

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 86	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2013 - * 39	Amendment No. (req. for Amendments *)
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 checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>
			Section 19(b)(3)(B) * <input type="checkbox"/>	
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule <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 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"/>			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) <input type="checkbox"/>	
Exhibit 2 Sent As Paper Document <input type="checkbox"/>		Exhibit 3 Sent As Paper Document <input type="checkbox"/>		
<b>Description</b> Provide a brief description of the action (limit 250 characters, required when Initial is checked *).  A Proposed Rule Change Regarding Complex Order PIXL.				
<b>Contact Information</b> 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 * Jurij Last Name * Trypupenko Title * Associate General Counsel E-mail * jurij.trypupenko@nasdaqomx.com Telephone * (301) 978-8132 Fax (301) 978-8472				
<b>Signature</b> 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 04/12/2013 By Edward S. Knight (Name *) Executive Vice President and General Counsel 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) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”) is filing with the Securities and Exchange Commission (“Commission”) a proposal to amend Rule 1080 (Phlx XL and Phlx XL II) to accommodate Complex Orders in PIXL.<sup>3</sup>

The Exchange requests that the Commission approve the proposed rule change on an accelerated basis.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and the text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

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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, Phlx XL, now known as XL II. 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, XL).

Six-legged Complex Orders trade on the Exchange. See Securities Exchange Act Release No. 63777 (January 26, 2011), 76 FR 5630 (February 1, 2011)(SR-Phlx-2010-157)(approval order allowing six-legged Complex Orders); and Commentary .08 to Rule 1080. This proposal would enable Complex Orders to trade on PIXL.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Directors of the Exchange on December 11, 2012. 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 Jurij Trypupenko, Associate General Counsel, NASDAQ OMX Group, Inc., at (301) 978-8132.

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

a. Purpose

The purpose of this proposed rule change is to amend Rule 1080 to accommodate Complex Orders in PIXL. This proposal would allow Complex Orders in the Exchange's price-improving electronic auction, PIXL, similarly to other options exchanges that currently allow complex orders in their price-improving electronic auctions.<sup>4</sup>

Background

Current PIXL

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

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<sup>4</sup> See Securities Exchange Act Release No. 64805 (July 5, 2011), 76 FR 40758 (July 11, 2011)(SR-ISE-2011-30)(order granting approval of a proposed rule change relating to Complex Orders in ISE's Price Improvement Mechanism, PIM). See also Securities Exchange Act Release No. 66235 (January 25, 2012), 77 FR 4844 (January 31, 2012)(SR-CBOE-2011-114)(order granting approval of a proposed rule change relating to Complex Order processing in CBOE's Hybrid 3.0 classes).

auction seeking price improvement. Currently, the PIXL mechanism accepts only simple orders.

An Exchange member may initiate a PIXL Auction (“Initiating Member”) by submitting a PIXL Order in one of three ways:<sup>5</sup>

- 1) the Initiating Member could submit a PIXL Order specifying a single price at which it seeks to execute the PIXL Order (a “stop price”);
- 2) an Initiating Member could submit a PIXL Order specifying 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 PIXL Auction Notification (“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 (if 50 contracts or greater) or, if less than 50 contracts, the better of: (i) The Phlx Best Bid/Offer (“PBBO”) price on the opposite side of the market from the PIXL Order improved by at least one

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<sup>5</sup> Three components of the PIXL system were approved by the Commission on a pilot basis: (1) Paragraphs (n)(i)(A)(2) and (n)(i)(B)(2) of Rule 1080, relating to stopping the entire PIXL Order where the order is for a size less than 50 contracts; (2) paragraphs (n)(ii)(B)(4) and (n)(ii)(D) of Rule 1080, relating to the early conclusion of the PIXL Auction; and (3) paragraph (n)(vii) of Rule 1080, stating that there shall be no minimum size requirement of orders entered into PIXL (collectively, the “pilots”). See supra note 3. The pilots were extended for a pilot period expiring July 18, 2013. All of the pilots are applicable to Complex PIXL. The paragraph (n)(i)(A)(2) and (n)(i)(B)(2) pilot is, for Complex Orders of less than 50 contracts in size, in new (n)(i)(C). Paragraph (n)(ii)(B)(4) is re-numbered as (n)(ii)(B)(5) and, along with paragraph (n)(ii)(D), the early conclusion of the PIXL Auction pilot is applicable to Complex PIXL Orders. Proposed (n)(ii)(D) states, regarding Complex PIXL Auctions, that an unrelated market or marketable limit Complex Order on the opposite side of the market from the Complex PIXL Order, as well as orders for the individual components of the Complex Order received during the Auction, will not cause the Auction to end early and will execute against interest outside of the Auction. If contracts remain from such unrelated order at the time the Auction ends, they will be considered for participation in the order allocation process described in sub-paragraph (E) below.

minimum price improvement increment, or (ii) the PIXL Order's limit price (if the order is a limit order), provided in either case that certain circumstances are met and that such price is at least one increment better than the limit of an order on the book on the same side as the PIXL Order; or

3) an Initiating Member could submit a PIXL Order specifying that it is willing to either: (i) stop the entire order at a single stop price and auto-match PAN responses, as described below, 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 (if 50 contracts or greater) or the better of: (A) the PBBO price on the opposite side of the market from the PIXL Order improved by one minimum price improvement increment, or (B) the PIXL Order's limit price (if the order is a limit order) on the Initiating Order side (if for less than 50 contracts), and auto-match PAN responses and trading interest at a price or prices that improve the stop price up to the NWT price.<sup>6</sup> 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 and a one-second blind Auction ensues. Anyone may respond to the PAN notification. At the conclusion of the

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<sup>6</sup> The PIXL 50 contract distinction is applicable to Complex Orders entered into PIXL.

Auction, the PIXL Order will be 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 pricing is determined solely by the other orders and quotes that are present in the Phlx XL system at the time the Auction ends.

#### Current Complex Orders

A Complex Order is any order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, priced at a net debit or credit based on the relative prices of the individual components, for the same account, for the purpose of executing a particular investment strategy. A Complex Order may also be a stock-option order, which is an order to buy or sell a stated number of units of an underlying stock or exchange-traded fund ("ETF") coupled with the purchase or sale of options contract(s). Complex Orders on Phlx are discussed in Commentary .08 to Rule 1080.<sup>7</sup> In particular, Commentary .08 governs the trading of Complex Orders on the

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<sup>7</sup> For the full definition of Complex Order, see Commentary .08(a)(i) to Rule 1080. See also Securities Exchange Act Release No. 63777 (January 26, 2011), 76 FR 5630 (February 1, 2011)(SR-Phlx-2010-157)(order granting approval of a proposed rule change relating to Complex Orders in Phlx Commentary .08 to Rule 1080 and establishing, among other things, six-legged Complex Orders)(the "Complex Order filing"). Prior to the Complex Order filing, a Complex Order could be composed of two option legs and could not have a stock component.

Six other options exchanges have rules that provide for the trading of complex orders. See C2 Rule 6.13; CBOE Rules 6.42, 6.45, 6.53C; ISE Rule 722; NYSE Arca Rules 6.62(e), 6.91; NYSE MKT Rules 900.3NY(e), 963NY, 980NY.

Phlx's electronic options trading platform, Phlx XL II, to, among other things: (i) permit Complex Orders with up to six components, including the underlying stock or Exchange Traded Fund Share ("ETF"); (ii) establish a Do Not Auction ("DNA") designation for Complex Orders; (iii) add a definition of conforming ratio;<sup>8</sup> (iv) provide priority rules for Complex Orders traded on Phlx XL II; and (v) provide for the communication of the stock or ETF component of a Complex Order by the Exchange to NASDAQ Options Services LLC ("NOS"), the Phlx's affiliated broker-dealer, for execution.

Currently, PIXL does not accommodate auctions for Complex Orders as is allowed on other options exchanges that have price-improving electronic auctions like PIXL.<sup>9</sup> However, Complex Orders are becoming an increasingly important segment of options trading. This proposal allows Complex Orders of up to six legs, as defined in Commentary .08 of Rule 1080, to be entered into the Exchange's PIXL Auction, and proposes changes to Rule 1080 to facilitate this process without making any

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<sup>8</sup> The Exchange proposes to add language to Commentary .08(a)(ix) to Rule 1080 to codify the principle that Complex Orders consisting of a ratio other than a conforming ratio will not be accepted. See footnote 20 in Securities Exchange Act Release No. 63509 (December 9, 2010), 75 FR 78320 (December 15, 2010)(SR-Phlx-2010-157)(notice of Complex Order filing).

<sup>9</sup> See Securities Exchange Act Release No. 64805 (July 5, 2011), 76 FR 40758 (July 11, 2011)(SR-ISE-2011-30)(order granting approval of a proposed rule change relating to Complex Orders in ISE's Price Improvement Mechanism, PIM). See also Securities Exchange Act Release No. 66235 (January 25, 2012), 77 FR 4844 (January 31, 2012)(SR-CBOE-2011-114)(order granting approval of a proposed rule change relating to Complex Order processing in CBOE's Hybrid 3.0 classes).



modifications to the PIXL process in place today for orders which are not Complex Orders, or to the Complex Order rules.<sup>10</sup>

### The Proposal

#### Changes to Rule 1080(n) - PIXL

The Exchange proposes to enhance PIXL so that Complex Orders may be entered into PIXL and may have the benefit of price improvement functionality (known as “Complex PIXL”).

The Exchange intends to change PIXL, which is codified in Rule 1080(n), only to the extent needed to accommodate Complex PIXL Orders. The Exchange does so by exempting Complex PIXL Orders from those sections of PIXL which are not wholly applicable to Complex Orders. Specifically, Complex Orders are exempted from the following portions of subsection (n) of Rule 1080: (i) the current PIXL auction eligibility requirements for the account of a public customer and not a public customer that differentiate whether a PIXL Order is for a size of less than 50 contracts or 50 contracts or more;<sup>11</sup> (ii) the current procedure for initiating a PAN Auction, how an Initiating Member must mark the PIXL Order and what the member must specify;<sup>12</sup> (iii) the current minimum price increment for PAN responses and for an Initiating Member's stop price

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<sup>10</sup> The Exchange notes that, as in most filings, it proposes technical housecleaning changes that are described below.

<sup>11</sup> Rule 1080(n)(i)(A) and (B). The analogous provision for Complex PILX Orders is in (n)(i)(C), as described below.

<sup>12</sup> Rule 1080(n)(ii)(A). Regarding initiation of a PIXL Auction, the Exchange is adding (n)(ii)(A)(2).

and/or NWT price;<sup>13</sup> (iv) the current rejection of PAN responses that are not equal to or better than the NBBO at the time of receipt of the PAN response;<sup>14</sup> (v) the current allocation process whereby after public customer interest at a particular price level has been satisfied, remaining contracts will be allocated among all Exchange quotes, orders and PAN responses;<sup>15</sup> (vi) the current process whereby if there are PAN responses that cross the then-existing NBBO (provided such NBBO is not crossed) at the time of the conclusion of the Auction, such PAN responses will be executed, if possible, at their limit price(s);<sup>16</sup> (vii) the current process whereby if the PIXL Auction price is the same as that

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<sup>13</sup> Rule 1080(n)(ii)(A)(6) (re-numbered as (n)(ii)(A)(7)). Regarding the minimum price increment for PAN responses and for an Initiating Member's stop price and/or for an NWT price in the case of a Complex Order (\$0.01), the Exchange is adding(n)(ii)(A)(7)(b).

<sup>14</sup> Rule 1080(n)(ii)(A)(9). The Exchange proposes new language in subsection (9) stating that a Complex Order PAN response must be equal to or better than the cPBBO, as defined in Commentary .08(a) of this Rule 1080 at the time of receipt of the PAN response. PAN responses may be modified or cancelled during the Auction. A PAN response (except if it is a Complex Order) submitted with a price that is outside the NBBO will be rejected. A Complex Order PAN response submitted with a price that is outside the cPBBO will be rejected. A PAN or Complex Order PAN response which is inferior to the stop price of the PIXL order will be rejected.

Commentary .08(a)(iv) defines the term cPBBO as the best net debit or credit price for a Complex Order Strategy based on the PBBO for the individual options components of such Complex Order Strategy, and, where the underlying security is a component of the Complex Order, the National Best Bid and/or Offer for the underlying security.

<sup>15</sup> Rule 1080(n)(ii)(E)(2)(a), (b), and (c). Regarding the PIXL Order allocation process, the Exchange is adding (n)(ii)(E)(2)(d), (e), and (f).

<sup>16</sup> Rule 1080(n)(ii)(F). The Exchange proposes new language adding the alternative that if there are Complex Order PAN responses that cross the then-existing cPBBO at the time of the conclusion of the Auction, such PAN responses will be executed, if possible, at their limit price(s). The Exchange believes that this behavior is, at best, highly unlikely as participants will cancel PAN responses

of an order on the limit order book on the same side of the market as the PIXL Order, the PIXL Order may only be executed at a price that is at least one minimum price improvement increment better than the resting order's limit price or, if such resting order's limit price crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price;<sup>17</sup> and (viii) that currently the execution price for a PIXL Order for the account of a public customer paired with an order for the account of a public customer must be expressed in the quoting increment applicable to the affected series, and that such an execution may not trade through the NBBO or at the same price as any resting customer order.<sup>18</sup>

The Exchange is proposing several rule provisions in respect of Complex Orders so that they can participate in PIXL Auctions. First, the Exchange proposes new Rule 1080(n)(i)(C) regarding stopping the entire Complex Order when submitting such order into PIXL. Specifically, new sub-paragraph (C) states that if the PIXL Order is a Complex Order and of a conforming ratio, as defined in Commentary.08(a)(i) and (a)(ix) to Rule 1080, the Initiating Member must stop the entire PIXL order at a price that is better than the best net price (debit or credit) (i) available on the Complex Order book

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when better priced interest that they could trade against is present in the marketplace.

<sup>17</sup> Rule 1080(n)(ii)(G). Regarding an Auction price on the limit order book on the same side of the market as the Complex PIXL Order, the Exchange is adding 1080(n)(ii)(H).

<sup>18</sup> Proposed Rule 1080(n)(vi). The Exchange clarifies that the subsection applies to the execution price for a PIXL Order and proposes new language stating that the execution price for a Complex Order PIXL may be in \$0.01 increments and may not trade at a price equal to or through the cPBBO or at the same price as a resting customer Complex Order.

regardless of the Complex Order book size; and (ii) achievable from the best Phlx bids and offers for the individual options (an “improved net price”), provided in either case that such price is equal to or better than the PIXL Order’s limit price.<sup>19</sup> New sub-paragraph (C) shall apply to all Complex Orders submitted into PIXL and, where applied to Complex Orders of less than 50 contracts in size, shall be effective for a pilot period scheduled to expire July 18, 2013. New sub-paragraph (C) maintains the core complex order spread priority principal which stipulates that a Complex Order may be executed at a total credit or debit price with priority over individual bids or offers established in the marketplace (including customers) that are not better than the bids or offers comprising such total credit or debit, provided that at least one option leg is executed at a better price than the established bid or offer for that option contracts and no option leg is executed at a price outside of the established bid or offer for that option contract.<sup>20</sup> New sub-paragraph (C) does so by requiring a Complex Order submitted into PIXL to be stopped at a net debit/credit price which improves upon the stated markets present for the individual components of the Complex Order. By definition, requiring a Complex Order to be stopped at a net debit/credit price which improves upon the stated markets present for the individual components of the Complex Order ensures that at least one option leg will be executed at a better price than the established bid or offer for such leg. For example, a Complex Order that is of a conforming ratio to buy one of option A with a

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<sup>19</sup> Subsection (n)(i)(D) (re-numbered from current subsection (C)) indicates under what circumstances PIXL Orders are not eligible to initiate an Auction and will be rejected. Reference to proposed new subsection (C) is added to subsection (D) as re-numbered.

<sup>20</sup> The complex order spread priority principal in respect of Complex Orders is set forth in Rule 1080, Commentary .08(c)(iii).

PBBO market of \$1.00 bid, offered at \$1.20, and sell one of option B with a PBBO market of \$0.50 bid, offered at \$0.60, would need to be stopped by the Initiating Member at a net price better than the calculated cPBBO market of \$0.40 bid, offered at \$0.70.<sup>21</sup> If in this same example there was also a resting Complex Order to buy one of option A and sell one of option B on Phlx for a net debit price of \$0.50, the Initiating Member would need to stop the Complex Order entered into PIXL at a net price better than \$0.50 bid and the calculated net best offer (cPBBO) of \$0.70.

Second, the Exchange is adding proposed new Rule (n)(ii)(A)(2) to explain the process for initiating a PIXL Complex Auction, which is similar to initiating a PIXL Auction today. Specifically, proposed new subsection (2) language states that to initiate the PIXL Complex Order Auction, the Initiating Member must mark the PIXL Order for Auction processing, and specify either: (a) a single price at which it seeks to execute the PIXL Order (a “stop price”); or (b) that it is willing to either: (i) stop the entire order at a single stop price and auto-match PAN responses and trading interest at a price or prices that improve the stop price to a specified price (a “Not Worse Than” or “NWT” price); or (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. Once the Initiating Member has submitted a Complex Order into PIXL for processing pursuant to this subparagraph, such order may not be modified or cancelled. Under any of the circumstances described in subparagraphs (a)-(b) of subsection (2), the stop price or NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled.

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<sup>21</sup> \$0.40 bid = \$1.00 bid of A less \$0.60 offer of B; and \$0.70 offer = \$1.20 offer of A less \$0.50 bid of B.

The procedure set forth in new Rule 1080(n)(ii)(A)(2) for Complex Orders is similar to the procedure set forth in Rule 1080(n)(ii)(A)(1) for initiating a PIXL Auction for orders which are not complex. However, new Rule 1080(n)(ii)(A)(2) does not allow for Initiating Members to enter Complex Orders into PIXL and specify, without stipulating a specific stop price, that they are willing to automatically match as principal or as agent on behalf of an Initiating Order the price and size of all PAN responses, and trading interest. Initiating Members entering orders into PIXL which are not Complex Orders may indicate that they are willing to stop the PIXL Order at the NBBO on the Initiating Order side (if 50 contracts or more) or the PBBO on the opposite side of the market from the PIXL Order improved by one minimum price improvement increment (if the PIXL Order is for less than 50 contracts), provided such price is no worse than the NBBO, by submitting the order with a market price and a NWT market price.

When submitted in this manner, the trading system stops the PIXL order at a price based on the disseminated markets in that series at the time of order receipt, in accordance with PIXL rules stated above. The Exchange is not offering this particular functionality for Complex Orders in order to avoid stopping an order at a net debit/credit price which may be unexpected by the Initiating Member due to the fact that there are multiple legs in Complex Orders and prices may change rapidly. Requiring the Initiating Member to use an exact limit price as the stop price, yet allow the use of a NWT market price, will ensure that the stop price will meet the Initiating Member's expectations and still allow the Initiating Member to automatically match other interest if desired.

Third, the Exchange is proposing new language in Rule 1080(n)(ii)(B)(3) to add a Complex Order PIXL alternative for concluding a Complex Order PIXL Auction.

Specifically, new subsection (3) states that a Complex Order PIXL Auction will conclude any time the cPBBO or the Complex Order book crosses the PIXL Order stop price on the same side of the market as the PIXL Order.<sup>22</sup> This language introduces proposed new Rule 1080(n)(ii)(B)(2) for Complex Order PIXL Auctions that is similar to what is available for PIXL Auctions today. Today, PIXL Auctions end at the earlier of (i) the end of the Auction period, (ii) any time there is a trading halt on the Exchange in the affected series, or (iii) any time the PBBO crosses the PIXL order stop price on the same side as the PIXL Order. The PBBO includes both orders and quotes on the Exchange. Complex PIXL Auctions will also conclude (i) at the end of the Auction period or (ii) any time there is a trading halt on the Exchange in the affected series as stipulated in the rule today. In addition, the language of proposed new Rule 1080(n)(ii)(B)(3) is being added to explicitly state that the end of a Complex PIXL Auction can also occur either when the cPBBO or the Complex Order book crosses the PIXL Order stop price on the same side of the market as the PIXL Order.

Fourth, the Exchange is proposing new language in Rule 1080(n)(ii)(C) to add a Complex Order PIXL alternative for execution when a Complex PIXL Auction ended due to the cPBBO or the Complex Order book crossing the Complex Order PIXL stop price on the same side as the Complex PIXL Order. Specifically, new language in subsection (C)(2) states that at the conclusion of the PIXL Auction, in the case of the cPBBO or the Complex Order book crossing the Complex PIXL Order stop price on the

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<sup>22</sup> The Exchange also clarifies the end of the Auction alternative in Rule 1080(n)(ii)(B)(2) to state that, for a PIXL Auction (except if it is a Complex Order), any time the PBBO crosses the PIXL Order stop price on the same side of the market as the PIXL Order.

same side as the Complex PIXL Order, the entire Complex PIXL Order will be executed at the stop price against executable PAN responses and executable Complex Order interest. For example, if a Complex PIXL Auction is in progress where the Complex PIXL Order is a buy order stopped at \$0.60, if either the cPBBO (calculated Phlx Best Bid) moves to be \$0.61 bid or better, or if a Complex Order is entered onto the Phlx book with a bid price of \$0.61 or more, the Complex PIXL Auction will be terminated as set forth in proposed Rule 1080(n)(ii)(B)(3). In such case, any complex sell interest, both Complex Orders and PAN responses, at a price of \$0.60 or lower will be considered for trade against the Complex PIXL Order at \$0.60.

The execution process described above for Complex PIXL Orders is simpler than the process in place for PIXL Auctions terminated due to the PBBO crossing the PIXL Order stop price on the same side of the market as the PIXL Order. Currently, when a PIXL Auction is terminated due to the PBBO crossing the PIXL Order stop price on the same side of the market as the PIXL Order, the PIXL Order is executed at best response prices or, if the stop price is the best price in the Auction, the PIXL Order is executed at the stop price, unless the best response price is equal to the price of a limit order resting on the Phlx book on the same side of the market as the PIXL Order, in which case the PIXL Order will be executed against that response (but at a price that is at least one minimum price improvement increment better than the price of such limit order).<sup>23</sup> For example, assume a PIXL Order to buy 20 contracts is stopped at a price of \$0.60 when the market is \$0.40 bid, offered at \$0.70. Additionally, assume a PAN response is received to sell 10 contracts at \$0.55 and an order is submitted and entered onto the Phlx

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<sup>23</sup> Rule 1080(n)(ii)(B).



book to sell 10 contracts at \$0.60. If a buy order (or quote) with a limit of \$0.65 is entered into the Phlx XL system, the buy order (or quote) will trade immediately against the 10 contract order offered at \$0.60. The buy order (or quote) will not trade against the PAN response offered at \$0.55 since it is an Auction response and is only eligible to trade as part of the Auction. Any residual interest of the buy order (or quote) is reflected in the PBBO causing the market to move to \$0.65 bid, offered at \$0.70, the PIXL Auction is terminated. Provided, in the unlikely event that the PAN response to sell at \$0.55 had not been cancelled, the PAN response will trade 10 contracts against the PIXL Order at \$0.55 and any residual PIXL Order contracts will trade at \$0.60 against the Initiating Order. The Exchange is proposing that when a Complex PIXL Auction is terminated due to either the cPBBO or the Complex Order book crossing the Complex Order PIXL stop price on the same side as the Complex PIXL Order, such order is only executed through the cPBBO and/or the Complex Order book at one price, the stop price.<sup>24</sup> Consider a scenario similar to the stopped PIXL Order example set forth above. Assume that a Complex PIXL Order to buy is stopped at a price of \$0.60. The Complex PIXL Order is to buy option A and sell option B, where option A is \$0.90 bid, offered at \$1.00 and option B is \$0.30 bid, offered at \$0.40. The individual option markets imply a cPBBO market of \$0.50 bid, offered at \$0.70. As before, assume a PAN response is received to sell the strategy at \$0.55. If the market for option A becomes \$1.05 bid, offered at \$1.15, the implied (calculated) cPBBO market becomes \$0.65 bid, offered at \$0.85 causing the Complex PIXL Auction to terminate. As proposed, the PAN response at \$0.55 will trade against the Complex PIXL Order at the stop price of \$0.60. To trade at \$.60, at least one

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<sup>24</sup> Proposed Rule 1080(n)(ii)(B)(3).

of the option components of the Complex Order will need to be executed at a price which is outside of the current market where cPBBO is \$0.65 bid. Since this event may have up to six components, the Exchange believes that limiting the prices trading through the cPBBO and/or the Complex Order book to only the stop price is important. Furthermore, combined with the improbability that responses will still be available which are crossing the cPBBO or the Complex Order book, the Exchange believes the price continuity of this approach is also more rational and fair to all participants. When executing at the stop price, the Initiating Order as well as all better priced PAN responses and Complex Order interest will be considered for trade against the Complex PIXL Order.

Fifth, the Exchange is proposing new language in Rule 1080(n)(ii)(E)(2)(d) regarding allocation of Complex Order PIXL. Specifically, new subsection (2)(d) states that in the case of a Complex Order PIXL, if the Initiating Member selected the single stop price option of the PIXL Auction, PIXL executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after public customer complex interest is satisfied being allocated to the Initiating Member at the stop price. If only one other participant matches the stop price, then the Initiating Member may be allocated up to 50% of the contracts remaining after public customer complex interest is satisfied at such price. Complex Orders on the PHLX Complex Order Book, PAN responses, and quotes and orders which comprise the cPBBO at the end of the Auction will be considered for allocation against the Complex PIXL order. Such interest will be allocated in the following order: (i) to public customer Complex Orders and PAN responses in time priority; (ii) to SQT, RSQT, and non-SQT ROT Complex Orders and PAN responses on a size pro-rata basis; (iii) to non-market maker off-floor

broker-dealer Complex Orders and PAN responses on a size pro-rata basis, and (iv) to quotes and orders which comprise the cPBBO at the end of the Auction with public customer interest being satisfied first in time priority, then to SQT, RSQT, and non-SQT ROT interest satisfied on a size pro-rata basis, and lastly to non-market maker off-floor broker-dealers on a size pro-rata basis. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Member, after public customer Complex Orders and PAN responses have been satisfied.

For example, a Complex Order to buy one of option A and sell one of option B, 100 times, with a cPBBO of \$0.40 bid, \$0.70 offer, may be submitted into PIXL by the Initiating Member with a single stop price of \$0.60. Assume that during the Auction, Phlx receives the following responses and order interest:

- MM1 responds to sell the strategy 10 times at a price of \$0.55
- MM1 responds to sell the strategy 10 times at a price of \$0.60
- BD responds to sell the strategy 5 times at a price of \$0.60
- Customer Complex Order to sell the strategy 30 times at a price of \$0.60
- MM2 responds to sell the strategy 20 times at \$0.60.

After all of the aforementioned responses and orders are received, option A of the simple market moves causing the cPBBO to become offered 20 times at \$0.55. Option A is quoted in the simple market as \$1.00 bid, \$1.05 offer, with the \$1.05 offer representing a Customer offer. Option B is quoted in the simple market as \$0.50 bid, \$0.60 offer.

At the end of the Auction, the Complex PIXL Order will be executed 30 times at a price of \$0.55. Of those 30 strategies, MM1 will trade 10 and an additional 20 contracts will be traded by legging into the interest that represents the cPBBO, including

the Customer offered at \$1.05 in Option A. The Complex PIXL Order will then be traded against interest at \$0.60. First, the Customer offering the strategy 30 times will be satisfied. Next, the Initiating member will be allocated 40% of the remaining 40 strategy contracts, i.e. 16 strategy contracts at his stop price of \$0.60. The residual 24 strategy contracts will trade against the two market maker responses in a pro-rata fashion with MM1 executing 8 strategy contracts and MM2 executing 16 strategy contracts. The broker dealer offering 5 strategies at \$0.60 would not receive any allocation and the response is cancelled back to the participant.

An additional example illustrating the execution algorithm proposed for Complex Order PIXL is as follows. Assume a Complex Order to buy one of option A and sell one of option B, 100 times, with a cPBBO of \$0.40 bid, \$0.70 offer, may be submitted into PIXL by the Initiating Member with a single stop price of \$0.60. Assume that during the Auction, Phlx receives the following responses and order interest:

- MM1 responds to sell the strategy 10 times at a price of \$0.55
- MM1 responds to sell the strategy 10 times at a price of \$0.60
- BD responds to sell the strategy 5 times at a price of \$0.60
- Customer Complex Order to sell the strategy 30 times at a price of \$0.60
- MM2 responds to sell the strategy 20 times at \$0.60.

After all of the aforementioned responses and orders are received, option A of the simple market moves causing the cPBBO to become offered 20 times at \$0.60. Option A is quoted in the simple market as \$1.00 bid, \$1.10 offer, with the \$1.10 offer representing a Customer offer. Option B is quoted in the simple market as \$0.50 bid, \$0.60 offer.

At the end of the Auction, the Complex PIXL Order will be executed 10 times at a price of \$0.55 against MM1. The Complex PIXL Order will then be traded against interest at \$0.60. First, the Customer offering the strategy 30 times will be satisfied. Next, the Initiating member will be allocated 40% of the remaining 60 strategy contracts, i.e. 24 strategy contracts at his stop price of \$0.60. The residual 36 strategy contracts will trade against the two market maker responses with MM1 executing 10 strategy contracts and MM2 executing 20 strategy contracts. The broker dealer offering 5 strategies at \$0.60 would then be executed. The last 1 contract would be traded against the cPBBO interest with the Customer offering Option A at \$1.10 receiving priority over any other interest offered at that price.

Similarly to PIXL, all interest in the Phlx system at the end of a Complex PIXL auction will be considered for execution against the Complex PIXL Order. Interest will be traded first based on the prices available at the end of the Auction. At all prices, other than the final price point, all interest, including Complex Orders, PAN response, and interest comprising the cPBBO will be fully satisfied. At the final price point, the Initiating Member will be allocated up to 40% (50% if matching only one other participant) of the Complex PIXL Order after public customer complex interest has been satisfied. After public customer complex interest and the Initiating Member have been allocated contracts, other complex interest will be considered for allocation with SQT, RSQT, and non-SQT ROT interest being allocated in a size pro-rata fashion followed by non-market maker off-floor broker dealer complex interest in a size pro-rata fashion. Once all complex interest, including both Complex Orders and PAN responses, has been satisfied, interest comprising the cPBBO will be considered for allocation. Public

customer interest comprising the cPBBO will be afforded priority over non-public customer interest comprising the cPBBO and will be allocated in a price time manner. After public customer interest comprising the cPBBO has been satisfied, SQT, RSQT, and non-SQT ROT interest comprising the cPBBO will be allocated in a size pro-rata fashion followed by non-market maker off-floor broker dealer complex interest in a size pro-rata fashion.

Complex Orders today which are executed as part of a Complex Order Live Auction (COLA) trade first based on the best prices available at the end of the COLA timer. If markets for the individual components of the Complex Order independently improve during the COLA Timer and match the best price of COLA Sweeps(s) and/or responsive Complex Order interest, the responses will be executed before executing the individual components of the Complex Order. Since a Complex PIXL Order must be stopped at a price which improves upon all interest in the Phlx XL system at time of receipt, the proposed Complex PIXL execution algorithm ensures and maintains the priority of established interest. In the event that the individual components of the Complex PIXL Order independently improve during the Auction and new interest is received during the auction, Complex Orders and PAN responses will be afforded priority over individual component interest comprising the cPBBO at a given price point just as auction responses and Complex Orders are afforded priority over individual components of a Complex Order that independently improve during a COLA. It is important to note, however, that public customer complex interest will maintain priority over non-public customer complex interest and public customer interest comprising the cPBBO will be afforded priority over non-public customer interest comprising the

cPBBO. The Complex PIXL Auction allows for all participant types, including public customers, to respond to the auction notification.<sup>25</sup> Public customers responding to the auction or submitting complex order interest during the auction will be afforded priority over non-customer interest. Public customer interest comprising the cPBBO will be afforded priority over non-customer interest comprising the cPBBO but not over complex order or PAN response interest. Such public customer interest was provided the opportunity to respond to the auction and/or submit complex interest during the auction. Since public customer interest comprising the cPBBO chose not to avail themselves of the opportunity to respond to the auction, the public customer interest representing individual components of the cPBBO will not be afforded priority over participants offering contra-side interest to the Complex PIXL for all components of the Complex PIXL Order at the same price point.

Sixth, the Exchange is proposing new language in Rule 1080(n)(ii)(E)(2)(e) regarding allocation of Complex Order PIXL where an Initiating Member selected “stop and NWT” in respect to the stop price of a PIXL Order submission. Specifically, new subsection (2)(e) states that in the case of a Complex Order PIXL, if the Initiating Member selected the “stop and NWT” option for the Complex PIXL Order submission, contracts shall be allocated as follows: (i) first to Complex Orders and PAN responses at prices better than the NWT price, as well as to quotes and orders which comprise the cPBBO if such cPBBO is better than the NWT price, pursuant to the algorithm set forth above in (n)(ii)(E)(2)(d)(i) through (iv) of Rule 1080 and (ii) next, to Complex Orders

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<sup>25</sup> Rule 1080(n)(ii)(A)(5) (re-numbered from subsection (A)(4)) provides that any person or entity may submit responses to the PAN, provided such response is properly marked specifying price, size and side of the market.

and PAN responses at prices, as well as to quotes and orders which comprise the cPBBO at the end of the Auction, at the Initiating Member's NWT price and at prices better than or equal to the Initiating Member's stop price, beginning with the NWT price. The Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other interest at each price point, except that the Initiating Member shall be entitled to receive up to 40% (or 50% if matching only one other participant) of the contracts remaining at the final price point (including situations where the final price is the stop price), after public customer Complex Orders and PAN responses have been satisfied. In the case of an Initiating Order with a NWT price at the market, the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other interest at all price points, except that the Initiating Member shall be entitled to receive up to 40% (or 50% if matching only one other participant) of the contracts remaining at the final price point (including situations where the final price is the stop price), after public customer Complex Orders and PAN responses have been satisfied. If there is other interest at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in (n)(ii)(E)(2)(d)(i) through (iv) of this rule. Any remaining contracts shall be allocated to the Initiating Member.<sup>26</sup>

For example, a Complex Order to buy one of option A and sell one of option B, 100 times, with a cPBBO of \$0.40 bid, \$0.70 offer, could be submitted into PIXL by the Initiating Member with a single stop price of \$0.60 and a NWT price of \$0.55. Assume that during the Auction, a market maker (MM1) responds to the auction notification and offers to sell the same Complex Order strategy 10 times at a price of \$0.55 as well as

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<sup>26</sup> Proposed new subsection (n)(ii)(E)(2)(f) states that a single quote, order or PAN response shall not be allocated a number of contracts that is greater than its size.



offers to sell the strategy 25 times at a price of \$0.60. In addition, assume that a public customer Complex Order to sell the strategy 10 times at \$0.60 is received and another market maker (MM2) responds to sell the strategy 25 times at \$0.60. At the end of the Auction, the Complex PIXL Order will be executed 10 times at a price of \$0.55 against MM1 and an additional 10 times at a price of \$0.55 against the Initiating Member since he indicated he was willing to match all interest down to \$0.55 by using the NWT functionality. The Complex PIXL Order will then execute 10 times at a price of \$0.60 against the public customer offer. Then, the Initiating Member will be allocated 40% of the remaining 70 strategy contracts, i.e. 28 strategy contracts, of the Complex PIXL Order at the stop price of \$0.60. The two market maker responders will execute the remaining 42 contracts in a pro-rata fashion with both MM1 and MM2 trading 21 strategy contracts each.

Seventh, the Exchange is proposing new language in Rule 1080(n)(ii)(E)(g) to stipulate that Complex PIXL Orders which include a stock/ETF component will only execute against Complex Orders or PAN responses that also include the stock/ETF component. Such orders will not “leg” to the simple market and will therefore not trade against interest comprising the cPBBO at the end of the Auction.<sup>27</sup> This behavior is consistent with the handling of Complex Orders that include a stock/ETF component and are entered into the Phlx system.<sup>28</sup> Legging of a stock/ETF component would introduce

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<sup>27</sup> Complex Orders that include a stock/ETF component and are submitted to the Phlx Complex Order book or entered into a Complex Order Live Auction (COLA) also have a similar restriction. Rule 1080, Commentary .08(a)(i).

<sup>28</sup> Commentary.08 (a)(i) to Rule 1080 states, for example, that stock-option orders can only be executed against other stock-option orders and cannot be executed by the System against orders for the individual components.

the risk of a participant not receiving an execution on all components of the Complex Order and is therefore not considered as a means of executing a Complex Order which includes a stock/ETR component. The Exchange believes that introducing the risk of not having the ability to fully execute a complex strategy is counter-productive to, and inconsistent with, the effort to allow Complex Orders in PIXL. If there are Complex Orders and PAN responses which satisfy all components of the Complex Order in PIXL, including the stock component, the stock will be executed in the same manner as it is done today for Complex Orders.<sup>29</sup>

Eighth, the Exchange is proposing new language in Rule 1080(n)(ii)(H) regarding a Complex Order PIXL Auction price matching a Complex Order Book price on the same side of the market as the PIXL Order. Specifically, new subsection (H) states that if the Complex Order PIXL Auction price is the same as that of a Complex Order on the Complex Order Book on the same side of the market as the Complex PIXL Order, the PIXL Order may only be executed at a price that is at least one minimum price improvement increment better than the resting order's limit price; or if such resting order's limit price is equal to or crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price. This is similar to how PIXL executions are handled today when an order on

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<sup>29</sup> The Exchange electronically communicates the underlying security component of the order to NOS for immediate execution as per Exchange Rule 1080 Commentary .08(h). In addition, only those participants with the appropriate documentation (e.g. a Qualified Special Representative ("QSR") arrangement with NOS), as required by Exchange Rule 1080 Commentary .08(a)(i), will be allowed to submit Complex Orders which include a stock component into PIXL.

the same side as the PIXL Order is on the book.<sup>30</sup> Rule 1080(n)(ii)(H) is being proposed in order to provide for the same behavior when a Complex Order on the same side of the market as the Complex PIXL Order is resting on the book. For example, assume a Complex PIXL Order to buy 20 strategy contracts is stopped at a price of \$0.60 when the cPBBO market is \$0.40 bid, offered at \$0.70. Additionally, assume a PAN response is received to sell 10 strategy contracts at \$0.58. In addition, assume a Complex Order is received during the Auction to buy 10 strategy contracts for \$0.58. The Complex Order received during the Auction will rest on the order book since it is not marketable against the cPBBO or against other resting Complex Order interest. At the end of the Auction, 10 strategy contracts of the Complex PIXL Order will be executed at \$0.59, one price improvement increment better than the resting Complex Order bid of \$0.58, against the PAN response and 10 strategy contracts of the Complex PIXL Order will be executed at \$0.60 against the Initiating Order of the Complex PIXL. Considering a similar scenario where the Complex Order received during the Auction is to buy 10 strategy contracts for \$0.60, at the end of the Auction, the entire Complex PIXL Order will be executed at \$0.60 with the Initiating Order and the PAN response each executing 10 strategy contracts. This is similar to how PIXL executions are handled today.

The Exchange is also proposing to add language to existing Rule 1080(n)(ii)(G) to state that if there is an order on the limit order book, on the same side of the market as the PIXL Order, which is “equal to or crosses” the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price. Currently, the rule does not address the case where the order on the limit

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<sup>30</sup> Rule 1080(n)(ii)(G).

order book is “equal to” the stop price. This change does not impact behavior since the order on the limit order book has been considered by the Phlx system to “cross” the stop price when its limit was equal to the stop price. Not adding the consideration when the limit order “crossed” the stop price would have resulted in PIXL Orders not being able to execute since they would be forced to improve the limit of the resting order which was also the PIXL Order stop price.

Ninth, the Exchange is proposing new language in Rule 1080(n)(ii)(J) regarding Complex Order PIXL Orders with stock components. Specifically, subsection (J)(1) states that a member organizations may only submit Complex PIXL Orders, Initiating Orders, Complex Orders, and/or PAN responses with a stock/ETF component if such orders/responses comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS pursuant to the Act. Member organizations submitting such orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Members of FINRA or the NASDAQ Stock Market (“NASDAQ”) are required to have a Uniform Service Bureau/Executing Broker Agreement (“AGU”) with Nasdaq Options Services LLC in order to trade orders containing a stock/ETF component; firms that are not members of FINRA or NASDAQ are required to have a Qualified Special Representative (“QSR”) arrangement with Nasdaq Options Services LLC (“NOS”) in order to trade orders containing a stock/ETF component.

New subsection (J)(2) states that where one component of a Complex PIXL Order, Initiating Order, Complex Order, or PAN response is the underlying security, the Exchange shall electronically communicate the underlying security component of a

Complex PIXL Order to NOS, its designated broker-dealer, for immediate execution. Such execution and reporting will occur otherwise than on the Exchange and will be handled by NOS pursuant to applicable rules regarding equity trading.

And, new subsection (J)(3) states that when the short sale price test in Rule 201 of Regulation SHO<sup>31</sup> is triggered for a covered security, NOS will not execute a short sale order in the underlying covered security component of a Complex PIXL Order, Initiating Order, Complex Order, or PAN response if the price is equal to or below the current national best bid.<sup>32</sup> However, NOS will execute a short sale order in the underlying covered security component of a Complex PIXL Order, Complex Order, or PAN response if such order is marked “short exempt,” regardless of whether it is at a price that is equal to or below the current national bid.<sup>33</sup> If short sale restrictions of Rule 201 are in effect at the end of the Auction and either the Complex PIXL Order or the Initiating Order consists of a stock/ETF component which is a short sale, NOS will execute the short sale order in the underlying covered security component if such order is able to be

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<sup>31</sup> 17 CFR 242.201. See Securities Exchange Act Release No. 61595 (February 26, 2010), 75 FR 11232 (March 10, 2010). See also Division of Trading and Markets: Responses to Frequently Asked Questions Concerning Rule 201 of Regulation SHO, January 20, 2011 (“SHO FAQs”) at <http://www.sec.gov/divisions/marketreg/mrfaqregsho1204.htm>.

<sup>32</sup> The term “national best bid” is defined in Rule 201(a)(4). 17 CFR 242.201(a)(4).

<sup>33</sup> The Exchange notes that a broker or dealer may mark a sell order “short exempt” only if the provisions of Rule 201(c) or (d) are met. 17 CFR 242.200(g)(2). Since NOS and the Exchange do not display the stock or ETF portion of a complex order, however, a broker-dealer should not be in a position to mark the short sale order “short exempt” under Rule 201(c). See SHO FAQs Question and Answer Nos. 4.2, 5.4, and 5.5. See also Securities Exchange Act Release No. 63967 (February 25, 2011), 76 FR 12206 (March 4, 2011)(SR-Phlx-2011-27)(discussing, among other things, Complex Orders marked “short exempt”).

executed at a price which is above than the national best bid at the time of execution. If NOS cannot execute the underlying covered security component of a Complex PIXL Order or Initiating Order in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex PIXL Order and Initiating Order to the entering member organization. Similarly, if short sale restrictions of Rule 201 are in effect at the end of the Auction and there exist Complex Orders or PAN responses which consist of a stock/ETF component which is a short sale, NOS will execute the short sale order in the underlying covered security component if such order is able to be executed at a price which is above the national best bid at the time of execution. If NOS cannot execute the underlying covered security component of a Complex Order or PAN response in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex Order and/or PAN response to the entering member organization. For purposes of this paragraph, the term “covered security” shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

The Exchange is also proposing two additional minor changes to the Phlx rules in order to accommodate Complex Order submission into the PIXL mechanism, and one clarifying change to the current PIXL rule. The first of these rule changes is to current Rule 1080(n)(i)(E), which states that PIXL Orders submitted during the final second of the trading session in the affected series are not eligible to initiate an Auction and will be rejected. The Exchange is proposing to alter the language to state that orders submitted during the final “two seconds” of the trading session will not be eligible to initiate an Auction and will be rejected. The Exchange is increasing this duration from one to two seconds in order to accommodate the execution of multiple components of a Complex

Order. Since this time allowance is set for PIXL as a whole, and not only for PIXL versus Complex PIXL, no orders submitted into the PIXL mechanism will be accepted when there remains less than two seconds in the trading session for the components of the order. Second, the Exchange is proposing to add language to Commentary .08(e)(i)(B)(2) of Rule 1080 to stipulate that a Complex Order that would otherwise be a COLA-eligible order that is received in a strategy where there is currently a Complex Order PIXL Auction in progress shall not be COLA-eligible. The Phlx XL system allows for only one Auction to be ongoing in a given series or strategy at a time. This rule will be changed slightly to include “strategy” as well as “series”. With the allowance of Complex Orders into PIXL, the Complex Order rules will also be changed to stipulate that only one Auction, including both COLA and PIXL, may be conducted at a time in a given strategy.<sup>34</sup>

Lastly, the Exchange is submitting a clarifying change to current Rule 1080(n)(ii)(E)(2)(a). The rule currently states that if the Initiating Member is matched by only one specialist, SQT or RSQT at the stop price, then the Initiating Member is entitled to 50% of the contracts executed at such price. The rule is being clarified to state that if the Initiating Member is matched by only one other “participant,” which includes a specialist, SQT or RSQT, as well as any other exchange member, then the Initiating Member is entitled to 50% of the contracts executed at such price.

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<sup>34</sup> Proposed Rule 1080(n)(ii).

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>35</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>36</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. This will be effectuated by rule changes that allow Complex Orders to be submitted into the Phlx price improvement (PIXL) mechanism.

PIXL is the Exchange's electronic order, trade, and execution system that allows a member of the Exchange known as an Initiating Member to electronically submit for execution an order it represents as agent on behalf of a public customer, broker-dealer, or any other entity against principal interest or against any other order it represents as agent provided it submits the PIXL Order for electronic execution into the PIXL Auction pursuant to the Rule. During the one-second blind PIXL Auction (PAN), the Initiating Member's stop price or NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled. Anyone may respond to the PAN by sending orders or quotes. At the conclusion of the Auction, the PIXL Order will be allocated at the best price(s). PIXL has proven to be, since its institution several years ago, an effective electronic price improvement and trading tool on the Exchange that, until this proposal, was not able to accept Complex Orders.

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<sup>35</sup> 15 U.S.C. 78f(b).

<sup>36</sup> 15 U.S.C. 78f(b)(5).



Complex Orders allow the simultaneous purchase and/or sale of two or more different options series in the same underlying security and for the same account. These orders are priced at a net debit or credit based on the relative prices of no more than six individual components for the purpose of executing a particular investment strategy. Complex Orders may also be stock-option orders, which enable buying or selling a stated number of units of an underlying stock or ETF coupled with the purchase or sale of options contract(s). Complex Orders allow the execution of spread and other multifaceted trading and hedging strategies that could not be done effectively, if at all, with multiple simple orders.

Currently, PIXL does not accommodate Complex Orders as is allowed on other options exchanges, such as ISE and the Chicago Board Options Exchange, Incorporated (“CBOE”), which have price-improving electronic auctions like PIXL. Clearly, Complex Orders are and will continue to become an increasingly important hedging and trading segment of the options industry. This proposal simply allows Complex Orders to be entered into the Exchange’s PIXL Auction mechanism just as is allowed on ISE and CBOE.

The Exchange is proposing several rule changes to establish how Complex Orders will be accommodated in PIXL, including the following. First, new Rule 1080(n)(i)(C) regarding stopping the entire Complex Order of a conforming ratio when submitting such order into PIXL. Second, new Rule (n)(ii)(A)(2) to explain the process for initiating a PIXL Complex Auction. Third, new language in Rule 1080(n)(ii)(B)(3) to add a Complex Order PIXL alternative for concluding a Complex Order PIXL Auction. Fourth, new language in Rule 1080(n)(ii)(C) to add a Complex Order PIXL alternative

for execution when a Complex PIXL Auction ended due to the cPBBO or the Complex Order book crossing the Complex Order PIXL stop price on the same side as the Complex PIXL Order. Fifth, new language in Rule 1080(n)(ii)(E)(2)(d) regarding allocation of Complex Order PIXL. Sixth, new language in Rule 1080(n)(ii)(E)(2)(e) regarding allocation of Complex Order PIXL where an Initiating Member selected “stop and NWT” in respect to the stop price of a PIXL Order submission. Seventh, new language in Rule 1080(n)(ii)(E)(g) to stipulate that Complex PIXL Orders which include a stock/ETF component will only execute against Complex Orders or PAN responses that also include the stock/ETF component. Eighth, new language in Rule 1080(n)(ii)(H) regarding a Complex Order PIXL Auction price matching a Complex Order Book price on the same side of the market as the PIXL Order. Ninth, new language in Rule 1080(n)(ii)(J) regarding Complex Order PIXL Orders with stock components. In addition, the three pilots applicable to Complex Orders (stopping the entire PIXL Order where the order is for a size less than 50 contracts, early conclusion of the PIXL Auction, and no minimum size requirement of orders entered into PIXL) are applicable to Complex Orders in PIXL.

The Exchange believes this proposal reflects reasonable and proper amendments to accommodate Complex Orders in PIXL, the Exchange’s price-improvement mechanism that is a component of the fully automated options trading system Phlx XL. This ensures a dynamic, real-time trading mechanism that maximizes the opportunity for trade executions for Complex Orders.

The proposed changes are consistent with Section 6(b)(5) of the Act in that they are 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 to protect investors and the public interest. In particular, the Exchange believes the proposed changes will result in more efficient trading and reduce the risk that Complex Orders fail to execute for investors by providing additional opportunities to accommodate Complex Orders in PIXL. The interaction of orders, including complex strategies and the Complex Book, will benefit investors by increasing the opportunity for Complex Orders to receive execution, while also enhancing execution quality for orders on the Complex Book. The Exchange believes that increased interaction, where possible, on a continuous and real-time basis of the bids and offers regarding a complex strategy, and the potential for price improvement through PIXL, will benefit market participants, investors, and traders.

The proposal would be of significant benefit to investors and traders as well as the public, which will gain the opportunity to submit additional orders types seeking price improvement through the PIXL mechanism. This may lead to an increase in Exchange volume. As such, the proposal is decidedly pro-competitive. In addition to increasing volume, the proposal would allow the Exchange to better compete against other markets that already offer accommodation of complex orders in their electronic auctions.

For all of the foregoing reasons and as discussed in the proposal, the Exchange believes the proposed rule changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to the Exchange.

#### 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 Exchange believes the proposal is pro-competitive. First, the proposal would enable the Exchange to provide market participants with an expanded opportunity to realize price improvement of Complex Orders through PIXL. And second, the proposal would diminish the potential for foregone market opportunities on the Exchange by allowing Complex Orders in PIXL to be entered by all Phlx members, similarly to electronic price improvement functionality for complex orders that is allowed on other options exchanges.

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)

The Exchange requests that the Commission approve the proposed rule change on an accelerated basis pursuant to Section 19(b)(2)<sup>37</sup> of the Act so that, from a competitive perspective, the Exchange has rules similar to those of other Exchanges that allow complex orders to enter into a price-improving electronic auction. This would enable Complex PIXL Orders to be entered into the Exchange's electronic auction, PIXL, and provide the ability to achieve price improvement of such multi-legged complex order strategies, and thereby enhance the ability of investors, traders, and market participants in general to execute their trading and hedging decisions.

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<sup>37</sup> 15 U.S.C. 78f(b)(2).

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

ISE received approval to allow Complex Orders into their PIM, which is an electronic auction process, the same as PIXL.<sup>38</sup> ISE allows both simple and Complex Orders to be entered into their price improvement mechanism and initiate an Auction, which until recently, had a duration of one second. The PIM Order is stopped at a price by an ISE member submitting the order and upon receipt of a PIM Order, ISE broadcasts an Auction notification soliciting interest from participants wishing to trade against the PIM Order. PHLX also offers a one second price improvement Auction mechanism, PIXL, but currently only allows simple orders to be entered. PIXL is similar to PIM in that it runs an auction for one second after broadcasting an Auction notification to participants. However, PIM has slightly different order acceptance rules for simple orders than PIXL. In order to initiate a PIM Auction, a simple order must be stopped at a price which improves the ISE BBO and is no worse than the NBBO. PIXL requires that simple orders of less than 50 contracts in size improve the PBBO and orders of 50 contracts or more may be stopped at a price equal to the PBBO, provided in either case the order is stopped at a price no worse than the NBBO. The proposed changes that are explained through examples herein enable Phlx to have functionality that is similar to what is already approved for and offered by ISE: complex orders in an electronic auction process. Thus, PIXL will require that Complex Orders submitted into the mechanism are entered at a price that is better than the best net price (i) available on the complex order

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<sup>38</sup> See Securities Exchange Act Release No. 64805 (July 5, 2011), 76 FR 40758 (July 11, 2011)(SR-ISE-2011-30).

book; and (ii) achievable from the best Phlx bids and offers for the individual legs (an improved net price) just as the ISE requires.

In addition, CBOE received approval to allow Complex Orders to be submitted into their AIM.<sup>39</sup> CBOE's AIM process for non-complex orders is similar to PIXL in that orders are submitted into the AIM mechanism with a stop price or marked as "auto-match", in which case the orders are stopped at the NBBO or if less than 50 contracts at one minimum price improvement increment better than the NBBO. Both AIM and PIXL run an auction process that has a duration of one second. In addition, both AIM and PIXL generate an auction notification and responses are submitted by participants into the Auction to trade against the AIM or PIXL order. Unlike PIXL, CBOE's AIM offers participants the ability to submit an order into AIM which first clears better priced interest prior to initiating an auction. Orders entered into PIXL must adhere to the acceptance rules upon receipt; if better priced interest is present, the PIXL Order is immediately rejected. Complex Orders may be entered into AIM provided they meet the same eligibility requirements as non-complex orders and the Agency Order is eligible based on its complex order type, order origin, class, and marketability. Unlike CBOE's AIM, however, PIXL will have slightly different acceptance requirements for Complex Orders versus non-complex orders. Phlx will require that all Complex Orders be submitted into PIXL with a stop price which improves both the cPBBO and the Complex Order book regardless of the PIXL order size. In addition, PIXL will not allow a Complex Order to be submitted as an "auto-match" unless the order is also submitted

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<sup>39</sup> See Securities Exchange Act Release No. 66235 (January 25, 2012), 77 FR 4844 (January 31, 2012)(SR-CBOE-2011-114).

with a specific stop price. CBOE continues to offer this as an option when submitting Complex Orders into AIM.

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.
11. Exhibits
  1. Notice of proposed rule for publication in the Federal Register.
  5. Text of the proposed rule change.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-Phlx-2013-39)

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing of  
Proposed Rule Change Regarding Complex Order PIXL

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4<sup>2</sup> thereunder, notice is hereby given that on April 12, 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 is filing with the Commission a proposal to amend Rule 1080 (Phlx XL and Phlx XL II) to accommodate Complex Orders in PIXL.<sup>3</sup> The Exchange requests that the Commission approve the proposed rule change on an accelerated basis.

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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, Phlx XL, now known as XL II. 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, XL).

Six-legged Complex Orders trade on the Exchange. See Securities Exchange Act Release No. 63777 (January 26, 2011), 76 FR 5630 (February 1, 2011)(SR-Phlx-2010-157)(approval order allowing six-legged Complex Orders); and Commentary .08 to Rule 1080. This proposal would enable Complex Orders to trade on PIXL.



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

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of this proposed rule change is to amend Rule 1080 to accommodate Complex Orders in PIXL. This proposal would allow Complex Orders in the Exchange's price-improving electronic auction, PIXL, similarly to other options exchanges that currently allow complex orders in their price-improving electronic auctions.<sup>4</sup>

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<sup>4</sup> See Securities Exchange Act Release No. 64805 (July 5, 2011), 76 FR 40758 (July 11, 2011)(SR-ISE-2011-30)(order granting approval of a proposed rule change relating to Complex Orders in ISE's Price Improvement Mechanism, PIM). See also Securities Exchange Act Release No. 66235 (January 25, 2012), 77 FR 4844 (January 31, 2012)(SR-CBOE-2011-114)(order granting approval of a proposed rule change relating to Complex Order processing in CBOE's Hybrid 3.0 classes).

## Background

### Current PIXL

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. Currently, the PIXL mechanism accepts only simple orders.

An Exchange member may initiate a PIXL Auction (“Initiating Member”) by submitting a PIXL Order in one of three ways:<sup>5</sup>

- 1) the Initiating Member could submit a PIXL Order specifying a single price at which it seeks to execute the PIXL Order (a “stop price”);
- 2) an Initiating Member could submit a PIXL Order specifying that it is willing to automatically match as principal or as agent on behalf of an Initiating Order, the price

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<sup>5</sup> Three components of the PIXL system were approved by the Commission on a pilot basis: (1) Paragraphs (n)(i)(A)(2) and (n)(i)(B)(2) of Rule 1080, relating to stopping the entire PIXL Order where the order is for a size less than 50 contracts; (2) paragraphs (n)(ii)(B)(4) and (n)(ii)(D) of Rule 1080, relating to the early conclusion of the PIXL Auction; and (3) paragraph (n)(vii) of Rule 1080, stating that there shall be no minimum size requirement of orders entered into PIXL (collectively, the “pilots”). See supra note 3. The pilots were extended for a pilot period expiring July 18, 2013. All of the pilots are applicable to Complex PIXL. The paragraph (n)(i)(A)(2) and (n)(i)(B)(2) pilot is, for Complex Orders of less than 50 contracts in size, in new (n)(i)(C). Paragraph (n)(ii)(B)(4) is re-numbered as (n)(ii)(B)(5) and, along with paragraph (n)(ii)(D), the early conclusion of the PIXL Auction pilot is applicable to Complex PIXL Orders. Proposed (n)(ii)(D) states, regarding Complex PIXL Auctions, that an unrelated market or marketable limit Complex Order on the opposite side of the market from the Complex PIXL Order, as well as orders for the individual components of the Complex Order received during the Auction, will not cause the Auction to end early and will execute against interest outside of the Auction. If contracts remain from such unrelated order at the time the Auction ends, they will be considered for participation in the order allocation process described in sub-paragraph (E) below.

and size of all trading interest, and responses to the PIXL Auction Notification (“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 (if 50 contracts or greater) or, if less than 50 contracts, the better of: (i) The Phlx Best Bid/Offer (“PBBO”) price on the opposite side of the market from the PIXL Order improved by at least one minimum price improvement increment, or (ii) the PIXL Order’s limit price (if the order is a limit order), provided in either case that certain circumstances are met and that such price is at least one increment better than the limit of an order on the book on the same side as the PIXL Order; or

3) an Initiating Member could submit a PIXL Order specifying that it is willing to either: (i) stop the entire order at a single stop price and auto-match PAN responses, as described below, 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 (if 50 contracts or greater) or the better of: (A) the PBBO price on the opposite side of the market from the PIXL Order improved by one minimum price improvement increment, or (B) the PIXL Order’s limit price (if the order is a limit order) on the Initiating Order side (if for less than 50 contracts), and auto-match PAN responses and trading interest at a price or prices that improve the stop price up to the NWT price.<sup>6</sup> 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

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<sup>6</sup> The PIXL 50 contract distinction is applicable to Complex Orders entered into PIXL.

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 and a one-second blind Auction ensues. Anyone may respond to the PAN notification. At the conclusion of the Auction, the PIXL Order will be 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 pricing is determined solely by the other orders and quotes that are present in the Phlx XL system at the time the Auction ends.

#### Current Complex Orders

A Complex Order is any order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, priced at a net debit or credit based on the relative prices of the individual components, for the same account, for the purpose of executing a particular investment strategy. A Complex Order may also be a stock-option order, which is an order to buy or sell a stated number of units of an underlying stock or exchange-traded fund ("ETF") coupled with the purchase or sale of options contract(s). Complex Orders on Phlx are discussed in Commentary .08 to Rule 1080.<sup>7</sup> In particular, Commentary .08 governs the trading of Complex Orders on the

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<sup>7</sup> For the full definition of Complex Order, see Commentary .08(a)(i) to Rule 1080. See also Securities Exchange Act Release No. 63777 (January 26, 2011), 76 FR 5630 (February 1, 2011)(SR-Phlx-2010-157)(order granting approval of a

Phlx's electronic options trading platform, Phlx XL II, to, among other things: (i) permit Complex Orders with up to six components, including the underlying stock or Exchange Traded Fund Share ("ETF"); (ii) establish a Do Not Auction ("DNA") designation for Complex Orders; (iii) add a definition of conforming ratio;<sup>8</sup> (iv) provide priority rules for Complex Orders traded on Phlx XL II; and (v) provide for the communication of the stock or ETF component of a Complex Order by the Exchange to NASDAQ Options Services LLC ("NOS"), the Phlx's affiliated broker-dealer, for execution.

Currently, PIXL does not accommodate auctions for Complex Orders as is allowed on other options exchanges that have price-improving electronic auctions like PIXL.<sup>9</sup> However, Complex Orders are becoming an increasingly important segment of options trading. This proposal allows Complex Orders of up to six legs, as defined in Commentary .08 of Rule 1080, to be entered into the Exchange's PIXL Auction, and

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proposed rule change relating to Complex Orders in Phlx Commentary .08 to Rule 1080 and establishing, among other things, six-legged Complex Orders)(the "Complex Order filing"). Prior to the Complex Order filing, a Complex Order could be composed of two option legs and could not have a stock component.

Six other options exchanges have rules that provide for the trading of complex orders. See C2 Rule 6.13; CBOE Rules 6.42, 6.45, 6.53C; ISE Rule 722; NYSE Arca Rules 6.62(e), 6.91; NYSE MKT Rules 900.3NY(e), 963NY, 980NY.

<sup>8</sup> The Exchange proposes to add language to Commentary .08(a)(ix) to Rule 1080 to codify the principle that Complex Orders consisting of a ratio other than a conforming ratio will not be accepted. See footnote 20 in Securities Exchange Act Release No. 63509 (December 9, 2010), 75 FR 78320 (December 15, 2010)(SR-Phlx-2010-157)(notice of Complex Order filing).

<sup>9</sup> See Securities Exchange Act Release No. 64805 (July 5, 2011), 76 FR 40758 (July 11, 2011)(SR-ISE-2011-30)(order granting approval of a proposed rule change relating to Complex Orders in ISE's Price Improvement Mechanism, PIM). See also Securities Exchange Act Release No. 66235 (January 25, 2012), 77 FR 4844 (January 31, 2012)(SR-CBOE-2011-114)(order granting approval of a proposed rule change relating to Complex Order processing in CBOE's Hybrid 3.0 classes).

proposes changes to Rule 1080 to facilitate this process without making any modifications to the PIXL process in place today for orders which are not Complex Orders, or to the Complex Order rules.<sup>10</sup>

### The Proposal

#### Changes to Rule 1080(n) - PIXL

The Exchange proposes to enhance PIXL so that Complex Orders may be entered into PIXL and may have the benefit of price improvement functionality (known as “Complex PIXL”).

The Exchange intends to change PIXL, which is codified in Rule 1080(n), only to the extent needed to accommodate Complex PIXL Orders. The Exchange does so by exempting Complex PIXL Orders from those sections of PIXL which are not wholly applicable to Complex Orders. Specifically, Complex Orders are exempted from the following portions of subsection (n) of Rule 1080: (i) the current PIXL auction eligibility requirements for the account of a public customer and not a public customer that differentiate whether a PIXL Order is for a size of less than 50 contracts or 50 contracts or more;<sup>11</sup> (ii) the current procedure for initiating a PAN Auction, how an Initiating Member must mark the PIXL Order and what the member must specify;<sup>12</sup> (iii) the current minimum price increment for PAN responses and for an Initiating Member's stop price

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<sup>10</sup> The Exchange notes that, as in most filings, it proposes technical housecleaning changes that are described below.

<sup>11</sup> Rule 1080(n)(i)(A) and (B). The analogous provision for Complex PILX Orders is in (n)(i)(C), as described below.

<sup>12</sup> Rule 1080(n)(ii)(A). Regarding initiation of a PIXL Auction, the Exchange is adding (n)(ii)(A)(2).

and/or NWT price;<sup>13</sup> (iv) the current rejection of PAN responses that are not equal to or better than the NBBO at the time of receipt of the PAN response;<sup>14</sup> (v) the current allocation process whereby after public customer interest at a particular price level has been satisfied, remaining contracts will be allocated among all Exchange quotes, orders and PAN responses;<sup>15</sup> (vi) the current process whereby if there are PAN responses that cross the then-existing NBBO (provided such NBBO is not crossed) at the time of the conclusion of the Auction, such PAN responses will be executed, if possible, at their limit price(s);<sup>16</sup> (vii) the current process whereby if the PIXL Auction price is the same as that

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<sup>13</sup> Rule 1080(n)(ii)(A)(6) (re-numbered as (n)(ii)(A)(7)). Regarding the minimum price increment for PAN responses and for an Initiating Member's stop price and/or for an NWT price in the case of a Complex Order (\$0.01), the Exchange is adding(n)(ii)(A)(7)(b).

<sup>14</sup> Rule 1080(n)(ii)(A)(9). The Exchange proposes new language in subsection (9) stating that a Complex Order PAN response must be equal to or better than the cPBBO, as defined in Commentary .08(a) of this Rule 1080 at the time of receipt of the PAN response. PAN responses may be modified or cancelled during the Auction. A PAN response (except if it is a Complex Order) submitted with a price that is outside the NBBO will be rejected. A Complex Order PAN response submitted with a price that is outside the cPBBO will be rejected. A PAN or Complex Order PAN response which is inferior to the stop price of the PIXL order will be rejected.

Commentary .08(a)(iv) defines the term cPBBO as the best net debit or credit price for a Complex Order Strategy based on the PBBO for the individual options components of such Complex Order Strategy, and, where the underlying security is a component of the Complex Order, the National Best Bid and/or Offer for the underlying security.

<sup>15</sup> Rule 1080(n)(ii)(E)(2)(a), (b), and (c). Regarding the PIXL Order allocation process, the Exchange is adding (n)(ii)(E)(2)(d), (e), and (f).

<sup>16</sup> Rule 1080(n)(ii)(F). The Exchange proposes new language adding the alternative that if there are Complex Order PAN responses that cross the then-existing cPBBO at the time of the conclusion of the Auction, such PAN responses will be executed, if possible, at their limit price(s). The Exchange believes that this behavior is, at best, highly unlikely as participants will cancel PAN responses

of an order on the limit order book on the same side of the market as the PIXL Order, the PIXL Order may only be executed at a price that is at least one minimum price improvement increment better than the resting order's limit price or, if such resting order's limit price crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price;<sup>17</sup> and (viii) that currently the execution price for a PIXL Order for the account of a public customer paired with an order for the account of a public customer must be expressed in the quoting increment applicable to the affected series, and that such an execution may not trade through the NBBO or at the same price as any resting customer order.<sup>18</sup>

The Exchange is proposing several rule provisions in respect of Complex Orders so that they can participate in PIXL Auctions. First, the Exchange proposes new Rule 1080(n)(i)(C) regarding stopping the entire Complex Order when submitting such order into PIXL. Specifically, new sub-paragraph (C) states that if the PIXL Order is a Complex Order and of a conforming ratio, as defined in Commentary.08(a)(i) and (a)(ix) to Rule 1080, the Initiating Member must stop the entire PIXL order at a price that is better than the best net price (debit or credit) (i) available on the Complex Order book regardless of the Complex Order book size; and (ii) achievable from the best Phlx bids

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when better priced interest that they could trade against is present in the marketplace.

<sup>17</sup> Rule 1080(n)(ii)(G). Regarding an Auction price on the limit order book on the same side of the market as the Complex PIXL Order, the Exchange is adding 1080(n)(ii)(H).

<sup>18</sup> Proposed Rule 1080(n)(vi). The Exchange clarifies that the subsection applies to the execution price for a PIXL Order and proposes new language stating that the execution price for a Complex Order PIXL may be in \$0.01 increments and may not trade at a price equal to or through the cPBBO or at the same price as a resting customer Complex Order.



and offers for the individual options (an “improved net price”), provided in either case that such price is equal to or better than the PIXL Order’s limit price.<sup>19</sup> New sub-paragraph (C) shall apply to all Complex Orders submitted into PIXL and, where applied to Complex Orders of less than 50 contracts in size, shall be effective for a pilot period scheduled to expire July 18, 2013. New sub-paragraph (C) maintains the core complex order spread priority principal which stipulates that a Complex Order may be executed at a total credit or debit price with priority over individual bids or offers established in the marketplace (including customers) that are not better than the bids or offers comprising such total credit or debit, provided that at least one option leg is executed at a better price than the established bid or offer for that option contracts and no option leg is executed at a price outside of the established bid or offer for that option contract.<sup>20</sup> New sub-paragraph (C) does so by requiring a Complex Order submitted into PIXL to be stopped at a net debit/credit price which improves upon the stated markets present for the individual components of the Complex Order. By definition, requiring a Complex Order to be stopped at a net debit/credit price which improves upon the stated markets present for the individual components of the Complex Order ensures that at least one option leg will be executed at a better price than the established bid or offer for such leg. For example, a Complex Order that is of a conforming ratio to buy one of option A with a PBBO market of \$1.00 bid, offered at \$1.20, and sell one of option B with a PBBO

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<sup>19</sup> Subsection (n)(i)(D) (re-numbered from current subsection (C)) indicates under what circumstances PIXL Orders are not eligible to initiate an Auction and will be rejected. Reference to proposed new subsection (C) is added to subsection (D) as re-numbered.

<sup>20</sup> The complex order spread priority principal in respect of Complex Orders is set forth in Rule 1080, Commentary .08(c)(iii).

market of \$0.50 bid, offered at \$0.60, would need to be stopped by the Initiating Member at a net price better than the calculated cPBBO market of \$0.40 bid, offered at \$0.70.<sup>21</sup> If in this same example there was also a resting Complex Order to buy one of option A and sell one of option B on Phlx for a net debit price of \$0.50, the Initiating Member would need to stop the Complex Order entered into PIXL at a net price better than \$0.50 bid and the calculated net best offer (cPBBO) of \$0.70.

Second, the Exchange is adding proposed new Rule (n)(ii)(A)(2) to explain the process for initiating a PIXL Complex Auction, which is similar to initiating a PIXL Auction today. Specifically, proposed new subsection (2) language states that to initiate the PIXL Complex Order Auction, the Initiating Member must mark the PIXL Order for Auction processing, and specify either: (a) a single price at which it seeks to execute the PIXL Order (a “stop price”); or (b) that it is willing to either: (i) stop the entire order at a single stop price and auto-match PAN responses and trading interest at a price or prices that improve the stop price to a specified price (a “Not Worse Than” or “NWT” price); or (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. Once the Initiating Member has submitted a Complex Order into PIXL for processing pursuant to this subparagraph, such order may not be modified or cancelled. Under any of the circumstances described in subparagraphs (a)-(b) of subsection (2), the stop price or NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled.

The procedure set forth in new Rule 1080(n)(ii)(A)(2) for Complex Orders is similar to the procedure set forth in Rule 1080(n)(ii)(A)(1) for initiating a PIXL Auction

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<sup>21</sup> \$0.40 bid = \$1.00 bid of A less \$0.60 offer of B; and \$0.70 offer = \$1.20 offer of A less \$0.50 bid of B.

for orders which are not complex. However, new Rule 1080(n)(ii)(A)(2) does not allow for Initiating Members to enter Complex Orders into PIXL and specify, without stipulating a specific stop price, that they are willing to automatically match as principal or as agent on behalf of an Initiating Order the price and size of all PAN responses, and trading interest. Initiating Members entering orders into PIXL which are not Complex Orders may indicate that they are willing to stop the PIXL Order at the NBBO on the Initiating Order side (if 50 contracts or more) or the PBBO on the opposite side of the market from the PIXL Order improved by one minimum price improvement increment (if the PIXL Order is for less than 50 contracts), provided such price is no worse than the NBBO, by submitting the order with a market price and a NWT market price.

When submitted in this manner, the trading system stops the PIXL order at a price based on the disseminated markets in that series at the time of order receipt, in accordance with PIXL rules stated above. The Exchange is not offering this particular functionality for Complex Orders in order to avoid stopping an order at a net debit/credit price which may be unexpected by the Initiating Member due to the fact that there are multiple legs in Complex Orders and prices may change rapidly. Requiring the Initiating Member to use an exact limit price as the stop price, yet allow the use of a NWT market price, will ensure that the stop price will meet the Initiating Member's expectations and still allow the Initiating Member to automatically match other interest if desired.

Third, the Exchange is proposing new language in Rule 1080(n)(ii)(B)(3) to add a Complex Order PIXL alternative for concluding a Complex Order PIXL Auction. Specifically, new subsection (3) states that a Complex Order PIXL Auction will conclude any time the cPBBO or the Complex Order book crosses the PIXL Order stop price on

the same side of the market as the PIXL Order.<sup>22</sup> This language introduces proposed new Rule 1080(n)(ii)(B)(2) for Complex Order PIXL Auctions that is similar to what is available for PIXL Auctions today. Today, PIXL Auctions end at the earlier of (i) the end of the Auction period, (ii) any time there is a trading halt on the Exchange in the affected series, or (iii) any time the PBBO crosses the PIXL order stop price on the same side as the PIXL Order. The PBBO includes both orders and quotes on the Exchange. Complex PIXL Auctions will also conclude (i) at the end of the Auction period or (ii) any time there is a trading halt on the Exchange in the affected series as stipulated in the rule today. In addition, the language of proposed new Rule 1080(n)(ii)(B)(3) is being added to explicitly state that the end of a Complex PIXL Auction can also occur either when the cPBBO or the Complex Order book crosses the PIXL Order stop price on the same side of the market as the PIXL Order.

Fourth, the Exchange is proposing new language in Rule 1080(n)(ii)(C) to add a Complex Order PIXL alternative for execution when a Complex PIXL Auction ended due to the cPBBO or the Complex Order book crossing the Complex Order PIXL stop price on the same side as the Complex PIXL Order. Specifically, new language in subsection (C)(2) states that at the conclusion of the PIXL Auction, in the case of the cPBBO or the Complex Order book crossing the Complex PIXL Order stop price on the same side as the Complex PIXL Order, the entire Complex PIXL Order will be executed at the stop price against executable PAN responses and executable Complex Order interest. For example, if a Complex PIXL Auction is in progress where the Complex

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<sup>22</sup> The Exchange also clarifies the end of the Auction alternative in Rule 1080(n)(ii)(B)(2) to state that, for a PIXL Auction (except if it is a Complex Order), any time the PBBO crosses the PIXL Order stop price on the same side of the market as the PIXL Order.

PIXL Order is a buy order stopped at \$0.60, if either the cPBBO (calculated Phlx Best Bid) moves to be \$0.61 bid or better, or if a Complex Order is entered onto the Phlx book with a bid price of \$0.61 or more, the Complex PIXL Auction will be terminated as set forth in proposed Rule 1080(n)(ii)(B)(3). In such case, any complex sell interest, both Complex Orders and PAN responses, at a price of \$0.60 or lower will be considered for trade against the Complex PIXL Order at \$0.60.

The execution process described above for Complex PIXL Orders is simpler than the process in place for PIXL Auctions terminated due to the PBBO crossing the PIXL Order stop price on the same side of the market as the PIXL Order. Currently, when a PIXL Auction is terminated due to the PBBO crossing the PIXL Order stop price on the same side of the market as the PIXL Order, the PIXL Order is executed at best response prices or, if the stop price is the best price in the Auction, the PIXL Order is executed at the stop price, unless the best response price is equal to the price of a limit order resting on the Phlx book on the same side of the market as the PIXL Order, in which case the PIXL Order will be executed against that response (but at a price that is at least one minimum price improvement increment better than the price of such limit order).<sup>23</sup> For example, assume a PIXL Order to buy 20 contracts is stopped at a price of \$0.60 when the market is \$0.40 bid, offered at \$0.70. Additionally, assume a PAN response is received to sell 10 contracts at \$0.55 and an order is submitted and entered onto the Phlx book to sell 10 contracts at \$0.60. If a buy order (or quote) with a limit of \$0.65 is entered into the Phlx XL system, the buy order (or quote) will trade immediately against the 10 contract order offered at \$0.60. The buy order (or quote) will not trade against the

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<sup>23</sup>

Rule 1080(n)(ii)(B).

PAN response offered at \$0.55 since it is an Auction response and is only eligible to trade as part of the Auction. Any residual interest of the buy order (or quote) is reflected in the PBBO causing the market to move to \$0.65 bid, offered at \$0.70, the PIXL Auction is terminated. Provided, in the unlikely event that the PAN response to sell at \$0.55 had not been cancelled, the PAN response will trade 10 contracts against the PIXL Order at \$0.55 and any residual PIXL Order contracts will trade at \$0.60 against the Initiating Order. The Exchange is proposing that when a Complex PIXL Auction is terminated due to either the cPBBO or the Complex Order book crossing the Complex Order PIXL stop price on the same side as the Complex PIXL Order, such order is only executed through the cPBBO and/or the Complex Order book at one price, the stop price.<sup>24</sup> Consider a scenario similar to the stopped PIXL Order example set forth above. Assume that a Complex PIXL Order to buy is stopped at a price of \$0.60. The Complex PIXL Order is to buy option A and sell option B, where option A is \$0.90 bid, offered at \$1.00 and option B is \$0.30 bid, offered at \$0.40. The individual option markets imply a cPBBO market of \$0.50 bid, offered at \$0.70. As before, assume a PAN response is received to sell the strategy at \$0.55. If the market for option A becomes \$1.05 bid, offered at \$1.15, the implied (calculated) cPBBO market becomes \$0.65 bid, offered at \$0.85 causing the Complex PIXL Auction to terminate. As proposed, the PAN response at \$0.55 will trade against the Complex PIXL Order at the stop price of \$0.60. To trade at \$.60, at least one of the option components of the Complex Order will need to be executed at a price which is outside of the current market where cPBBO is \$0.65 bid. Since this event may have up to six components, the Exchange believes that limiting the prices trading through the

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<sup>24</sup> Proposed Rule 1080(n)(ii)(B)(3).

cPBBO and/or the Complex Order book to only the stop price is important. Furthermore, combined with the improbability that responses will still be available which are crossing the cPBBO or the Complex Order book, the Exchange believes the price continuity of this approach is also more rational and fair to all participants. When executing at the stop price, the Initiating Order as well as all better priced PAN responses and Complex Order interest will be considered for trade against the Complex PIXL Order.

Fifth, the Exchange is proposing new language in Rule 1080(n)(ii)(E)(2)(d) regarding allocation of Complex Order PIXL. Specifically, new subsection (2)(d) states that in the case of a Complex Order PIXL, if the Initiating Member selected the single stop price option of the PIXL Auction, PIXL executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after public customer complex interest is satisfied being allocated to the Initiating Member at the stop price. If only one other participant matches the stop price, then the Initiating Member may be allocated up to 50% of the contracts remaining after public customer complex interest is satisfied at such price. Complex Orders on the PHLX Complex Order Book, PAN responses, and quotes and orders which comprise the cPBBO at the end of the Auction will be considered for allocation against the Complex PIXL order. Such interest will be allocated in the following order: (i) to public customer Complex Orders and PAN responses in time priority; (ii) to SQT, RSQT, and non-SQT ROT Complex Orders and PAN responses on a size pro-rata basis; (iii) to non-market maker off-floor broker-dealer Complex Orders and PAN responses on a size pro-rata basis, and (iv) to quotes and orders which comprise the cPBBO at the end of the Auction with public customer interest being satisfied first in time priority, then to SQT, RSQT, and non-SQT

ROT interest satisfied on a size pro-rata basis, and lastly to non-market maker off-floor broker-dealers on a size pro-rata basis. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Member, after public customer Complex Orders and PAN responses have been satisfied.

For example, a Complex Order to buy one of option A and sell one of option B, 100 times, with a cPBBO of \$0.40 bid, \$0.70 offer, may be submitted into PIXL by the Initiating Member with a single stop price of \$0.60. Assume that during the Auction, Phlx receives the following responses and order interest:

- MM1 responds to sell the strategy 10 times at a price of \$0.55
- MM1 responds to sell the strategy 10 times at a price of \$0.60
- BD responds to sell the strategy 5 times at a price of \$0.60
- Customer Complex Order to sell the strategy 30 times at a price of \$0.60
- MM2 responds to sell the strategy 20 times at \$0.60.

After all of the aforementioned responses and orders are received, option A of the simple market moves causing the cPBBO to become offered 20 times at \$0.55. Option A is quoted in the simple market as \$1.00 bid, \$1.05 offer, with the \$1.05 offer representing a Customer offer. Option B is quoted in the simple market as \$0.50 bid, \$0.60 offer.

At the end of the Auction, the Complex PIXL Order will be executed 30 times at a price of \$0.55. Of those 30 strategies, MM1 will trade 10 and an additional 20 contracts will be traded by legging into the interest that represents the cPBBO, including the Customer offered at \$1.05 in Option A. The Complex PIXL Order will then be traded against interest at \$0.60. First, the Customer offering the strategy 30 times will be satisfied. Next, the Initiating member will be allocated 40% of the remaining 40 strategy



contracts, i.e. 16 strategy contracts at his stop price of \$0.60. The residual 24 strategy contracts will trade against the two market maker responses in a pro-rata fashion with MM1 executing 8 strategy contracts and MM2 executing 16 strategy contracts. The broker dealer offering 5 strategies at \$0.60 would not receive any allocation and the response is cancelled back to the participant.

An additional example illustrating the execution algorithm proposed for Complex Order PIXL is as follows. Assume a Complex Order to buy one of option A and sell one of option B, 100 times, with a cPBBO of \$0.40 bid, \$0.70 offer, may be submitted into PIXL by the Initiating Member with a single stop price of \$0.60. Assume that during the Auction, Phlx receives the following responses and order interest:

- MM1 responds to sell the strategy 10 times at a price of \$0.55
- MM1 responds to sell the strategy 10 times at a price of \$0.60
- BD responds to sell the strategy 5 times at a price of \$0.60
- Customer Complex Order to sell the strategy 30 times at a price of \$0.60
- MM2 responds to sell the strategy 20 times at \$0.60.

After all of the aforementioned responses and orders are received, option A of the simple market moves causing the cPBBO to become offered 20 times at \$0.60. Option A is quoted in the simple market as \$1.00 bid, \$1.10 offer, with the \$1.10 offer representing a Customer offer. Option B is quoted in the simple market as \$0.50 bid, \$0.60 offer.

At the end of the Auction, the Complex PIXL Order will be executed 10 times at a price of \$0.55 against MM1. The Complex PIXL Order will then be traded against interest at \$0.60. First, the Customer offering the strategy 30 times will be satisfied. Next, the Initiating member will be allocated 40% of the remaining 60 strategy contracts,

i.e. 24 strategy contracts at his stop price of \$0.60. The residual 36 strategy contracts will trade against the two market maker responses with MM1 executing 10 strategy contracts and MM2 executing 20 strategy contracts. The broker dealer offering 5 strategies at \$0.60 would then be executed. The last 1 contract would be traded against the cPBBO interest with the Customer offering Option A at \$1.10 receiving priority over any other interest offered at that price.

Similarly to PIXL, all interest in the Phlx system at the end of a Complex PIXL auction will be considered for execution against the Complex PIXL Order. Interest will be traded first based on the prices available at the end of the Auction. At all prices, other than the final price point, all interest, including Complex Orders, PAN response, and interest comprising the cPBBO will be fully satisfied. At the final price point, the Initiating Member will be allocated up to 40% (50% if matching only one other participant) of the Complex PIXL Order after public customer complex interest has been satisfied. After public customer complex interest and the Initiating Member have been allocated contracts, other complex interest will be considered for allocation with SQT, RSQT, and non-SQT ROT interest being allocated in a size pro-rata fashion followed by non-market maker off-floor broker dealer complex interest in a size pro-rata fashion. Once all complex interest, including both Complex Orders and PAN responses, has been satisfied, interest comprising the cPBBO will be considered for allocation. Public customer interest comprising the cPBBO will be afforded priority over non-public customer interest comprising the cPBBO and will be allocated in a price time manner. After public customer interest comprising the cPBBO has been satisfied, SQT, RSQT, and non-SQT ROT interest comprising the cPBBO will be allocated in a size pro-rata

fashion followed by non-market maker off-floor broker dealer complex interest in a size pro-rata fashion.

Complex Orders today which are executed as part of a Complex Order Live Auction (COLA) trade first based on the best prices available at the end of the COLA timer. If markets for the individual components of the Complex Order independently improve during the COLA Timer and match the best price of COLA Sweeps(s) and/or responsive Complex Order interest, the responses will be executed before executing the individual components of the Complex Order. Since a Complex PIXL Order must be stopped at a price which improves upon all interest in the Phlx XL system at time of receipt, the proposed Complex PIXL execution algorithm ensures and maintains the priority of established interest. In the event that the individual components of the Complex PIXL Order independently improve during the Auction and new interest is received during the auction, Complex Orders and PAN responses will be afforded priority over individual component interest comprising the cPBBO at a given price point just as auction responses and Complex Orders are afforded priority over individual components of a Complex Order that independently improve during a COLA. It is important to note, however, that public customer complex interest will maintain priority over non-public customer complex interest and public customer interest comprising the cPBBO will be afforded priority over non-public customer interest comprising the cPBBO. The Complex PIXL Auction allows for all participant types, including public customers, to respond to the auction notification.<sup>25</sup> Public customers responding to the

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<sup>25</sup> Rule 1080(n)(ii)(A)(5) (re-numbered from subsection (A)(4)) provides that any person or entity may submit responses to the PAN, provided such response is properly marked specifying price, size and side of the market.

auction or submitting complex order interest during the auction will be afforded priority over non-customer interest. Public customer interest comprising the cPBBO will be afforded priority over non-customer interest comprising the cPBBO but not over complex order or PAN response interest. Such public customer interest was provided the opportunity to respond to the auction and/or submit complex interest during the auction. Since public customer interest comprising the cPBBO chose not to avail themselves of the opportunity to respond to the auction, the public customer interest representing individual components of the cPBBO will not be afforded priority over participants offering contra-side interest to the Complex PIXL for all components of the Complex PIXL Order at the same price point.

Sixth, the Exchange is proposing new language in Rule 1080(n)(ii)(E)(2)(e) regarding allocation of Complex Order PIXL where an Initiating Member selected “stop and NWT” in respect to the stop price of a PIXL Order submission. Specifically, new subsection (2)(e) states that in the case of a Complex Order PIXL, if the Initiating Member selected the “stop and NWT” option for the Complex PIXL Order submission, contracts shall be allocated as follows: (i) first to Complex Orders and PAN responses at prices better than the NWT price, as well as to quotes and orders which comprise the cPBBO if such cPBBO is better than the NWT price, pursuant to the algorithm set forth above in (n)(ii)(E)(2)(d)(i) through (iv) of Rule 1080 and (ii) next, to Complex Orders and PAN responses at prices, as well as to quotes and orders which comprise the cPBBO at the end of the Auction, at the Initiating Member's NWT price and at prices better than or equal to the Initiating Member's stop price, beginning with the NWT price. The Initiating Member shall be allocated an equal number of contracts as the aggregate size of

all other interest at each price point, except that the Initiating Member shall be entitled to receive up to 40% (or 50% if matching only one other participant) of the contracts remaining at the final price point (including situations where the final price is the stop price), after public customer Complex Orders and PAN responses have been satisfied. In the case of an Initiating Order with a NWT price at the market, the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other interest at all price points, except that the Initiating Member shall be entitled to receive up to 40% (or 50% if matching only one other participant) of the contracts remaining at the final price point (including situations where the final price is the stop price), after public customer Complex Orders and PAN responses have been satisfied. If there is other interest at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in (n)(ii)(E)(2)(d)(i) through (iv) of this rule. Any remaining contracts shall be allocated to the Initiating Member.<sup>26</sup>

For example, a Complex Order to buy one of option A and sell one of option B, 100 times, with a cPBBO of \$0.40 bid, \$0.70 offer, could be submitted into PIXL by the Initiating Member with a single stop price of \$0.60 and a NWT price of \$0.55. Assume that during the Auction, a market maker (MM1) responds to the auction notification and offers to sell the same Complex Order strategy 10 times at a price of \$0.55 as well as offers to sell the strategy 25 times at a price of \$0.60. In addition, assume that a public customer Complex Order to sell the strategy 10 times at \$0.60 is received and another market maker (MM2) responds to sell the strategy 25 times at \$0.60. At the end of the Auction, the Complex PIXL Order will be executed 10 times at a price of \$0.55 against

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<sup>26</sup> Proposed new subsection (n)(ii)(E)(2)(f) states that a single quote, order or PAN response shall not be allocated a number of contracts that is greater than its size.

MM1 and an additional 10 times at a price of \$0.55 against the Initiating Member since he indicated he was willing to match all interest down to \$0.55 by using the NWT functionality. The Complex PIXL Order will then execute 10 times at a price of \$0.60 against the public customer offer. Then, the Initiating Member will be allocated 40% of the remaining 70 strategy contracts, i.e. 28 strategy contracts, of the Complex PIXL Order at the stop price of \$0.60. The two market maker responders will execute the remaining 42 contracts in a pro-rata fashion with both MM1 and MM2 trading 21 strategy contracts each.

Seventh, the Exchange is proposing new language in Rule 1080(n)(ii)(E)(g) to stipulate that Complex PIXL Orders which include a stock/ETF component will only execute against Complex Orders or PAN responses that also include the stock/ETF component. Such orders will not “leg” to the simple market and will therefore not trade against interest comprising the cPBBO at the end of the Auction.<sup>27</sup> This behavior is consistent with the handling of Complex Orders that include a stock/ETF component and are entered into the Phlx system.<sup>28</sup> Legging of a stock/ETF component would introduce the risk of a participant not receiving an execution on all components of the Complex Order and is therefore not considered as a means of executing a Complex Order which includes a stock/ETR component. The Exchange believes that introducing the risk of not having the ability to fully execute a complex strategy is counter-productive to, and

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<sup>27</sup> Complex Orders that include a stock/ETF component and are submitted to the Phlx Complex Order book or entered into a Complex Order Live Auction (COLA) also have a similar restriction. Rule 1080, Commentary .08(a)(i).

<sup>28</sup> Commentary.08 (a)(i) to Rule 1080 states, for example, that stock-option orders can only be executed against other stock-option orders and cannot be executed by the System against orders for the individual components.

inconsistent with, the effort to allow Complex Orders in PIXL. If there are Complex Orders and PAN responses which satisfy all components of the Complex Order in PIXL, including the stock component, the stock will be executed in the same manner as it is done today for Complex Orders.<sup>29</sup>

Eighth, the Exchange is proposing new language in Rule 1080(n)(ii)(H) regarding a Complex Order PIXL Auction price matching a Complex Order Book price on the same side of the market as the PIXL Order. Specifically, new subsection (H) states that if the Complex Order PIXL Auction price is the same as that of a Complex Order on the Complex Order Book on the same side of the market as the Complex PIXL Order, the PIXL Order may only be executed at a price that is at least one minimum price improvement increment better than the resting order's limit price; or if such resting order's limit price is equal to or crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price. This is similar to how PIXL executions are handled today when an order on the same side as the PIXL Order is on the book.<sup>30</sup> Rule 1080(n)(ii)(H) is being proposed in order to provide for the same behavior when a Complex Order on the same side of the market as the Complex PIXL Order is resting on the book. For example, assume a Complex PIXL Order to buy 20 strategy contracts is stopped at a price of \$0.60 when the cPBBO market is \$0.40 bid, offered at \$0.70. Additionally, assume a PAN response is

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<sup>29</sup> The Exchange electronically communicates the underlying security component of the order to NOS for immediate execution as per Exchange Rule 1080 Commentary .08(h). In addition, only those participants with the appropriate documentation (e.g. a Qualified Special Representative ("QSR") arrangement with NOS), as required by Exchange Rule 1080 Commentary .08(a)(i), will be allowed to submit Complex Orders which include a stock component into PIXL.

<sup>30</sup> Rule 1080(n)(ii)(G).

received to sell 10 strategy contracts at \$0.58. In addition, assume a Complex Order is received during the Auction to buy 10 strategy contracts for \$0.58. The Complex Order received during the Auction will rest on the order book since it is not marketable against the cPBBO or against other resting Complex Order interest. At the end of the Auction, 10 strategy contracts of the Complex PIXL Order will be executed at \$0.59, one price improvement increment better than the resting Complex Order bid of \$0.58, against the PAN response and 10 strategy contracts of the Complex PIXL Order will be executed at \$0.60 against the Initiating Order of the Complex PIXL. Considering a similar scenario where the Complex Order received during the Auction is to buy 10 strategy contracts for \$0.60, at the end of the Auction, the entire Complex PIXL Order will be executed at \$0.60 with the Initiating Order and the PAN response each executing 10 strategy contracts. This is similar to how PIXL executions are handled today.

The Exchange is also proposing to add language to existing Rule 1080(n)(ii)(G) to state that if there is an order on the limit order book, on the same side of the market as the PIXL Order, which is “equal to or crosses” the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price. Currently, the rule does not address the case where the order on the limit order book is “equal to” the stop price. This change does not impact behavior since the order on the limit order book has been considered by the Phlx system to “cross” the stop price when its limit was equal to the stop price. Not adding the consideration when the limit order “crossed” the stop price would have resulted in PIXL Orders not being able to execute since they would be forced to improve the limit of the resting order which was also the PIXL Order stop price.



Ninth, the Exchange is proposing new language in Rule 1080(n)(ii)(J) regarding Complex Order PIXL Orders with stock components. Specifically, subsection (J)(1) states that a member organizations may only submit Complex PIXL Orders, Initiating Orders, Complex Orders, and/or PAN responses with a stock/ETF component if such orders/responses comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS pursuant to the Act. Member organizations submitting such orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Members of FINRA or the NASDAQ Stock Market (“NASDAQ”) are required to have a Uniform Service Bureau/Executing Broker Agreement (“AGU”) with Nasdaq Options Services LLC in order to trade orders containing a stock/ETF component; firms that are not members of FINRA or NASDAQ are required to have a Qualified Special Representative (“QSR”) arrangement with Nasdaq Options Services LLC (“NOS”) in order to trade orders containing a stock/ETF component.

New subsection (J)(2) states that where one component of a Complex PIXL Order, Initiating Order, Complex Order, or PAN response is the underlying security, the Exchange shall electronically communicate the underlying security component of a Complex PIXL Order to NOS, its designated broker-dealer, for immediate execution. Such execution and reporting will occur otherwise than on the Exchange and will be handled by NOS pursuant to applicable rules regarding equity trading.

And, new subsection (J)(3) states that when the short sale price test in Rule 201 of Regulation SHO<sup>31</sup> is triggered for a covered security, NOS will not execute a short sale order in the underlying covered security component of a Complex PIXL Order, Initiating Order, Complex Order, or PAN response if the price is equal to or below the current national best bid.<sup>32</sup> However, NOS will execute a short sale order in the underlying covered security component of a Complex PIXL Order, Complex Order, or PAN response if such order is marked “short exempt,” regardless of whether it is at a price that is equal to or below the current national bid.<sup>33</sup> If short sale restrictions of Rule 201 are in effect at the end of the Auction and either the Complex PIXL Order or the Initiating Order consists of a stock/ETF component which is a short sale, NOS will execute the short sale order in the underlying covered security component if such order is able to be executed at a price which is above than the national best bid at the time of execution. If NOS cannot execute the underlying covered security component of a Complex PIXL Order or Initiating Order in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex PIXL Order and Initiating Order to the entering member

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<sup>31</sup> 17 CFR 242.201. See Securities Exchange Act Release No. 61595 (February 26, 2010), 75 FR 11232 (March 10, 2010). See also Division of Trading and Markets: Responses to Frequently Asked Questions Concerning Rule 201 of Regulation SHO, January 20, 2011 (“SHO FAQs”) at <http://www.sec.gov/divisions/marketreg/mrfaqregsho1204.htm>.

<sup>32</sup> The term “national best bid” is defined in Rule 201(a)(4). 17 CFR 242.201(a)(4).

<sup>33</sup> The Exchange notes that a broker or dealer may mark a sell order “short exempt” only if the provisions of Rule 201(c) or (d) are met. 17 CFR 242.200(g)(2). Since NOS and the Exchange do not display the stock or ETF portion of a complex order, however, a broker-dealer should not be in a position to mark the short sale order “short exempt” under Rule 201(c). See SHO FAQs Question and Answer Nos. 4.2, 5.4, and 5.5. See also Securities Exchange Act Release No. 63967 (February 25, 2011), 76 FR 12206 (March 4, 2011)(SR-Phlx-2011-27)(discussing, among other things, Complex Orders marked “short exempt”).

organization. Similarly, if short sale restrictions of Rule 201 are in effect at the end of the Auction and there exist Complex Orders or PAN responses which consist of a stock/ETF component which is a short sale, NOS will execute the short sale order in the underlying covered security component if such order is able to be executed at a price which is above the national best bid at the time of execution. If NOS cannot execute the underlying covered security component of a Complex Order or PAN response in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex Order and/or PAN response to the entering member organization. For purposes of this paragraph, the term “covered security” shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

The Exchange is also proposing two additional minor changes to the Phlx rules in order to accommodate Complex Order submission into the PIXL mechanism, and one clarifying change to the current PIXL rule. The first of these rule changes is to current Rule 1080(n)(i)(E), which states that PIXL Orders submitted during the final second of the trading session in the affected series are not eligible to initiate an Auction and will be rejected. The Exchange is proposing to alter the language to state that orders submitted during the final “two seconds” of the trading session will not be eligible to initiate an Auction and will be rejected. The Exchange is increasing this duration from one to two seconds in order to accommodate the execution of multiple components of a Complex Order. Since this time allowance is set for PIXL as a whole, and not only for PIXL versus Complex PIXL, no orders submitted into the PIXL mechanism will be accepted when there remains less than two seconds in the trading session for the components of the order. Second, the Exchange is proposing to add language to Commentary

.08(e)(i)(B)(2) of Rule 1080 to stipulate that a Complex Order that would otherwise be a COLA-eligible order that is received in a strategy where there is currently a Complex Order PIXL Auction in progress shall not be COLA-eligible. The Phlx XL system allows for only one Auction to be ongoing in a given series or strategy at a time. This rule will be changed slightly to include “strategy” as well as “series”. With the allowance of Complex Orders into PIXL, the Complex Order rules will also be changed to stipulate that only one Auction, including both COLA and PIXL, may be conducted at a time in a given strategy.<sup>34</sup>

Lastly, the Exchange is submitting a clarifying change to current Rule 1080(n)(ii)(E)(2)(a). The rule currently states that if the Initiating Member is matched by only one specialist, SQT or RSQT at the stop price, then the Initiating Member is entitled to 50% of the contracts executed at such price. The rule is being clarified to state that if the Initiating Member is matched by only one other “participant,” which includes a specialist, SQT or RSQT, as well as any other exchange member, then the Initiating Member is entitled to 50% of the contracts executed at such price.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>35</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>36</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

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<sup>34</sup> Proposed Rule 1080(n)(ii).

<sup>35</sup> 15 U.S.C. 78f(b).

<sup>36</sup> 15 U.S.C. 78f(b)(5).

market system, and, in general to protect investors and the public interest. This will be effectuated by rule changes that allow Complex Orders to be submitted into the Phlx price improvement (PIXL) mechanism.

PIXL is the Exchange's electronic order, trade, and execution system that allows a member of the Exchange known as an Initiating Member to electronically submit for execution an order it represents as agent on behalf of a public customer, broker-dealer, or any other entity against principal interest or against any other order it represents as agent provided it submits the PIXL Order for electronic execution into the PIXL Auction pursuant to the Rule. During the one-second blind PIXL Auction (PAN), the Initiating Member's stop price or NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled. Anyone may respond to the PAN by sending orders or quotes. At the conclusion of the Auction, the PIXL Order will be allocated at the best price(s). PIXL has proven to be, since its institution several years ago, an effective electronic price improvement and trading tool on the Exchange that, until this proposal, was not able to accept Complex Orders.

Complex Orders allow the simultaneous purchase and/or sale of two or more different options series in the same underlying security and for the same account. These orders are priced at a net debit or credit based on the relative prices of no more than six individual components for the purpose of executing a particular investment strategy. Complex Orders may also be stock-option orders, which enable buying or selling a stated number of units of an underlying stock or ETF coupled with the purchase or sale of options contract(s). Complex Orders allow the execution of spread and other

multifaceted trading and hedging strategies that could not be done effectively, if at all, with multiple simple orders.

Currently, PIXL does not accommodate Complex Orders as is allowed on other options exchanges, such as ISE and the Chicago Board Options Exchange, Incorporated (“CBOE”), which have price-improving electronic auctions like PIXL. Clearly, Complex Orders are and will continue to become an increasingly important hedging and trading segment of the options industry. This proposal simply allows Complex Orders to be entered into the Exchange’s PIXL Auction mechanism just as is allowed on ISE and CBOE.

The Exchange is proposing several rule changes to establish how Complex Orders will be accommodated in PIXL, including the following. First, new Rule 1080(n)(i)(C) regarding stopping the entire Complex Order of a conforming ratio when submitting such order into PIXL. Second, new Rule (n)(ii)(A)(2) to explain the process for initiating a PIXL Complex Auction. Third, new language in Rule 1080(n)(ii)(B)(3) to add a Complex Order PIXL alternative for concluding a Complex Order PIXL Auction. Fourth, new language in Rule 1080(n)(ii)(C) to add a Complex Order PIXL alternative for execution when a Complex PIXL Auction ended due to the cPBBO or the Complex Order book crossing the Complex Order PIXL stop price on the same side as the Complex PIXL Order. Fifth, new language in Rule 1080(n)(ii)(E)(2)(d) regarding allocation of Complex Order PIXL. Sixth, new language in Rule 1080(n)(ii)(E)(2)(e) regarding allocation of Complex Order PIXL where an Initiating Member selected “stop and NWT” in respect to the stop price of a PIXL Order submission. Seventh, new language in Rule 1080(n)(ii)(E)(g) to stipulate that Complex PIXL Orders which include

a stock/ETF component will only execute against Complex Orders or PAN responses that also include the stock/ETF component. Eighth, new language in Rule 1080(n)(ii)(H) regarding a Complex Order PIXL Auction price matching a Complex Order Book price on the same side of the market as the PIXL Order. Ninth, new language in Rule 1080(n)(ii)(J) regarding Complex Order PIXL Orders with stock components. In addition, the three pilots applicable to Complex Orders (stopping the entire PIXL Order where the order is for a size less than 50 contracts, early conclusion of the PIXL Auction, and no minimum size requirement of orders entered into PIXL) are applicable to Complex Orders in PIXL.

The Exchange believes this proposal reflects reasonable and proper amendments to accommodate Complex Orders in PIXL, the Exchange's price-improvement mechanism that is a component of the fully automated options trading system Phlx XL. This ensures a dynamic, real-time trading mechanism that maximizes the opportunity for trade executions for Complex Orders.

The proposed changes are consistent with Section 6(b)(5) of the Act in that they are 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 to protect investors and the public interest. In particular, the Exchange believes the proposed changes will result in more efficient trading and reduce the risk that Complex Orders fail to execute for investors by providing additional opportunities to accommodate Complex Orders in PIXL. The interaction of orders, including complex strategies and the Complex Book, will benefit investors by increasing the opportunity for Complex Orders to receive execution, while also enhancing execution quality for orders on the Complex

Book. The Exchange believes that increased interaction, where possible, on a continuous and real-time basis of the bids and offers regarding a complex strategy, and the potential for price improvement through PIXL, will benefit market participants, investors, and traders.

The proposal would be of significant benefit to investors and traders as well as the public, which will gain the opportunity to submit additional orders types seeking price improvement through the PIXL mechanism. This may lead to an increase in Exchange volume. As such, the proposal is decidedly pro-competitive. In addition to increasing volume, the proposal would allow the Exchange to better compete against other markets that already offer accommodation of complex orders in their electronic auctions.

For all of the foregoing reasons and as discussed in the proposal, the Exchange believes the proposed rule changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to the Exchange.

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 Exchange believes the proposal is pro-competitive. First, the proposal would enable the Exchange to provide market participants with an expanded opportunity to realize price improvement of Complex Orders through PIXL. And second, the proposal would diminish the potential for foregone market opportunities on the Exchange by allowing Complex Orders in PIXL to be entered by all Phlx members, similarly to electronic price improvement functionality for complex orders that is allowed on other options exchanges.



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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2013-39 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-2013-39. 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 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal offices 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-2013-39 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>37</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>37</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

Proposed new text is underlined. Deleted text is [bracketed].

**Phlx Option Rules**

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

(a) – (o) No Change.

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

A member may electronically submit for execution an order it represents as agent on behalf of a public customer, broker-dealer, or any other entity ("PIXL Order") against principal interest or against any other order (except as provided in sub-paragraph (n)(i)(E) below) it represents as agent ( an "Initiating Order") provided it submits the PIXL Order for electronic execution into the PIXL Auction ("Auction") pursuant to this Rule. The contract size specified in rule 1080(n) as applicable to PIXL Orders shall apply to Mini Options.

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

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

(1) and is for a size of 50 contracts or more, the Initiating Member must stop the entire PIXL Order (except if it is a Complex Order) at a price that is equal to or better than the National Best Bid/Offer ("NBBO") on the opposite side of the market from the PIXL Order, provided that such price must be at least one minimum price improvement increment (as determined by the Exchange but not smaller than one cent) better than any limit order on the limit order book on the same side of the market as the PIXL Order.

(2) and is for a size of less than 50 contracts, the Initiating Member must stop the entire PIXL Order (except if it is a Complex Order) at a price that is the better of: (i) the Exchange's Best Bid or Offer ("PBBO") price on the opposite side of the market from the PIXL Order improved by at least one minimum price improvement increment, or (ii) the PIXL Order's limit price (if the order is a limit order), provided in either case that such price is at or better than the NBBO, and at least one minimum price improvement increment better than any limit order on the book on the same side of the

market as the PIXL Order. This sub-paragraph (A)(2) shall be effective for a pilot period scheduled to expire July 18, 2013.

(B) If the PIXL Order (except if it is a Complex Order) is for the account of a broker-dealer or any other person or entity that is not a public customer:

(1) and is for a size of 50 contracts or more: the Initiating Member must stop the entire PIXL Order (except if it is a Complex Order) at a price that is the better of: (i) the PBBO price improved by at least one minimum price improvement increment on the same side of the market as the PIXL Order, or (ii) the PIXL Order's limit price (if the order is a limit order), provided in either case that such price is at or better than the NBBO.

(2) and is for a size of less than 50 contracts, the Initiating Member must stop the entire PIXL Order (except if it is a Complex Order) at a price that is the better of: (i) the PBBO price improved by at least one minimum price improvement increment on the same side of the market as the PIXL Order, or (ii) the PIXL Order's limit price (if the order is a limit order), provided in either case that such price is at or better than the NBBO and at least one minimum improvement increment better than the PBBO on the opposite side of the market from the PIXL Order. This sub-paragraph (B)(2) shall be effective for a pilot period scheduled to expire July 18, 2013.

(C) If the PIXL Order is a Complex Order and of a conforming ratio, as defined in Commentary.08(a)(i) and (a)(ix) to Rule 1080, the Initiating Member must stop the entire PIXL order at a price that is better than the best net price (debit or credit) (i) available on the Complex Order book regardless of the Complex Order book size; and (ii) achievable from the best Phlx bids and offers for the individual options (an "improved net price"), provided in either case that such price is equal to or better than the PIXL Order's limit price. This sub-paragraph (C) shall apply to all Complex Orders submitted into PIXL. This sub-paragraph (C), where applied to Complex Orders of less than 50 contracts in size, shall be effective for a pilot period scheduled to expire July 18, 2013.

([C]D) PIXL Orders that do not comply with the requirements of sub-paragraphs (A)[ and], (B), and (C) above are not eligible to initiate an Auction and will be rejected.

([D]E) PIXL Orders submitted at or before the opening of trading are not eligible to initiate an Auction and will be rejected.

([E]F) PIXL Orders submitted during the final two seconds of the trading session in the affected series are not eligible to initiate an Auction and will be rejected.

([F]G) An Initiating Order may not be a solicited order for the account of any Exchange specialist, SQT, RSQT or non-streaming ROT assigned in the affected series.

(ii) Auction Process. Only one Auction may be conducted at a time in any given series or strategy. Once commenced, an Auction may not be cancelled and shall proceed as follows:

(A) Auction Period and PIXL Auction Notification ("PAN").

(1) To initiate the Auction (except if it is a Complex Order), the Initiating Member must mark the PIXL Order for Auction processing, and specify either: (a) a single price at which it seeks to execute the PIXL Order (a "stop price"); (b) that it is willing to automatically match as principal or as agent on behalf of an Initiating Order the price and size of all PAN responses, and trading interest ("auto-match") in which case the PIXL Order will be stopped at the NBBO on the Initiating Order side (if 50 contracts or greater) or, if less than 50 contracts, the better of: (i) the PBBO price on the opposite side of the market from the PIXL Order improved by one minimum price improvement increment, or (ii) the PIXL Order's limit price (if the order is a limit order), provided in either case that such price is at or better than the NBBO; or (c) that it is willing to either: (i) stop the entire order at a single stop price and auto-match PAN responses and trading interest at a price or prices that improve the stop price to a specified price (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 (if 50 contracts or greater) or the better of: (A) the PBBO price on the opposite side of the market from the PIXL Order improved by one minimum price improvement increment, or (B) the PIXL Order's limit price (if the order is a limit order) (if for less than 50 contracts), 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. Once the Initiating Member has submitted a PIXL Order for processing pursuant to this subparagraph, such PIXL Order may not be modified or cancelled. Under any of the circumstances described in sub-paragraphs (a)-(c) above, the stop price or NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled.

(2) To initiate the PIXL Complex Order Auction, the Initiating Member must mark the PIXL Order for Auction processing, and specify either: (a) a single price at which it seeks to execute the PIXL Order (a "stop price"); or (b) that

it is willing to either: (i) stop the entire order at a single stop price and auto-match PAN responses and trading interest at a price or prices that improve the stop price to a specified price (a "Not Worse Than" or "NWT" price); or (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. Once the Initiating Member has submitted a PIXL Complex Order for processing pursuant to this subparagraph, such PIXL Order may not be modified or cancelled. Under any of the circumstances described in sub-paragraphs (a)-(b) above, the stop price or NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled.

([2]3) When the Exchange receives a PIXL Order for Auction processing, a PAN detailing the side, size and the stop price of the PIXL Order will be sent over the Exchange's TOPO Plus Orders data 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.

([3]4) The Auction will last for one second.

([4]5) Any person or entity may submit responses to the PAN, provided such response is properly marked specifying price, size and side of the market.

([5]6) PAN responses will not be visible to Auction participants, and will not be disseminated to OPRA.

([6]7) (a) The minimum price increment for PAN responses and for an Initiating Member's stop price and/or NWT price (except if it is a Complex Order) shall be the minimum price improvement increment established pursuant to subparagraph (i)(A)(1) above.

(b) The minimum price increment for PAN responses and for an Initiating Member's stop price and/or NWT price in the case of a Complex Order shall be .01.

([7]8) A PAN response size at any given price point may not exceed the size of the PIXL Order. A PAN response with a size greater than the size of the PIXL Order will be rejected.

([8]9) A PAN response (except if it is a Complex Order) must be equal to or better than the NBBO at the time of receipt of the PAN response[, and]. A Complex Order PAN response must be equal to or better than the cPBBO, as defined in Commentary .08(a) of this Rule 1080 at the time of receipt of the PAN response. PAN responses may be modified or cancelled during the Auction. A PAN response (except if it is a Complex Order) submitted with a

price that is outside the NBBO will be rejected. A Complex Order PAN response submitted with a price that is outside the cPBBO will be rejected. A PAN or Complex Order PAN response which is inferior to the stop price of the PIXL order will be rejected.

([9]10) PAN responses on the same side of the market as the PIXL Order are considered invalid and will be rejected.

([10]11) Multiple PAN responses from the same member may be submitted during the Auction. Multiple orders at a particular price point submitted by a member in response to a PAN may not exceed, in the aggregate, the size of the PIXL Order.

(B) Conclusion of Auction. The PIXL Auction shall conclude at the earlier to occur of (1) through [3](4) below, with the PIXL Order executing pursuant to paragraph (C)(1) through (3) below.

(1) The end of the Auction period;

(2) For a PIXL Auction (except if it is a Complex Order), a[A]ny time the PBBO crosses the PIXL Order stop price on the same side of the market as the PIXL Order; [or]

(3) For a Complex Order PIXL Auction, any time the cPBBO or the Complex Order book crosses the PIXL Order stop price on the same side of the market as the Complex PIXL Order; or

([3]4) Any time there is a trading halt on the Exchange in the affected series.

([4]5) Sub-paragraphs (B)(2), [and ](B)(3) and (B)(4) above shall be effective for a pilot period scheduled to expire July 18, 2013.

(C) If the situations described in sub-paragraphs (B)(2), (3), or ([3]4) above occur, the entire PIXL Order will be executed at: (1) in the case of the PBBO crossing the PIXL Order stop price, the best response price(s) or, if the stop price is the best price in the Auction, at the stop price, unless the best response price is equal to the price of a limit order resting on the PHLX book on the same side of the market as the PIXL Order, in which case the PIXL Order will be executed against that response, but at a price that is at least one minimum price improvement increment better than the price of such limit order at the time of the conclusion of the Auction; [or ](2) in the case of the cPBBO or the Complex Order book crossing the Complex PIXL Order stop price on the same side of the market as the Complex PIXL Order, the stop price against executable PAN responses and executable Complex Orders using the allocation algorithm in sub-paragraph (E)(2)(d); or ([2]3) in the case of a

trading halt on the Exchange in the affected series, the stop price, in which case the PIXL Order will be executed solely against the Initiating Order. Any unexecuted PAN responses will be cancelled.

(D) An unrelated market or marketable limit order (against the PBBO) on the opposite side of the market from the PIXL Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction. [If contracts remain from such unrelated order at the time the Auction ends, they will be considered for participation in the order allocation process described below.] In the case of a Complex PIXL Auction, an unrelated market or marketable limit Complex Order on the opposite side of the market from the Complex PIXL Order as well as orders for the individual components of the Complex Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction. If contracts remain from such unrelated order at the time the Auction ends, they will be considered for participation in the order allocation process described in sub-paragraph (E) below. This sub-paragraph shall be effective for a pilot period scheduled to expire on July 18, 2013.

(E) Order Allocation. At the conclusion of the Auction, the PIXL Order will be allocated at the best price(s) as follows:

- (1) Public customer orders shall have priority at each price level.
- (2) After public customer interest at a particular price level has been satisfied, remaining contracts will be allocated among all Exchange quotes, orders and PAN responses as follows:
  - (a) If the Initiating Member selected the single stop price option of the PIXL Auction (except if it is a Complex Order), PIXL executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after public customer interest is satisfied being allocated to the Initiating Member at the stop price. However, if only one [specialist, SQT or RSQT] other participant matches the stop price, then the Initiating Member may be allocated up to 50% of the contracts executed at such price. Remaining contracts shall be allocated pursuant to the algorithm set forth in Exchange Rules 1014(g)(vii)(B)(1)(b) and (d) among remaining quotes, orders and PAN responses at the stop price. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Member.
  - (b) If the Initiating Member selected the auto-match option of the PIXL Auction (except if it is a Complex Order), the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point until a price point is



reached where the balance of the order can be fully executed, except that the Initiating Member shall be entitled to receive up to 40% of the contracts remaining at the final price point (including situations where the stop price is the final price). If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in Exchange Rules 1014(g)(vii)(B)(1)(b) and (d). Any remaining contracts shall be allocated to the Initiating Member.

(c) In the case of a PIXL (except if it is a Complex Order), [I]f the Initiating Member selected the "stop and NWT" option of the PIXL Auction, contracts shall be allocated as follows:

- (i) first to quotes, orders and PAN responses at prices better than the NWT price (if any), beginning with the best price, pursuant to the algorithm set forth in Exchange Rules 1014(g)(vii)(B)(1)(b) and (d) at each price point;
- (ii) next, to quotes, orders and PAN responses at prices at the Initiating Member's NWT price and better than the Initiating Member's stop price, beginning with the NWT price. The Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point, except that the Initiating Member shall be entitled to receive up to 40% of the contracts remaining at the final price point (including situations where the final price is the stop price). In the case of an Initiating Order with a NWT price at the market, the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at all price points, except that the Initiating Member shall be entitled to receive up to 40% of the contracts remaining at the final price point (including situations where the final price is the stop price). If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in Exchange Rules 1014(g)(vii)(B)(1)(b) and (d). Any remaining contracts shall be allocated to the Initiating Member.

(d) [A single quote, order or PAN response shall not be allocated a number of contracts that is greater than its size.]In the case of a Complex Order PIXL, if the Initiating Member selected the single stop price option of the PIXL Auction, PIXL executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after public customer complex interest is satisfied being allocated to the Initiating Member at the stop price. If only one other participant matches the stop price, then the Initiating Member may be allocated up to 50% of the

contracts executed at such price. Complex Orders on the PHLX Complex Order Book, PAN responses, and quotes and orders which comprise the cPBBO at the end of the Auction will be considered for allocation against the Complex PIXL order. Such interest will be allocated at a given price in the following order: (i) to public customer Complex Orders and PAN responses in time priority; (ii) to SQT, RSQT, and non-SQT ROT Complex Orders and PAN responses on a size pro-rata basis; (iii) to non-market maker off-floor broker-dealer Complex Orders and PAN responses on a size pro-rata basis, and (iv) to quotes and orders which comprise the cPBBO at the end of the Auction with public customer interest being satisfied first in time priority, then to SQT, RSQT, and non-SQT ROT interest satisfied on a size pro-rata basis, and lastly to non-market maker off-floor broker-dealers on a size pro-rata basis. If the final price point is equal to the stop price, the Initiating Member will be allocated 40% (or 50% if matching only one other participant) after public customer Complex Orders and PAN responses have been satisfied, thereafter the allocation will continue as stipulated in (ii) through (iv) of this sub-paragraph. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Member.

(e) In the case of a Complex Order PIXL, if the Initiating Member selected the "stop and NWT" option of the PIXL Auction, contracts shall be allocated as follows:

(i) First to Complex Orders and PAN responses at prices better than the NWT price, as well as to quotes and orders which comprise the cPBBO at the end of the Auction, if such cPBBO is better than the NWT price, pursuant to the algorithm set forth above in (n)(ii)(E)(2)(d)(i) through (iv) of this rule;

(ii) Next, to Complex Orders and PAN responses at prices, as well as to quotes and orders which comprise the cPBBO at the end of the Auction, at the Initiating Member's NWT price and at prices better than or equal to the Initiating Member's stop price, beginning with the NWT price. The Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other interest at each price point, except that the Initiating Member shall be entitled to receive up to 40% (or 50% if matching only one other participant) of the contracts remaining, after public customer Complex Orders and PAN responses have been satisfied, at the final price point (including situations where the final price is the stop price). In the case of an Initiating Order with a NWT price at the market, the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other interest at all price points, except that the Initiating Member shall be entitled to receive up to 40% (or 50% if matching only one other participant) of the contracts remaining, after public customer Complex Orders and

PAN responses have been satisfied, at the final price point (including situations where the final price is the stop price). If there is other interest at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in (n)(ii)(E)(2)(d)(i) through (iv) of this rule. Any remaining contracts shall be allocated to the Initiating Member.

(f) A single quote, order or PAN response shall not be allocated a number of contracts that is greater than its size.

(g) A Complex PIXL Order consisting of a stock/ETF component will not execute against interest comprising the cPBBO at the end of the Auction.

(F) If there are PAN responses (except if it is a Complex Order) that cross the then-existing NBBO (provided such NBBO is not crossed) or Complex Order PAN responses that cross the then-existing cPBBO at the time of the conclusion of the Auction, such PAN responses will be executed, if possible, at their limit price(s).

(G) If the PIXL Auction price (except if it is a Complex Order) is the same as that of an order on the limit order book on the same side of the market as the PIXL Order, the PIXL Order may only be executed at a price that is at least one minimum price improvement increment better than the resting order's limit price or, if such resting order's limit price is equal to or crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price.

(H) If the Complex Order PIXL Auction price is the same as that of a Complex Order on the Complex Order Book on the same side of the market as the PIXL Order, the PIXL Order may only be executed at a price that is at least one minimum price improvement increment better than the resting order's limit price; or if such resting order's limit price is equal to or crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price.

([H]I) Any unexecuted PAN responses will be cancelled.

(J) Complex PIXL Orders with stock/ETF components.

(1) Member organizations may only submit Complex PIXL Orders, Initiating Orders, Complex Orders, and/or PAN responses with a stock/ETF component if such orders/responses comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. Member organizations submitting such orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption.

Members of FINRA or the NASDAQ Stock Market ("NASDAQ") are required to have a Uniform Service Bureau/Executing Broker Agreement ("AGU") with Nasdaq Options Services LLC in order to trade orders containing a stock/ETF component; firms that are not members of FINRA or NASDAQ are required to have a Qualified Special Representative ("QSR") arrangement with Nasdaq Options Services LLC ("NOS") in order to trade orders containing a stock/ETF component.

- (2) Where one component of a Complex PIXL Order, Initiating Order, Complex Order, or PAN response is the underlying security, the Exchange shall electronically communicate the underlying security component of a Complex PIXL Order to NOS, its designated broker-dealer, for immediate execution. Such execution and reporting will occur otherwise than on the Exchange and will be handled by NOS pursuant to applicable rules regarding equity trading.
- (3) When the short sale price test in Rule 201 of Regulation SHO is triggered for a covered security, NOS will not execute a short sale order in the underlying covered security component of a Complex PIXL Order, Initiating Order, Complex Order, or PAN response if the price is equal to or below the current national best bid. However, NOS will execute a short sale order in the underlying covered security component of a Complex PIXL Order, Complex Order, or PAN response if such order is marked "short exempt," regardless of whether it is at a price that is equal to or below the current national bid. If NOS cannot execute the underlying covered security component of a Complex PIXL Order, Initiating Order, Complex Order, or PAN response in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex PIXL Order, Initiating Order, Complex Order, and/or PAN response to the entering member organization. For purposes of this paragraph, the term "covered security" shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.
- (iii) The PIXL Auction may be used only where there is a genuine intention to execute a bona fide transaction. It will be considered a violation of this Rule 1080(n) and will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 707 if an Initiating Member submits a PIXL Order (initiating an Auction) and also submits its own PAN response in the same Auction.
- (iv) A pattern or practice of submitting multiple orders in response to a PAN at a particular price point that exceed, in the aggregate, the size of the PIXL Order, will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 707.

- (v) A pattern or practice of submitting unrelated orders or quotes that cross the stop price, causing a PIXL Auction to conclude before the end of the PIXL Auction period will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 707. It will also be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 707 to engage in a pattern of conduct where the Initiating Member breaks up a PIXL Order into separate orders for the purpose of gaining a higher allocation percentage than the Initiating Member would have otherwise received in accordance with the allocation procedures contained in subparagraph (ii)(E) above.
- (vi) In lieu of the procedures in paragraphs (i) - (ii) above, an Initiating Member may enter a PIXL Order for the account of a public customer paired with an order for the account of a public customer and such paired orders will be automatically executed without a PIXL Auction. The execution price for such a PIXL Order (except if it is a Complex Order) must be expressed in the quoting increment applicable to the affected series. Such an execution may not trade through the NBBO or at the same price as any resting customer order. The execution price for such a Complex Order PIXL may be in .01 increments and may not trade at a price equal to or through the cPBBO or at the same price as a resting customer Complex Order.

Rule 1080(c)(ii)(C) prevents an Order Entry Firm from executing agency orders to increase its economic gain from trading against the order without first giving other trading interests on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the member was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for a firm to establish a relationship with a customer or other person to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. It would be a violation of Rule 1080(c)(ii)(C) for a firm to circumvent Rule 1080(c)(ii)(C) by providing an opportunity for (i) a customer affiliated with the firm, or (ii) a customer with whom the firm has an arrangement that allows the firm to realize similar economic benefits from the transaction as the firm would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as PIXL customer-to-customer immediate crosses.

- (vii) Initially, and for at least a Pilot Period expiring on July 18, 2013, there will be no minimum size requirement for orders to be eligible for the Auction. During this Pilot Period, the Exchange will submit certain data, periodically as required by the Commission, to provide supporting evidence that, among other things, there is meaningful competition for all size orders and that there is an active and liquid market functioning on the Exchange outside of the Auction mechanism. Any data which is submitted to the Commission will be provided on a confidential basis.

(o) No Change.

•• **Commentary:** -----

**.01 - .07** No Change.

**.08** Complex Orders on Phlx XL.

(a) - (d) No Change.

(e) Process for Complex Order Live Auction ("COLA"). Complex Orders on the Complex Order Book ("CBOOK," as defined below) may be subject to an automated auction process.

(i) For purposes of paragraph (e):

(A) COLA is the automated Complex Order Live Auction process. A COLA may take place upon identification of the existence of a COLA-eligible order either: (1) following a COOP, or (2) during normal trading if the Phlx XL system receives a Complex Order that improves the cPBBO.

(B) (1) A "COLA-eligible order" means a Complex Order (a) identified by way of a COOP, or (b) that, upon receipt, improves the cPBBO respecting the specific Complex Order Strategy that is the subject of the Complex Order. If the Phlx XL system identifies the existence of a COLA-eligible order following a COOP or by way of receipt during normal trading of a Complex Order that improves the cPBBO, such COLA-eligible order will initiate a COLA, during which Phlx XL participants may bid and offer against the COLA-eligible order pursuant to this rule. COLA-eligible orders will be executed without consideration of any prices that might be available on other exchanges trading the same options contracts.

(2) Notwithstanding the foregoing, a Complex Order that would otherwise be a COLA-eligible order that is received in a strategy where there is currently a Complex Order PIXL auction in progress or by the Phlx XL system during the final seconds of any trading session shall not be COLA-eligible. The Exchange shall establish the number of seconds, not to exceed 10 seconds, in an Options Trader Alert.

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