the same side of the market as the PIXL Order represents a limit order on the book, the stop price must be at least one minimum price improvement increment better than the booked limit order’s limit price.

After the PIXL Order is entered, a PAN is broadcast<sup>6</sup> and a one-second blind Auction ensues. Any participant interested in the PIXL Order may respond to the PAN. At the conclusion of the Auction, the PIXL Order will be executed and allocated at the best price(s) among quotes, orders, and PAN responses.

Once the Initiating Member has submitted a PIXL Order for processing, such PIXL Order may not be modified or cancelled, and a member submitting the order has no ability to control the timing of the execution. The execution is carried out by the Exchange’s Phlx XL automated options trading system and execution pricing is

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<sup>6</sup> The PAN is broadcast over the TOPO Plus Orders data feed as well as the Specialized Quote Feed. The Exchange is proposing to add reference to the Specialized Quote Feed in the rule, consistent with the effectiveness of sending the PAN over the Specialized Quote Feed. See supra note 5 at text accompanying note 11.



determined solely by the other orders and quotes that are present in the Phlx XL system at the time the Auction ends.

Proposal - Changes to Rule 1080(n) - PAN

The Exchange proposes to modify the PAN under Rule 1080(n)(ii)(A)(3) to no longer include the stop price. Currently, the PAN includes the stop price as well as side and size of the PIXL Order. If the Initiating Member improves the stop price, today, an updated PAN will be sent, identifying the side, size and improved stop price. The exchange proposes to change the PAN such that neither a stop price is shown nor is an updated PAN sent with an improved price.

The Exchange believes that this should encourage PAN responses at the best possible price that the participant is willing to participate. This, in turn, should result in better execution prices, which is the “price improvement” that the PIXL functionality offers.

In other contexts, the Exchange has determined that showing the price of an order in an auction notification message is appropriate and useful. For instance, the Exchange recently determined to begin showing the price of a Complex Order in its auction message,<sup>7</sup> citing the need with respect to Complex Orders to attract additional responsive interest. Complex Orders are, by definition, more complex to trade, are a relatively new product, and are generally traded by a small cross-section of options customers, thereby necessitating the need to attract responsive interest.

The Exchange believes that the rationale for showing price differs respecting PIXL Orders, because PIXL Orders can be very different from Complex Orders.

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<sup>7</sup> Securities Exchange Act Release No. 70271 (August 27, 2013), 78 FR 54340 (September 3, 2013)(SR-Phlx-2013-88).

Specifically, PIXL orders can vary in size and type. A simple (non-complex) PIXL order for just a few contracts is more appropriate for exposure to aggressive price competition. PIXL orders are entered into PIXL precisely because the Initiating Member is interested in participating with the order, if needed, and rather than permitting the execution to occur automatically, the PIXL process offers an opportunity for an improved price. It is the sort of system feature that would benefit from a more blind auction.

When Phlx first adopted the PIXL process, Phlx determined to show the stop price, which many options exchanges do in their price improvement systems. At this time, the Exchange believes that, as discussed above, the process would benefit from not showing the stop price.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>8</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>9</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by providing more opportunity for price improvement for PIXL orders. Generally, in auctions, transparency of details accomplishes two main objectives. The first objective is to obtain a quality execution for the customer. The second goal is to ensure robust price competition. Because PIXL orders are entered with a stop price and a guarantee (in the form of a stop) of a reasonable execution price, the first objective is met when the order is entered. With respect to the

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<sup>8</sup> 15 U.S.C. 78f(b).

<sup>9</sup> 15 U.S.C. 78f(b)(5).

second objective, the Exchange believes that excluding the stop price from the PAN should foster price competition from other participants in PIXL. Accordingly, Phlx participants will be motivated to be more aggressive and respond with their best price in order to participate in the PIXL execution. Not knowing the stop price creates an incentive for the responder to compete based on price and to make an independent decision, rather than merely join other participants' prices or improve the stop price minimally. Even though, without the stop price, less information is available to potential responding Phlx participants, the Exchange believes that, rather than harming the market or customers in some way, the proposal should lead to more price competition. As a result of more price competition and an improved price improvement process, the Exchange believes that participants will use PIXL to increase the number of customer orders that are provided with the opportunity to receive price improvement over the NBBO. As a result, customers will benefit as will the market as a whole. Further, the Exchange believes that the proposed changes promote and foster competition among the options exchanges.

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. To the contrary, the proposal is pro-competitive because it will enable the Exchange to better compete with another options exchange that provides price improvement functionality without revealing the price.<sup>10</sup> With respect to intra-market competition, the proposal will apply to all participants receiving PANs equally and to all PANs.

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<sup>10</sup> See CBOE Rule 6.74A(b)(1)(B).

Moreover, as explained above, the proposal should encourage Phlx participants to compete amongst each other by responding with their best price for a particular option.

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 from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act<sup>11</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>12</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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) 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>11</sup> 15 U.S.C. 78s(b)(3)(a)(ii).

<sup>12</sup> 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.

#### 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-2013-112 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-2013-112. 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-2013-112 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>13</sup>

Kevin M O'Neill  
Deputy Secretary

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<sup>13</sup> 17 CFR 200.30-3(a)(12).