Required fields are shown with yellow backgrounds and asterisks.

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

File No.* SR - 2013 - * 72

Amendment No. (req. for Amendments *)

Filing by   NASDAQ OMX PHLX LLC.

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

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

Rule

Pilot	Extension of Time Period for Commission Action *	Date Expires *	
☐	🔲		19b-4(f)(1) ☐ 19b-4(f)(4) ☐
			19b-4(f)(2) ☐ 19b-4(f)(5) ☐
			19b-4(f)(3) ☐ 19b-4(f)(6) ☑

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1)	Section 806(e)(2)
🔲	🔲

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2)
🔲

Exhibit 2 Sent As Paper Document	Exhibit 3 Sent As Paper Document
🔲	🔲

Description

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

A proposed rule change to amend the Acceptable Complex Execution Parameter.

Contact Information

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

First Name * Edith   Last Name * Hallahan

Title * Principal Associate General Counsel

E-mail * edith.hallahan@nasdaqomx.com

Telephone * (215) 496-5179   Fax

Signature

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

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

(Title *)

Date   06/28/2013

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 EFFS 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 *

Add   Remove   View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 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

Add   Remove   View

Exhibit Sent As Paper Document
☐

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

Add   Remove   View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

Add   Remove   View

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1.   Text of the Proposed Rule Change

        (a)   NASDAQ OMX PHLX LLC ("Exchange" or "Phlx"), pursuant to Section

19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] is

filing with the Securities and Exchange Commission ("Commission") a proposal to

amend the Acceptable Complex Execution Parameter ("ACE Parameter") in Rule

1080.08(i), which is the price range outside of which a Complex Order (as defined

below) will not be executed.

        A notice of the proposed rule change for publication in the Federal Register is

attached hereto as Exhibit 1. The text of the proposed rule change is set forth below.

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

* * * * *

Rule 1080.   Phlx XL and Phlx XL II

(a) – (o)   No change.

••• *Commentary:* ------------------

.01- **.07**   No change.

.08   Complex Orders on Phlx XL.

(a) – (h)   No change.

* * * * *

(i) Acceptable Complex Execution ("ACE") Parameter. The ACE Parameter defines a
price range outside of which a Complex Order will not be executed [following a COLA].
The ACE Parameter is either a percentage or number defined by the Exchange on an
issue-by-issue basis. [The ACE Parameter percentage shall not be less than 3 percent.]
The ACE Parameter price range is based on the cNBBO at the time an order would be

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

[2]   17 CFR 240.19b-4.

executed. A Complex Order to sell will not be executed at a price that is lower than the cNBBO bid by more than the ACE Parameter [percentage]. A Complex Order to buy will not be executed at a price that is higher than the cNBBO offer by more than the ACE Parameter [percentage]. A Complex Order or a portion of a Complex Order that cannot be executed within the ACE Parameter pursuant to this rule will be placed on the CBOOK. The Exchange will issue an Options Trader Alert ("OTA") to membership indicating the issue-by-issue ACE Parameters [percentages]. The Exchange will also maintain a list of ACE Parameters [percentages] on its website.

* * * * *

(b)   Not applicable.

(c)   Not applicable.

2.   Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange (the "Board") on July10, 2012. Exchange staff will advise the Board of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

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

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

a.   Purpose

The ACE Parameter feature is designed to help maintain a fair and orderly market by helping to mitigate the potential risk of executions at prices which are extreme and potentially erroneous.   Specifically, the ACE Parameter prevents Complex Orders[3] from automatically executing at potentially erroneous prices by establishing a price range

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[3]   See Rule 1080.08(a).

outside of which a Complex Order will not be executed. Currently, the ACE Parameter is

a percentage defined by the Exchange on an issue-by-issue basis. The purpose of this

proposal is to make the ACE Parameter more flexible and relevant to different types of

options by eliminating the 3 percent limit and permitting the ACE Parameter to a number,

in addition to a percentage.

Currently, the ACE Parameter is always a percentage, not less than 3 percent.

The ACE Parameter is based on the Complex National Best Bid or Offer ("cNBBO")[4] at

the time an order would be executed. A Complex Order to sell will not be executed at a

price that is lower than the cNBBO bid by more than the ACE Parameter. A Complex

Order to buy will not be executed at a price that is higher than the cNBBO offer by more

than the ACE Parameter percentage. A Complex Order or a portion of a Complex Order

that cannot be executed within the ACE Parameter will be placed on Exchange's

Complex Limit Order Book ("CBOOK").[5]

For example, assume the ACE parameter is set at 10%, and a PHLX XL

participant submits a Complex Order to buy Series A and buy Series B (30 units of the

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[4]   See Rule 1080.08(a)(vi).

[5]   See Rule 1080.08(f). The Exchange notes that Complex Orders are placed on the
        CBOOK at their limit price and may trade pursuant to Rule 1080.08(f)(iii),
        depending on the movement of the cNBBO and application of the ACE
        Parameter. Although at any given time, the price of a Complex Order may lock
        or cross another Complex Order on the CBOOK, this is not a prohibited locked or
        crossed market for purposes of Rule 1086, because such Complex Orders do not
        constitute a Protected Quotation as defined in Rule 1083. Complex Orders
        consist of multiple components (rather than one series) and are not disseminated
        pursuant to the OPRA Plan. If two Complex Orders on the CBOOK cross, they
        may nevertheless execute against each other, if the execution price is within the
        ACE Parameter. If, however, the potential execution price is not within the ACE
        Parameter for one of those orders, those orders would not trade.

strategy) for a net debit of $8.40 and a COLA[6] is initiated. At the end of the COLA, the

market is:

> NBBO for Series A is $4.50 - $4.60, size 10 X 10.

> NBBO for Series B is $2.90 - $3.00, size 10 X 10.

> cNBBO for the strategy is $7.40 - $7.60.

> If the ACE Parameter is set at 10%, executions to buy the strategy (buy Series A

and buy Series B) will occur up to $8.36 ($7.60 + [0.10 x $7.60]) but no higher. Any

remainder of the order will be placed on the CBOOK at $8.40.

In its proposal to adopt the ACE Parameter, the Exchange adopted a minimum 3

percent level, similar to the CBOE.[7] At the time, the Exchange believed that this level

was reasonable and appropriate, because a marketable order that would deviate from the

cNBBO by more than 3% may be indicative of an extreme or potentially erroneous price,

and an Exchange participant would likely want to evaluate the affected Complex Order

further before receiving an automatic execution. At this time, based on its experience, the

Exchange believes that this amount may not be appropriate for all options, such that a

lower percentage could be necessary. For example, higher priced options series may

benefit from an ACE Parameter of 1%. Consider the following scenario: assume the ACE

Parameter is set at 10%, and a PHLX XL participant submits a Complex Order to buy

Series A and buy Series B (30 units of the strategy) at the market. Further assume:

> NBBO for Series A is $124.50 - $124.60, size 10 X 10.

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[6]   COLA is the automated Complex Order Live Auction process. <u>See</u> Rule
       1080.08(e).

[7]   <u>See</u> Securities Exchange Act Release No. 66602 (March 14, 2012), 77 FR 16579
       (March 21, 2012) (SR-Phlx-2012-31). <u>See also</u> CBOE Rule 6.53C.08(e).

NBBO for Series B is $12.90 - $13.00, size 10 X 10.

cNBBO for the strategy is $137.40 - $137.60.

If the ACE Parameter is set at 10%, executions to buy the strategy (buy Series A and buy Series B) will occur up to $151.36 ($137.60 + [0.10 x $137.60]) but no higher. The resulting executions of the Complex Order could vary in price by up to $13.76 ($151.36 - $137.60). If the ACE Parameter is set at 1% rather than 10%, executions to buy the strategy will occur only up to $138.97 ($137.60 + [0.01 x $137.60]) but no higher. With the ACE Parameter set at 1%, the variation in execution prices is drastically reduced.

The Exchange also seeks to operate the ACE Parameter not only as a percentage but as an absolute number, representing a certain dollar amount around the cNBBO. The Exchange believes that sometimes an absolute number rather than a percentage would be appropriate, such as when the cNBBO is low priced.

For example, assume the ACE Parameter is set at 10%, and a PHLX XL participant submits a Complex Order to buy Series A and sell Series B (30 units of the strategy) for a net debit of $0.08.

NBBO for Series A is $0.25 - $0.28, size 10 X 10.

NBBO for Series B is $0.20 - $0.25, size 10 X 10.

cNBBO for the strategy is $0.00 - $0.08.

If the ACE Parameter is set at 10%, executions to buy the strategy (buy Series A and sell Series B) will only be permitted to occur at the offer of $0.08 since a 10% range of that offer equates to a sub-penny increment ($0.08 + [.10 x $0.08]) = .088). Allowing an absolute number rather than a percentage for the ACE Parameter in this instance

would give the Exchange the ability to offer a range of allowable execution prices rather

than only the cNBBO offer.

The Exchange intends to implement these changes to the ACE Parameter in July

or August, and will issue an Options Trader Alert ("OTA") indicating when the changes

become operative as well as the issue-by-issue ACE Parameters. The Exchange will also

maintain a list of ACE Parameters on its website.

The Exchange also proposes to amend the first sentence of Rule 1080.08(i) by

deleting reference to the COLA. The Exchange believes that this was an inadvertent

drafting error and now seeks to correct it. Consistent with the fourth sentence, the ACE

Parameter applies and is based on the cNBBO at the time an order would be executed,

whether or not there was a COLA. The Exchange believes that the fifth and sixth

sentences further support this and do not mention a COLA.   Regardless, the Exchange

believes that it is appropriate to apply the ACE Parameter even when there is no COLA,

because the purpose of the ACE Parameter is to protect orders from an execution at a

faraway price, which purpose is equally relevant when there is an execution without a

COLA. Accordingly, the Exchange believes that applying the ACE Parameter to orders

than are not subject to a COLA should be beneficial to users submitting Complex Orders

to the Exchange.

     b.   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[8]

in general, and furthers the objectives of Section 6(b)(5) of the Act[9] in particular, in that it

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[8]   15 U.S.C. 78f(b).

[9]   15 U.S.C. 78f(b)(5).

is designed to promote just and equitable principles of trade and protect investors and the

public interest, by making slight modifications to the ACE Parameter so that it can better

protect investors from extreme and potentially erroneous executions of their Complex

Orders. The ACE Parameter, as modified, will continue to promote just and equitable

principles of trade by preventing executions at prices that are significantly worse than the

cNBBO, which the Exchange believes is a fair representation of then-available prices.

Like other order protections, such as an Acceptable Trade Range feature,[10] the ACE

Parameter is a protection against executions at inappropriate prices and the Exchange

believes that it will do so better with the modifications proposed herein.

Respecting the amendment to the first sentence of Rule 1080.08(i), the Exchange

believes that applying the ACE Parameter when there is no COLA is consistent with the

aforementioned statutory principles, because the ACE Parameter will protect orders from

an execution at a faraway price. Specifically, when there is no COLA and therefore no

opportunity for price improvement over existing markets, protection from executions at

faraway prices is especially useful and likely to promote just and equitable principles of

trade and protect investors and the public interest.

The Exchange noted above that Complex Orders are placed on the CBOOK at

their limit price and may trade from the CBOOK pursuant to Rule 1080.08(f)(iii). At any

given time, the price of a Complex Order may lock or cross another Complex Order on

the CBOOK, which is not prohibited, as explained above. The Exchange believes that it

is consistent with just and equitable principles of trade and the protection of investors and

the public interest for Complex Orders on the CBOOK to, in this way, lock or cross,

_____

[10]   See NOM Rules, Chapter VI, Section 10(7) and BX Options Rules, Chapter VI,
          Section 10(7).

including because of the application of the ACE Parameter, without interacting, because

those orders benefit from the protections of the ACE Parameter in terms of pricing at a

reasonable price from the market. Although such orders could have potentially interacted

but for the ACE Parameter, the orders are nevertheless protected from unreasonable

execution prices, which benefits those who enter such Complex Orders.

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. Specifically, the proposal does not impose an intra-market burden on competition,

because it will be available to all Phlx participants who enter Complex Orders.   Nor will

the proposal impose a burden on competition among the options exchanges, because, in

addition to the vigorous competition for order flow among the options exchanges

generally, many options exchanges offer complex order functionality. To the extent that

market participants disagree with the particular approach taken by the Exchange herein,

market participants can easily and readily direct order flow to competing venues. The

ACE Parameter, as amended by this proposed rule change, will not impose a burden on

competition.

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. <u>Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)</u>

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)[11] of the Act and Rule 19b-4(f)(6) thereunder[12] in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. The proposal is non-controversial, because it does not raise any novel regulatory issues, as it is merely a slight modification to an existing price parameter protection. The Exchange's adoption of the ACE Parameter was immediately effective, and the Exchange believes that this proposal to modify it should also be immediately effective, in order to bring these enhanced protections to the complex order market promptly.

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

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest.

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[11]   15 U.S.C. 78s(b)(3)(A).

[12]   17 CFR 240.19b-4(f)(6).

At any time within 60 days of the filing of the proposed rule change, the

Commission summarily may temporarily suspend such rule change if it appears to the

Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for

the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If

the Commission takes such action, the Commission shall institute proceedings to

determine whether the proposed rule should be approved or disapproved.

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

        The proposed rule change is based on CBOE Rule 6.53C.08(e). The Exchange's

ACE Parameter differs slightly from CBOE Rule 6.53C.08(e), because the ACE

Parameter price range is based on the cNBBO at the time an order would be executed,

whereas the CBOE "acceptable percentage distance" is calculated at the beginning of the

CBOE Complex Order Auction ("COA").   Furthermore, the Exchange is now deleting

the 3% minimum that was based on CBOE's rule, as explained above. The proposal also

differs in that the Exchange's ACE Parameter applies even when there is no COLA,

unlike CBOE's. Nevertheless, the Exchange does not believe that these differences are

significant, because the amount of the ACE Parameter protection will be published on its

website and available in more situations (like when there is no COLA), thereby extending

its benefits to more orders (as explained above). In addition, many other types of order

protection mechanisms exist on options exchanges.[13]

9.   Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act
        Not applicable.

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[13]   See NOM Rules, Chapter VI, Section 10(7) and BX Options Rules, Chapter VI,
         Section 10(7).

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

        Not applicable.

11.   Exhibits

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

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No.   ; File No. SR-Phlx-2013-72)

June __, 2013

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and
Immediate Effectiveness of Proposed Rule Change to Amend the Acceptable Complex
Execution Parameter

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1], and

Rule 19b-4 thereunder,[2] notice is hereby given that on June 28, 2013, NASDAQ OMX

PHLX LLC ("Phlx" or "Exchange") filed with the Securities and Exchange Commission

("SEC" or "Commission") the proposed rule change as described in Items I, II, and III,

below, which Items have been prepared by the Exchange. The Commission is publishing

this notice to solicit comments on the proposed rule change from interested persons.

I.   Self-Regulatory Organization's Statement of the Terms of Substance of the
        Proposed Rule Change

The Exchange proposes to amend the Acceptable Complex Execution Parameter

("ACE Parameter") in Rule 1080.08(i), which is the price range outside of which a

Complex Order (as defined below) will not be executed.

The text of the proposed rule change is set forth below. Proposed new language is

underlined; deleted text is in brackets.

* * * * *

Rule 1080.   Phlx XL and Phlx XL II

(a) – (o)   No change.

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

[2]   17 CFR 240.19b-4.

••• *Commentary:* ------------------

.01- **.07**   No change.

.08   Complex Orders on Phlx XL.

(a) – (h)   No change.

* * * * *

(i) Acceptable Complex Execution ("ACE") Parameter. The ACE Parameter defines a

price range outside of which a Complex Order will not be executed [following a COLA].

The ACE Parameter is either a percentage or number defined by the Exchange on an

issue-by-issue basis. [The ACE Parameter percentage shall not be less than 3 percent.]

The ACE Parameter price range is based on the cNBBO at the time an order would be

executed. A Complex Order to sell will not be executed at a price that is lower than the

cNBBO bid by more than the ACE Parameter [percentage]. A Complex Order to buy will

not be executed at a price that is higher than the cNBBO offer by more than the ACE

Parameter [percentage]. A Complex Order or a portion of a Complex Order that cannot

be executed within the ACE Parameter pursuant to this rule will be placed on the

CBOOK. The Exchange will issue an Options Trader Alert ("OTA") to membership

indicating the issue-by-issue ACE Parameters [percentages]. The Exchange will also

maintain a list of ACE Parameters [percentages] on its website.

* * * * *

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 ACE Parameter feature is designed to help maintain a fair and orderly market

by helping to mitigate the potential risk of executions at prices which are extreme and

potentially erroneous.   Specifically, the ACE Parameter prevents Complex Orders[3] from

automatically executing at potentially erroneous prices by establishing a price range

outside of which a Complex Order will not be executed. Currently, the ACE Parameter is

a percentage defined by the Exchange on an issue-by-issue basis. The purpose of this

proposal is to make the ACE Parameter more flexible and relevant to different types of

options by eliminating the 3 percent limit and permitting the ACE Parameter to a number,

in addition to a percentage.

Currently, the ACE Parameter is always a percentage, not less than 3 percent.

The ACE Parameter is based on the Complex National Best Bid or Offer ("cNBBO")[4] at

the time an order would be executed. A Complex Order to sell will not be executed at a

price that is lower than the cNBBO bid by more than the ACE Parameter. A Complex

Order to buy will not be executed at a price that is higher than the cNBBO offer by more

than the ACE Parameter percentage. A Complex Order or a portion of a Complex Order

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3   See Rule 1080.08(a).

4   See Rule 1080.08(a)(vi).

that cannot be executed within the ACE Parameter will be placed on Exchange's

Complex Limit Order Book ("CBOOK").[5]

For example, assume the ACE parameter is set at 10%, and a PHLX XL

participant submits a Complex Order to buy Series A and buy Series B (30 units of the

strategy) for a net debit of $8.40 and a COLA[6] is initiated. At the end of the COLA, the

market is:

NBBO for Series A is $4.50 - $4.60, size 10 X 10.

NBBO for Series B is $2.90 - $3.00, size 10 X 10.

cNBBO for the strategy is $7.40 - $7.60.

If the ACE Parameter is set at 10%, executions to buy the strategy (buy Series A

and buy Series B) will occur up to $8.36 ($7.60 + [0.10 x $7.60]) but no higher. Any

remainder of the order will be placed on the CBOOK at $8.40.

In its proposal to adopt the ACE Parameter, the Exchange adopted a minimum 3

percent level, similar to the CBOE.[7] At the time, the Exchange believed that this level

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[5]   See Rule 1080.08(f). The Exchange notes that Complex Orders are placed on the
        CBOOK at their limit price and may trade pursuant to Rule 1080.08(f)(iii),
        depending on the movement of the cNBBO and application of the ACE
        Parameter. Although at any given time, the price of a Complex Order may lock
        or cross another Complex Order on the CBOOK, this is not a prohibited locked or
        crossed market for purposes of Rule 1086, because such Complex Orders do not
        constitute a Protected Quotation as defined in Rule 1083. Complex Orders
        consist of multiple components (rather than one series) and are not disseminated
        pursuant to the OPRA Plan. If two Complex Orders on the CBOOK cross, they
        may nevertheless execute against each other, if the execution price is within the
        ACE Parameter. If, however, the potential execution price is not within the ACE
        Parameter for one of those orders, those orders would not trade.

[6]   COLA is the automated Complex Order Live Auction process. See Rule
        1080.08(e).

[7]   See Securities Exchange Act Release No. 66602 (March 14, 2012), 77 FR 16579
        (March 21, 2012) (SR-Phlx-2012-31). See also CBOE Rule 6.53C.08(e).

was reasonable and appropriate, because a marketable order that would deviate from the cNBBO by more than 3% may be indicative of an extreme or potentially erroneous price, and an Exchange participant would likely want to evaluate the affected Complex Order further before receiving an automatic execution. At this time, based on its experience, the Exchange believes that this amount may not be appropriate for all options, such that a lower percentage could be necessary. For example, higher priced options series may benefit from an ACE Parameter of 1%. Consider the following scenario: assume the ACE Parameter is set at 10%, and a PHLX XL participant submits a Complex Order to buy Series A and buy Series B (30 units of the strategy) at the market. Further assume:

NBBO for Series A is $124.50 - $124.60, size 10 X 10.

NBBO for Series B is $12.90 - $13.00, size 10 X 10.

cNBBO for the strategy is $137.40 - $137.60.

If the ACE Parameter is set at 10%, executions to buy the strategy (buy Series A and buy Series B) will occur up to $151.36 ($137.60 + [0.10 x $137.60]) but no higher. The resulting executions of the Complex Order could vary in price by up to $13.76 ($151.36 - $137.60). If the ACE Parameter is set at 1% rather than 10%, executions to buy the strategy will occur only up to $138.97 ($137.60 + [0.01 x $137.60]) but no higher. With the ACE Parameter set at 1%, the variation in execution prices is drastically reduced.

The Exchange also seeks to operate the ACE Parameter not only as a percentage but as an absolute number, representing a certain dollar amount around the cNBBO. The Exchange believes that sometimes an absolute number rather than a percentage would be appropriate, such as when the cNBBO is low priced.

For example, assume the ACE Parameter is set at 10%, and a PHLX XL participant submits a Complex Order to buy Series A and sell Series B (30 units of the strategy) for a net debit of $0.08.

NBBO for Series A is $0.25 - $0.28, size 10 X 10.

NBBO for Series B is $0.20 - $0.25, size 10 X 10.

cNBBO for the strategy is $0.00 - $0.08.

If the ACE Parameter is set at 10%, executions to buy the strategy (buy Series A and sell Series B) will only be permitted to occur at the offer of $0.08 since a 10% range of that offer equates to a sub-penny increment ($0.08 + [.10 x $0.08]) = .088). Allowing an absolute number rather than a percentage for the ACE Parameter in this instance would give the Exchange the ability to offer a range of allowable execution prices rather than only the cNBBO offer.

The Exchange intends to implement these changes to the ACE Parameter in July or August, and will issue an Options Trader Alert ("OTA") indicating when the changes become operative as well as the issue-by-issue ACE Parameters. The Exchange will also maintain a list of ACE Parameters on its website.

The Exchange also proposes to amend the first sentence of Rule 1080.08(i) by deleting reference to the COLA. The Exchange believes that this was an inadvertent drafting error and now seeks to correct it. Consistent with the fourth sentence, the ACE Parameter applies and is based on the cNBBO at the time an order would be executed, whether or not there was a COLA. The Exchange believes that the fifth and sixth sentences further support this and do not mention a COLA.   Regardless, the Exchange believes that it is appropriate to apply the ACE Parameter even when there is no COLA,

because the purpose of the ACE Parameter is to protect orders from an execution at a

faraway price, which purpose is equally relevant when there is an execution without a

COLA. Accordingly, the Exchange believes that applying the ACE Parameter to orders

than are not subject to a COLA should be beneficial to users submitting Complex Orders

to the Exchange.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[8]

in general, and furthers the objectives of Section 6(b)(5) of the Act[9] in particular, in that it

is designed to promote just and equitable principles of trade and protect investors and the

public interest, by making slight modifications to the ACE Parameter so that it can better

protect investors from extreme and potentially erroneous executions of their Complex

Orders. The ACE Parameter, as modified, will continue to promote just and equitable

principles of trade by preventing executions at prices that are significantly worse than the

cNBBO, which the Exchange believes is a fair representation of then-available prices.

Like other order protections, such as an Acceptable Trade Range feature,[10] the ACE

Parameter is a protection against executions at inappropriate prices and the Exchange

believes that it will do so better with the modifications proposed herein.

Respecting the amendment to the first sentence of Rule 1080.08(i), the Exchange

believes that applying the ACE Parameter when there is no COLA is consistent with the

aforementioned statutory principles, because the ACE Parameter will protect orders from

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8   15 U.S.C. 78f(b).

9   15 U.S.C. 78f(b)(5).

10   See NOM Rules, Chapter VI, Section 10(7) and BX Options Rules, Chapter VI,
        Section 10(7).

an execution at a faraway price. Specifically, when there is no COLA and therefore no opportunity for price improvement over existing markets, protection from executions at faraway prices is especially useful and likely to promote just and equitable principles of trade and protect investors and the public interest.

The Exchange noted above that Complex Orders are placed on the CBOOK at their limit price and may trade from the CBOOK pursuant to Rule 1080.08(f)(iii). At any given time, the price of a Complex Order may lock or cross another Complex Order on the CBOOK, which is not prohibited, as explained above. The Exchange believes that it is consistent with just and equitable principles of trade and the protection of investors and the public interest for Complex Orders on the CBOOK to, in this way, lock or cross, including because of the application of the ACE Parameter, without interacting, because those orders benefit from the protections of the ACE Parameter in terms of pricing at a reasonable price from the market. Although such orders could have potentially interacted but for the ACE Parameter, the orders are nevertheless protected from unreasonable execution prices, which benefits those who enter such Complex Orders.

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. Specifically, the proposal does not impose an intra-market burden on competition, because it will be available to all Phlx participants who enter Complex Orders. Nor will the proposal impose a burden on competition among the options exchanges, because, in addition to the vigorous competition for order flow among the options exchanges generally, many options exchanges offer complex order functionality. To the extent that market participants disagree with the particular approach taken by the Exchange herein,

market participants can easily and readily direct order flow to competing venues. The

ACE Parameter, as amended by this proposed rule change, will not impose a burden on

competition.

        C.   <u>Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others</u>

No written comments were either solicited or received.

III.   <u>Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action</u>

Because the foregoing proposed rule change does not: (i) significantly affect the

protection of investors or the public interest; (ii) impose any significant burden on

competition; and (iii) become operative for 30 days from the date on which it was filed,

or such shorter time as the Commission may designate, it has become effective pursuant

to Section 19(b)(3)(A)(ii) of the Act[11] and subparagraph (f)(6) of Rule 19b-4

thereunder.[12]

At any time within 60 days of the filing of the proposed rule change, the

Commission summarily may temporarily suspend such rule change if it appears to the

Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for

the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If

the Commission takes such action, the Commission shall institute proceedings to

determine whether the proposed rule should be approved or disapproved.

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[11]   15 U.S.C. 78s(b)(3)(a)(ii).

[12]   17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

IV.   Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments

concerning the foregoing, including whether the proposed rule change is consistent with

the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form

   (http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-

   Phlx-2013-72 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-2013-72. This file number should

be included on the subject line if e-mail is used. To help the Commission process and

review your comments more efficiently, please use only one method. The Commission

will post all comments on the Commission's Internet Web site

(http://www.sec.gov/rules/sro.shtml).

Copies of the submission, all subsequent amendments, all written statements with

respect to the proposed rule change that are filed with the Commission, and all written

communications relating to the proposed rule change between the Commission and any

person, other than those that may be withheld from the public in accordance with the

provisions of 5 U.S.C. 552, will be available for website viewing and printing in the

Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on

official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing

also will be available for inspection and copying at the principal office of the Exchange.

All comments received will be posted without change; the Commission does not edit

personal identifying information from submissions. You should submit only information

that you wish to make available publicly.

All submissions should refer to File Number SR-Phlx-2013-72 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.[13]

> Kevin M O'Neill
> Deputy Secretary

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[13]   17 CFR 200.30-3(a)(12).