

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 43	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2014 - * 38
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 type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input checked="" type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
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"/>
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Description

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

Related to Multiply Listed Options

Contact Information

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

First Name * Angela Last Name * Dunn

Title * Associate General Counsel

E-mail * angela.dunn@nasdaqomx.com

Telephone * (215) 496-5692 Fax

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 06/02/2014

By Edward S. Knight

Executive Vice President and General Counsel

(Name *)

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.

Persona Not Validated - 1383935917270,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change *

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

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

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

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

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

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

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

Partial Amendment

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

1. Text of the Proposed Rule Change

(a) NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² proposes to amend Section II of the Pricing Schedule which pertains to Multiply Listed Options fees.³

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange on July 17, 2013. Exchange staff will advise the Board of Directors of any action taken pursuant to delegated authority. No other action by the Exchange is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to Angela Saccomandi Dunn, Associate General Counsel, The NASDAQ OMX Group at (215) 496-5692.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Multiply Listed Options fees includes options overlying equities, ETFs, ETNs and indexes which are multiply listed.

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

a. Purpose

The purpose of this filing is to amend Section II of the Exchange's Pricing Schedule entitled "Multiply Listed Options" to: (1) amend Options Transaction Charges in Penny Pilot Options⁴ and Non-Penny Pilot Options; (ii) amend certain Complex Order⁵ fees; (iii) amend incentives related to achieving certain Customer Rebate Tiers;⁶ (iv) amend the Monthly Market Maker Cap; and (v) remove outdated rule text related to the Qualified Contingent Cross⁷ Bonus.

⁴ The Penny Pilot was established in January 2007 and was last extended in May 2014. See Securities and Exchange Release No. 72245 (May 23, 2014), 79 FR 31164 (May 30, 2014) (SR-Phlx-2014-37).

⁵ 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. Furthermore, a Complex Order can 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). See Exchange Rule 1080, Commentary .08(a)(i).

⁶ The Exchange offers Customer Rebates in Section B of the Pricing Schedule.

⁷ A QCC Order is comprised of an order to buy or sell at least 1000 contracts that is identified as being part of a qualified contingent trade, as that term is defined in Rule 1080(o)(3), coupled with a contra-side order to buy or sell an equal number of contracts. The QCC Order must be executed at a price at or between the National Best Bid and Offer and be rejected if a Customer order is resting on the Exchange book at the same price. A QCC Order shall only be submitted electronically from off the floor to the PHLX XL II System. See Rule 1080(o). See also Securities Exchange Act Release No. 64249 (April 7, 2011), 76 FR 20773 (April 13, 2011) (SR-Phlx-2011-47) (a rule change to establish a QCC Order to facilitate the execution of stock/option Qualified Contingent Trades ("QCTs") that satisfy the requirements of the trade through exemption in connection with Rule 611(d) of Regulation NMS). A Floor QCC Order must: (i) be for at least 1,000 contracts, (ii) meet the six requirements of Rule 1080(o)(3) which are modeled on the QCT Exemption, (iii) be executed at a price at or between the National Best Bid and Offer; and (iv) be rejected if a Customer order is resting on the Exchange

Options Transaction Charges

The Exchange proposes to increase the electronic Professional,⁸ Broker-Dealer⁹ and Firm¹⁰ Options Transaction Charges in Penny Pilot Options to \$0.48 per contract. Currently, a Professional is assessed an electronic Options Transaction Charge of \$0.30 per contract and a Broker-Dealer and Firm are assessed an electronic Options Transaction Charge of \$0.45 per contract.

The Exchange also proposes to increase the electronic Specialist¹¹ and Market Maker¹² Options Transaction Charge in Non-Penny Pilot Options from \$0.23 to \$0.25 per contract. The Exchange believes that these fee increases will permit the Exchange to incentivize market participants by offering other incentives to lower prices as described herein.

book at the same price. In order to satisfy the 1,000-contract requirement, a Floor QCC Order must be for 1,000 contracts and could not be, for example, two 500-contract orders or two 500-contract legs. See Rule 1064(e). See also Securities Exchange Act Release No. 64688 (June 16, 2011), 76 FR 36606 (June 22, 2011) (SR-Phlx-2011-56).

⁸ The term “Professional” means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). See Rule 1000(b)(14).

⁹ The term “Broker-Dealer” applies to any transaction which is not subject to any of the other transaction fees applicable within a particular category.

¹⁰ The term “Firm” applies to any transaction that is identified by a member or member organization for clearing in the Firm range at The Options Clearing Corporation.

¹¹ A “Specialist” is an Exchange member who is registered as an options specialist pursuant to Rule 1020(a).

¹² A “Market Maker” includes Registered Options Traders (Rule 1014(b)(i) and (ii)), which includes Streaming Quote Traders (see Rule 1014(b)(ii)(A)) and Remote Streaming Quote Traders (see Rule 1014(b)(ii)(B)). Directed Participants are also market makers.

Complex Order Fees

The Exchange currently assesses Professionals an electronic Complex Order fee of \$0.30 per contract in Penny Pilot Options.¹³ The Exchange will continue to offer Professionals this \$0.30 per contract fee for electronic Penny Pilot Complex Orders, which will represent a lower fee as compared to the proposed Professional electronic Options Transaction Charge of \$0.48 per contract. The Exchange will also offer Broker-Dealers and Firms the opportunity to lower the proposed \$0.48 per contract electronic Penny Pilot Options Transaction Charges to \$0.30 per contract with respect to Complex Orders.

With respect to Non-Penny Pilot Options, the Exchange currently assesses Professionals an electronic Complex Order fee of \$0.30 per contract in Non-Penny Pilot Options.¹⁴ The Exchange will continue to offer Professionals this \$0.30 per contract fee for electronic Non-Penny Pilot Complex Orders. The Exchange will also offer Broker-Dealers and Firms the opportunity to lower the current electronic Options Transaction Charges of \$0.70 to \$0.30 per contract with respect to Complex Orders.

The Exchange believes that offering these market participants the opportunity to lower Complex Order fees will encourage the transaction of these types of orders on Phlx.

Customer Rebate Tier Incentives

Today the Exchange offers Professionals, Broker-Dealers and Firms the opportunity to reduce electronic Options Transaction Charges in Non-Penny Pilot

¹³ See current note 13.

¹⁴ See current note 14.

Options from \$0.70 to \$0.60 per contract if the member or member organization under Common Ownership with another member or member organization qualifies, in a given month, for Customer Rebate Tiers 2, 3, 4, or 5 in Section B of the Pricing Schedule.¹⁵ The Exchange will continue to offer these market participants the opportunity to qualify for the Customer Rebate Tiers and reduce these electronic fees to \$0.60 per contract.¹⁶

The Exchange also proposes to offer Specialists and Market Makers an opportunity to lower the electronic Non-Penny Pilot Options Transaction Charge from the proposed \$0.25 per contract to \$0.23 per contract.¹⁷ Any Specialist or Market Maker member or member organization under Common Ownership with another member or member organization that qualifies for Customer Rebate Tiers 2, 3, 4 or 5 in Section B of the Pricing Schedule will be assessed a \$0.23 per contract electronic Non-Penny Pilot Option Transaction Charge.

The Exchange believes that these incentives will encourage Specialists and Market Makers to transact a greater number of orders on the Exchange.

Monthly Market Maker Cap

Today, Specialists and Market Makers are subject to a “Monthly Market Maker Cap” of \$550,000 for: (i) electronic and floor Option Transaction Charges; (ii) QCC Transaction Fees (as defined in Exchange Rule 1080(o) and Floor QCC Orders, as

¹⁵ See current note 14 as related to a Professional and current note 15 as related to Broker-Dealers and Firms.

¹⁶ See revised note 14 which is being applied to Broker-Dealers and Firms as well as Professionals within the Pricing Schedule. Note 14 is being added to the electronic Broker-Dealer and Firm Non-Penny Pilot Options Transaction Charge.

¹⁷ The Exchange is adding note 15 to the electronic Specialist and Market Maker Non-Penny Pilot Options Transaction Charge.

defined in 1064(e)); and (iii) fees related to an order or quote that is contra to a PIXL Order or specifically responding to a PIXL auction. The trading activity of separate Specialist and Market Maker member organizations is aggregated in calculating the Monthly Market Maker Cap if there is Common Ownership between the member organizations.

All dividend, merger, short stock interest, reversal and conversion, jelly roll and box spread strategy executions (as defined in Section II) are excluded from the Monthly Market Maker Cap. In addition, Specialists or Market Makers that (i) are on the contra-side of an electronically-delivered and executed Customer order; and (ii) have reached the Monthly Market Maker Cap are assessed a \$0.17 per contract fee.

The Exchange proposes to continue to assess Specialists or Market Makers that (i) are on the contra-side of an electronically-delivered and executed Customer order; and (ii) have reached the Monthly Market Maker Cap a \$0.17 per contract fee in both Penny and Non-Penny Pilot Options, as is the case today. The Exchange proposes to assess no fee to Specialists or Market Makers that (i) are on the contra-side of an electronically-delivered and executed Customer order; and (ii) have reached the Monthly Market Maker Cap in the following symbols: Apple, Inc. (“AAPL”), Bank of American Corporation (“BAC”), Facebook, Inc. (“FB”), iShares Russell 2000 (“IWM”) and PowerShares QQQ (“QQQ”). The Exchange believes that assessing Specialists and Market Makers no fee in these symbols if they are on the contra-side of an electronically-delivered and executed Customer order; and have reached the Monthly Market Maker Cap will incentivize Specialists and Market Makers to offer improved bids and offers on the Exchange.

QCC Bonus

The Exchange previously filed an immediately effective rule change¹⁸ to offer an additional rebate applicable to both electronic QCC Orders (“eQCC”)¹⁹ and Floor QCC Orders²⁰ (collectively “QCC Orders”). The Exchange currently offers an additional rebate of \$35,000 if the member organization transacts 1,750,000 of qualifying QCC contracts (“QCC Bonus”).²¹ The QCC Bonus was only available during the month of May 2014. The Exchange proposes to delete the rule text applicable to the QCC Bonus as that bonus is no longer applicable.

b. Statutory Basis

The Exchange believes that its proposal to amend its Pricing Schedule is consistent with Section 6(b) of the Act²² in general, and furthers the objectives of Section 6(b)(4) and (b)(5) of the Act²³ in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system which Phlx operates or controls, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

¹⁸ See Securities Exchange Act Release No. 72136 (May 9, 2014), 79 FR 27968 (May 15, 2014) (SR-Phlx-2014-31).

¹⁹ See Rule 1080(o).

²⁰ See Rule 1064(e).

²¹ The QCC Bonus was in addition to the maximum QCC Rebate of \$375,000 and did not count toward the maximum QCC Rebate of \$375,000.

²² 15 U.S.C. 78f(b).

²³ 15 U.S.C. 78f(b)(4), (5).

Options Transaction Charges

The Exchange's proposal to increase the electronic Professional, Broker-Dealer and Firm Options Transaction Charges in Penny Pilot Options to \$0.48 per contract is reasonable because the Exchange's fees will remain competitive with fees at other options markets.²⁴ Today, a Professional is assessed an electronic Options Transaction Charge in Penny Pilot Options of \$0.30 per contract and a Broker-Dealer and Firm are assessed an electronic Options Transaction Charge in Penny Pilot Options of \$0.45 per contract. Despite the fee increase, the proposal will allow the Exchange to incentivize market participants by offering the opportunity to lower Options Transaction Charges as described herein.

The Exchange's proposal to increase the electronic Professional, Broker-Dealer and Firm Options Transaction Charges in Penny Pilot Options to \$0.48 per contract is equitable and not unfairly discriminatory because the Exchange will assess Professionals, Broker-Dealers and Firms the same electronic Options Transaction Charges in Penny Pilot Options. The Exchange does not assess Customers an electronic Options Transaction Charge in Penny Pilot Options because Customer order flow enhances liquidity on the Exchange for the benefit of all market participants. Customer liquidity benefits all market participants by providing more trading opportunities, which attracts Specialists and Market Makers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. Specialists and Market Makers are assessed lower electronic Options Transaction Charges in Penny Pilot Options as compared to

²⁴ See the NASDAQ Options Market LLC's ("NOM") pricing at Chapter XV of NOM's Rulebook.

Professionals, Broker-Dealers and Firms because they have obligations to the market and regulatory requirements, which normally do not apply to other market participants.²⁵ They have obligations to make continuous markets, engage in a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and not make bids or offers or enter into transactions that are inconsistent with a course of dealings. The proposed differentiation as between Customers, Specialists and Market Makers and other market participants recognizes the differing contributions made to the liquidity and trading environment on the Exchange by these market participants.

The Exchange's proposal to increase the electronic Specialist and Market Maker Options Transaction Charge in Non-Penny Pilot Options from \$0.23 to \$0.25 per contract is reasonable because the Exchange will continue to offer Specialists and Market Makers other incentives such as the Monthly Market Maker Cap, which incentive is not offered to other market participants. The Exchange believes that despite the fee increase, the fee remains competitive with other market participant fees. Also, the Exchange is offering Specialists and Market Makers a means to reduce the Options Transaction Charge to \$0.23 per contract in Non-Penny Pilot Options as described in more detail below.²⁶

The Exchange's proposal to increase the electronic Specialist and Market Maker Options Transaction Charge in Non-Penny Pilot Options from \$0.23 to \$0.25 per contract is equitable and not unfairly discriminatory because the Exchange will continue to assess

²⁵ See Rule 1014 titled "Obligations and Restrictions Applicable to Specialists and Registered Options Traders."

²⁶ Specialists and Market Makers could reduce the Options Transaction Charge in Non-Penny Pilot Options from \$0.25 to \$0.23 per contract by qualifying for Customer Rebate Tiers 2, 3, 4 or 5 in Section B of the Pricing Schedule, as proposed herein. See proposed note 15.

Specialists and Market Makers the lowest electronic Options Transaction Charge in Non-Penny Pilot Options as compared to the \$0.70 per contract electronic Options Transaction Charge assessed to Professionals, Broker-Dealers and Firms.²⁷ Specialists and Market Makers are assessed lower electronic Options Transaction Charges in Penny Pilot Options as compared to Professionals, Broker-Dealers and Firms because they have obligations to the market and regulatory requirements, which normally do not apply to other market participants.²⁸

Complex Order Fees

The Exchange's proposal to continue to offer Professionals, and now Broker-Dealers and Firms, the opportunity to reduce electronic Complex Orders to a fee of \$0.30 per contract in Penny Pilot Options is reasonable because the Exchange is increasing fees for these market participants with this proposal. Professionals will have the opportunity to lower the proposed \$0.48 per contract electronic Options Transaction Charge in Penny Pilot Options to \$0.30 per contract with respect to Complex Orders. This will represent a lower fee as compared to the proposed electronic Professional Options Transaction Charge of \$0.48 per contract that will apply to Simple Orders in Penny Pilot Options. Broker-Dealers and Firms will likewise be offered the opportunity to reduce the proposed increased electronic Penny Pilot Options Transaction Charges of \$0.48 to \$0.30 per contract with respect to Complex Orders. Therefore, these market participants that are assessed the highest electronic fees will have an opportunity to lower these electronic fees in Penny Pilot Complex Orders.

²⁷ Customers are not assessed a Non-Penny Pilot Options Transaction Charge.

²⁸ See note 25.

The Exchange's proposal to offer Broker-Dealers and Firms the same opportunity as a Professional to reduce electronic Complex Orders to a fee of \$0.30 per contract in Penny Pilot Options is equitable and not unfairly discriminatory because the Exchange will assess Professionals, Broker-Dealers and Firms the same electronic Options Transaction Charge in Penny Pilot Options of \$0.30 per contract. The Exchange does not assess Customers an electronic Options Transaction Charge in Penny Pilot Options because Customer order flow enhances liquidity on the Exchange for the benefit of all market participants. Specialists and Market Makers are assessed lower electronic Options Transaction Charges in Penny Pilot Options as compared to Professionals, Broker-Dealers and Firms because they have obligations to the market and regulatory requirements, which normally do not apply to other market participants.²⁹ They have obligations to make continuous markets, engage in a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and not make bids or offers or enter into transactions that are inconsistent with a course of dealings.

The Exchange's proposal to continue to offer Professionals, and now Broker-Dealers and Firms, the opportunity to reduce electronic Complex Orders from \$0.70 to \$0.30 per contract in Non-Penny Pilot Options is reasonable because the Exchange desires to provide these market participants the opportunity to lower Complex Order fees in Penny and Non-Penny Pilot Options alike. This opportunity to lower electronic Complex Order fees, which is currently offered only to Professionals, will be extended to Broker-Dealers and Firms in Non-Penny Pilot Options. Professionals, Broker-Dealers and Firms are assessed the highest electronic Options Transactions Charges in Non-

²⁹ See note 25.

Penny Pilot Options of \$0.70 per contract, as compared to other market participants. The Exchange believes that offering these market participants the opportunity to lower Non-Penny Pilot electronic Complex Order fees will encourage the transaction of these types of orders on Phlx.

The Exchange's proposal to offer Broker-Dealers and Firms the same opportunity as Professionals to reduce electronic Complex Orders to a fee of \$0.30 per contract in Non-Penny Pilot Options is equitable and not unfairly discriminatory because the Exchange will assess Professionals, Broker-Dealers and Firms the same electronic Options Transaction Charge in Non-Penny Pilot Options of \$0.30 per contract. The Exchange does not assess Customers an electronic Options Transaction Charge in Non-Penny Pilot Options because Customer order flow enhances liquidity on the Exchange for the benefit of all market participants. Specialists and Market Makers are assessed lower electronic Options Transaction Charges in Non-Penny Pilot Options as compared to Professionals, Broker-Dealers and Firms because they have obligations to the market and regulatory requirements, which normally do not apply to other market participants.³⁰

Customer Rebate Tier Incentives

The Exchange's proposal to offer Specialists and Market Makers an opportunity to lower electronic Options Transaction Charges in Non-Penny Pilot Options from \$0.25 to \$0.23 per contract, provided certain criteria are met, is reasonable because the Exchange desires to offer all market participants³¹ an opportunity to lower Non-Penny

³⁰ See note 25.

³¹ Today, Professionals, Broker-Dealers and Firms have an opportunity to reduce fees to \$0.60 per contract in Non-Penny Pilot Options provided certain criteria are met. Professionals, Broker-Dealers and Firms are offered the opportunity to reduce electronic

Pilot Options Transaction Fees. The electronic Options Transaction Charges in Non-Penny Pilot Options are higher as compared to electronic Options Transaction Charges in Penny Pilot Options. The Exchange believes that offering all market participants the opportunity to lower electronic Options Transaction Charges in Non-Penny Pilot Options by incentivizing them to transact Customer order flow in turn benefits all market participants.

The Exchange's proposal to offer Specialists and Market Makers the opportunity to lower electronic Options Transaction Charges in Non-Penny Pilot Options from \$0.25 to \$0.23 per contract is equitable and not unfairly discriminatory because the Exchange will offer all market participants, excluding Customers,³² a means to reduce Options Transaction Charges by qualifying for a Customer Rebate in Section B of the Pricing Schedule. Even with the reduced rate for Professionals, Broker-Dealers and Firms of \$0.60 per contract, Specialist and Market Makers will continue to be assessed the lowest electronic Options Transaction Charge in Non-Penny Pilot Options because they have obligations to the market and regulatory requirements, which normally do not apply to other market participants.³³

Monthly Market Maker Cap

The Exchange's proposal to not assess a fee to Specialists or Market Makers that (i) are on the contra-side of an electronically-delivered and executed Customer order; and

Non-Penny Pilot Options Transaction Charges to \$0.60 per contract if the member or member organization under Common Ownership with another member or member organization qualifies, in a given month, for Customer Rebate Tiers 2, 3, 4, or 5 in Section B of the Pricing Schedule.

³² Customers are not assessed a Non-Penny Pilot Options Transaction Charge.

³³ See note 25.

(ii) have reached the Monthly Market Maker Cap in AAPL, BAC, FB, IWM and QQQ is reasonable because the Exchange desires to incentivize Specialists and Market Makers to transact more options in these symbols and bring additional liquidity to the Exchange. All market participants will benefit from the increased Customer liquidity brought to the Exchange. The Exchange today differentiates pricing by option symbols.³⁴ Specialists and Market Makers will continue to pay the same fee of \$0.17 per contract in Penny and Non-Penny Pilot Options, when the cap is satisfied, except for the symbols noted above.

The Exchange's proposal to not assess a fee to Specialists or Market Makers that (i) are on the contra-side of an electronically-delivered and executed Customer order; and (ii) have reached the Monthly Market Maker Cap in AAPL, BAC, FB, IWM and QQQ is equitable and not unfairly discriminatory. Specialists and Market Makers have burdensome quoting obligations³⁵ to the market that do not apply to Customers, Professionals, Firms and Broker-Dealers. Specialists and Market Makers serve an important role on the Exchange with regard to order interaction and they provide liquidity in the marketplace. Additionally, Specialists and Market Makers incur costs unlike other market participants including, but not limited to, Payment for Order Flow ("PFOF")³⁶ and other costs associated with market making activities, which results in a higher average cost per execution as compared to Firms, Broker-Dealers and Professionals. The

³⁴ See Section I of the Pricing Schedule which differentiates pricing in SPDR S&P 500 ("SPY") options. See also Securities Exchange Release No. 66757 (April 6, 2012), 77 FR 22034 (April 12, 2012) (SR-Phlx-2012-45).

³⁵ See note 25.

³⁶ Specialists and Market Makers, as compared to other market participants, are assessed PFOF when transacting Customer electronic orders.

proposed differentiation as between Specialists and Market Makers as compared to other market participants recognizes the differing contributions made to the trading environment on the Exchange by these market participants. Customer liquidity benefits all market participants by providing more trading opportunities, which attract Specialists and Market Makers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. The Exchange believes that offering Specialists and Market Makers the opportunity to cap fees in certain highly liquidity Penny Pilot Options is equitable and not unfairly discriminatory for the reasons noted above.

QCC Bonus

The Exchange's proposal to remove rule text related to the QCC Bonus is reasonable because removing the outdated rule text will add clarity to the Pricing Schedule. The Exchange's proposal to remove rule text related to the QCC Bonus is equitable and not unfairly discriminatory because the QCC Bonus is no longer in effect and therefore not available to any market participant.

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. The Exchange's proposal to increase electronic Options Transaction Charges for Professionals, Broker-Dealers and Firms in Penny Pilot Options conforms pricing for these market participants. Customers continue not be assessed Penny Pilot Options Transaction Charges and Specialists and Market Makers continue to be assessed the

lowest electronic Options Transaction Charges in Penny Pilot Options due to the obligations they bear in the market.³⁷

With respect to Non-Penny Pilot Options, the increase to Specialists and Market Makers for electronic orders is offset by the ability to reduce those fees by qualifying for certain Customer Rebates in Section B of the Pricing Schedule and also the ability to cap certain fees. The Exchange is offering all market participants that are assessed Non-Penny Pilot Options Transaction Charges the opportunity to reduce those fees by qualifying for certain Customer Rebates in Section B of the Pricing Schedule.

Professionals, as is the case today, as well as Broker-Dealers and Firms alike will be offered the opportunity to reduce electronic Complex Order fees in both Penny and Non-Penny Pilot Options as these market participants are assessed the highest Penny and Non-Penny Pilot Options Transaction Charges.

Specialists and Market Makers will be offered the opportunity to pay no fees, after they have satisfied the obligations related to the Monthly Market Maker Cap, in the following symbols: AAPL, BAC, FB, IWM and QQQ. Specialists and Market Makers have burdensome quoting obligations³⁸ to the market that do not apply to Customers, Professionals, Firms and Broker-Dealers. Specialists and Market Makers serve an important role on the Exchange with regard to order interaction and they provide liquidity in the marketplace. Additionally, Specialists and Market Makers incur costs unlike other market participants including, but not limited to, PFOF and other costs associated with market making activities, which results in a higher average cost per execution as

³⁷ See note 25.

³⁸ Id.

compared to Firms, Broker-Dealers and Professionals. The proposed differentiation as between Specialists and Market Makers as compared to other market participants recognizes the differing contributions made to the trading environment on the Exchange by these market participants. Customer liquidity benefits all market participants by providing more trading opportunities, which attract Specialists and Market Makers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. For these reasons noted above, the Exchange does not believe that offering Specialists and Market Makers the opportunity to cap fees in certain symbols imposes an undue burden on competition.

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

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

Not applicable.

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

Pursuant to Section 19(b)(3)(A)(ii) of the Act,³⁹ the Exchange has designated this proposal as establishing or changing a due, fee, or other charge imposed on any person, whether or not the person is a member of the self-regulatory organization, which renders the proposed rule change effective upon filing.

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

Not applicable.

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. Applicable portion of the Exchange's Pricing Schedule.

³⁹ 15 U.S.C. 78s(b)(3)(A)(ii).

Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. _____ ; File No. SR-Phlx-2014-38)

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Pricing in Multiply Listed Options

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 2, 2014, 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 Section II of the Pricing Schedule which pertains to Multiply Listed Options fees.³

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Multiply Listed Options fees includes options overlying equities, ETFs, ETNs and indexes which are multiply listed.

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

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

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

1. Purpose

The purpose of this filing is to amend Section II of the Exchange's Pricing Schedule entitled "Multiply Listed Options" to: (1) amend Options Transaction Charges in Penny Pilot Options⁴ and Non-Penny Pilot Options; (ii) amend certain Complex Order⁵ fees; (iii) amend incentives related to achieving certain Customer Rebate Tiers;⁶ (iv)

⁴ The Penny Pilot was established in January 2007 and was last extended in May 2014. See Securities and Exchange Release No. 72245 (May 23, 2014), 79 FR 31164 (May 30, 2014) (SR-Phlx-2014-37).

⁵ 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. Furthermore, a Complex Order can 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). See Exchange Rule 1080, Commentary .08(a)(i).

⁶ The Exchange offers Customer Rebates in Section B of the Pricing Schedule.

amend the Monthly Market Maker Cap; and (v) remove outdated rule text related to the Qualified Contingent Cross⁷ Bonus.

Options Transaction Charges

The Exchange proposes to increase the electronic Professional,⁸ Broker-Dealer⁹ and Firm¹⁰ Options Transaction Charges in Penny Pilot Options to \$0.48 per contract. Currently, a Professional is assessed an electronic Options Transaction Charge of \$0.30 per contract and a Broker-Dealer and Firm are assessed an electronic Options Transaction Charge of \$0.45 per contract.

⁷ A QCC Order is comprised of an order to buy or sell at least 1000 contracts that is identified as being part of a qualified contingent trade, as that term is defined in Rule 1080(o)(3), coupled with a contra-side order to buy or sell an equal number of contracts. The QCC Order must be executed at a price at or between the National Best Bid and Offer and be rejected if a Customer order is resting on the Exchange book at the same price. A QCC Order shall only be submitted electronically from off the floor to the PHLX XL II System. See Rule 1080(o). See also Securities Exchange Act Release No. 64249 (April 7, 2011), 76 FR 20773 (April 13, 2011) (SR-Phlx-2011-47) (a rule change to establish a QCC Order to facilitate the execution of stock/option Qualified Contingent Trades (“QCTs”) that satisfy the requirements of the trade through exemption in connection with Rule 611(d) of Regulation NMS). A Floor QCC Order must: (i) be for at least 1,000 contracts, (ii) meet the six requirements of Rule 1080(o)(3) which are modeled on the QCT Exemption, (iii) be executed at a price at or between the National Best Bid and Offer; and (iv) be rejected if a Customer order is resting on the Exchange book at the same price. In order to satisfy the 1,000-contract requirement, a Floor QCC Order must be for 1,000 contracts and could not be, for example, two 500-contract orders or two 500-contract legs. See Rule 1064(e). See also Securities Exchange Act Release No. 64688 (June 16, 2011), 76 FR 36606 (June 22, 2011) (SR-Phlx-2011-56).

⁸ The term “Professional” means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). See Rule 1000(b)(14).

⁹ The term “Broker-Dealer” applies to any transaction which is not subject to any of the other transaction fees applicable within a particular category.

¹⁰ The term “Firm” applies to any transaction that is identified by a member or member organization for clearing in the Firm range at The Options Clearing Corporation.

The Exchange also proposes to increase the electronic Specialist¹¹ and Market Maker¹² Options Transaction Charge in Non-Penny Pilot Options from \$0.23 to \$0.25 per contract. The Exchange believes that these fee increases will permit the Exchange to incentivize market participants by offering other incentives to lower prices as described herein.

Complex Order Fees

The Exchange currently assesses Professionals an electronic Complex Order fee of \$0.30 per contract in Penny Pilot Options.¹³ The Exchange will continue to offer Professionals this \$0.30 per contract fee for electronic Penny Pilot Complex Orders, which will represent a lower fee as compared to the proposed Professional electronic Options Transaction Charge of \$0.48 per contract. The Exchange will also offer Broker-Dealers and Firms the opportunity to lower the proposed \$0.48 per contract electronic Penny Pilot Options Transaction Charges to \$0.30 per contract with respect to Complex Orders.

With respect to Non-Penny Pilot Options, the Exchange currently assesses Professionals an electronic Complex Order fee of \$0.30 per contract in Non-Penny Pilot Options.¹⁴ The Exchange will continue to offer Professionals this \$0.30 per contract fee

¹¹ A “Specialist” is an Exchange member who is registered as an options specialist pursuant to Rule 1020(a).

¹² A “Market Maker” includes Registered Options Traders (Rule 1014(b)(i) and (ii)), which includes Streaming Quote Traders (see Rule 1014(b)(ii)(A)) and Remote Streaming Quote Traders (see Rule 1014(b)(ii)(B)). Directed Participants are also market makers.

¹³ See current note 13.

¹⁴ See current note 14.

for electronic Non-Penny Pilot Complex Orders. The Exchange will also offer Broker-Dealers and Firms the opportunity to lower the current electronic Options Transaction Charges of \$0.70 to \$0.30 per contract with respect to Complex Orders.

The Exchange believes that offering these market participants the opportunity to lower Complex Order fees will encourage the transaction of these types of orders on Phlx.

Customer Rebate Tier Incentives

Today the Exchange offers Professionals, Broker-Dealers and Firms the opportunity to reduce electronic Options Transaction Charges in Non-Penny Pilot Options from \$0.70 to \$0.60 per contract if the member or member organization under Common Ownership with another member or member organization qualifies, in a given month, for Customer Rebate Tiers 2, 3, 4, or 5 in Section B of the Pricing Schedule.¹⁵ The Exchange will continue to offer these market participants the opportunity to qualify for the Customer Rebate Tiers and reduce these electronic fees to \$0.60 per contract.¹⁶

The Exchange also proposes to offer Specialists and Market Makers an opportunity to lower the electronic Non-Penny Pilot Options Transaction Charge from the proposed \$0.25 per contract to \$0.23 per contract.¹⁷ Any Specialist or Market Maker member or member organization under Common Ownership with another member or

¹⁵ See current note 14 as related to a Professional and current note 15 as related to Broker-Dealers and Firms.

¹⁶ See revised note 14 which is being applied to Broker-Dealers and Firms as well as Professionals within the Pricing Schedule. Note 14 is being added to the electronic Broker-Dealer and Firm Non-Penny Pilot Options Transaction Charge.

¹⁷ The Exchange is adding note 15 to the electronic Specialist and Market Maker Non-Penny Pilot Options Transaction Charge.

member organization that qualifies for Customer Rebate Tiers 2, 3, 4 or 5 in Section B of the Pricing Schedule will be assessed a \$0.23 per contract electronic Non-Penny Pilot Option Transaction Charge.

The Exchange believes that these incentives will encourage Specialists and Market Makers to transact a greater number of orders on the Exchange.

Monthly Market Maker Cap

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

All dividend, merger, short stock interest, reversal and conversion, jelly roll and box spread strategy executions (as defined in Section II) are excluded from the Monthly Market Maker Cap. In addition, Specialists or Market Makers that (i) are on the contra-side of an electronically-delivered and executed Customer order; and (ii) have reached the Monthly Market Maker Cap are assessed a \$0.17 per contract fee.

The Exchange proposes to continue to assess Specialists or Market Makers that (i) are on the contra-side of an electronically-delivered and executed Customer order; and (ii) have reached the Monthly Market Maker Cap a \$0.17 per contract fee in both Penny and Non-Penny Pilot Options, as is the case today. The Exchange proposes to assess no

fee to Specialists or Market Makers that (i) are on the contra-side of an electronically-delivered and executed Customer order; and (ii) have reached the Monthly Market Maker Cap in the following symbols: Apple, Inc. (“AAPL”), Bank of American Corporation (“BAC”), Facebook, Inc. (“FB”), iShares Russell 2000 (“IWM”) and PowerShares QQQ (“QQQ”). The Exchange believes that assessing Specialists and Market Makers no fee in these symbols if they are on the contra-side of an electronically-delivered and executed Customer order; and have reached the Monthly Market Maker Cap will incentivize Specialists and Market Makers to offer improved bids and offers on the Exchange.

QCC Bonus

The Exchange previously filed an immediately effective rule change¹⁸ to offer an additional rebate applicable to both electronic QCC Orders (“eQCC”)¹⁹ and Floor QCC Orders²⁰ (collectively “QCC Orders”). The Exchange currently offers an additional rebate of \$35,000 if the member organization transacts 1,750,000 of qualifying QCC contracts (“QCC Bonus”).²¹ The QCC Bonus was only available during the month of May 2014. The Exchange proposes to delete the rule text applicable to the QCC Bonus as that bonus is no longer applicable.

¹⁸ See Securities Exchange Act Release No. 72136 (May 9, 2014), 79 FR 27968 (May 15, 2014) (SR-Phlx-2014-31).

¹⁹ See Rule 1080(o).

²⁰ See Rule 1064(e).

²¹ The QCC Bonus was in addition to the maximum QCC Rebate of \$375,000 and did not count toward the maximum QCC Rebate of \$375,000.

2. Statutory Basis

The Exchange believes that its proposal to amend its Pricing Schedule is consistent with Section 6(b) of the Act²² in general, and furthers the objectives of Section 6(b)(4) and (b)(5) of the Act²³ in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system which Phlx operates or controls, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Options Transaction Charges

The Exchange's proposal to increase the electronic Professional, Broker-Dealer and Firm Options Transaction Charges in Penny Pilot Options to \$0.48 per contract is reasonable because the Exchange's fees will remain competitive with fees at other options markets.²⁴ Today, a Professional is assessed an electronic Options Transaction Charge in Penny Pilot Options of \$0.30 per contract and a Broker-Dealer and Firm are assessed an electronic Options Transaction Charge in Penny Pilot Options of \$0.45 per contract. Despite the fee increase, the proposal will allow the Exchange to incentivize market participants by offering the opportunity to lower Options Transaction Charges as described herein.

The Exchange's proposal to increase the electronic Professional, Broker-Dealer and Firm Options Transaction Charges in Penny Pilot Options to \$0.48 per contract is equitable and not unfairly discriminatory because the Exchange will assess Professionals,

²² 15 U.S.C. 78f(b).

²³ 15 U.S.C. 78f(b)(4), (5).

²⁴ See the NASDAQ Options Market LLC's ("NOM") pricing at Chapter XV of NOM's Rulebook.

Broker-Dealers and Firms the same electronic Options Transaction Charges in Penny Pilot Options. The Exchange does not assess Customers an electronic Options Transaction Charge in Penny Pilot Options because Customer order flow enhances liquidity on the Exchange for the benefit of all market participants. Customer liquidity benefits all market participants by providing more trading opportunities, which attracts Specialists and Market Makers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. Specialists and Market Makers are assessed lower electronic Options Transaction Charges in Penny Pilot Options as compared to Professionals, Broker-Dealers and Firms because they have obligations to the market and regulatory requirements, which normally do not apply to other market participants.²⁵ They have obligations to make continuous markets, engage in a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and not make bids or offers or enter into transactions that are inconsistent with a course of dealings. The proposed differentiation as between Customers, Specialists and Market Makers and other market participants recognizes the differing contributions made to the liquidity and trading environment on the Exchange by these market participants.

The Exchange's proposal to increase the electronic Specialist and Market Maker Options Transaction Charge in Non-Penny Pilot Options from \$0.23 to \$0.25 per contract is reasonable because the Exchange will continue to offer Specialists and Market Makers other incentives such as the Monthly Market Maker Cap, which incentive is not offered

²⁵ See Rule 1014 titled "Obligations and Restrictions Applicable to Specialists and Registered Options Traders."

to other market participants. The Exchange believes that despite the fee increase, the fee remains competitive with other market participant fees. Also, the Exchange is offering Specialists and Market Makers a means to reduce the Options Transaction Charge to \$0.23 per contract in Non-Penny Pilot Options as described in more detail below.²⁶

The Exchange's proposal to increase the electronic Specialist and Market Maker Options Transaction Charge in Non-Penny Pilot Options from \$0.23 to \$0.25 per contract is equitable and not unfairly discriminatory because the Exchange will continue to assess Specialists and Market Makers the lowest electronic Options Transaction Charge in Non-Penny Pilot Options as compared to the \$0.70 per contract electronic Options Transaction Charge assessed to Professionals, Broker-Dealers and Firms.²⁷ Specialists and Market Makers are assessed lower electronic Options Transaction Charges in Penny Pilot Options as compared to Professionals, Broker-Dealers and Firms because they have obligations to the market and regulatory requirements, which normally do not apply to other market participants.²⁸

Complex Order Fees

The Exchange's proposal to continue to offer Professionals, and now Broker-Dealers and Firms, the opportunity to reduce electronic Complex Orders to a fee of \$0.30 per contract in Penny Pilot Options is reasonable because the Exchange is increasing fees

²⁶ Specialists and Market Makers could reduce the Options Transaction Charge in Non-Penny Pilot Options from \$0.25 to \$0.23 per contract by qualifying for Customer Rebate Tiers 2, 3, 4 or 5 in Section B of the Pricing Schedule, as proposed herein. See proposed note 15.

²⁷ Customers are not assessed a Non-Penny Pilot Options Transaction Charge.

²⁸ See note 25.

for these market participants with this proposal. Professionals will have the opportunity to lower the proposed \$0.48 per contract electronic Options Transaction Charge in Penny Pilot Options to \$0.30 per contract with respect to Complex Orders. This will represent a lower fee as compared to the proposed electronic Professional Options Transaction Charge of \$0.48 per contract that will apply to Simple Orders in Penny Pilot Options. Broker-Dealers and Firms will likewise be offered the opportunity to reduce the proposed increased electronic Penny Pilot Options Transaction Charges of \$0.48 to \$0.30 per contract with respect to Complex Orders. Therefore, these market participants that are assessed the highest electronic fees will have an opportunity to lower these electronic fees in Penny Pilot Complex Orders.

The Exchange's proposal to offer Broker-Dealers and Firms the same opportunity as a Professional to reduce electronic Complex Orders to a fee of \$0.30 per contract in Penny Pilot Options is equitable and not unfairly discriminatory because the Exchange will assess Professionals, Broker-Dealers and Firms the same electronic Options Transaction Charge in Penny Pilot Options of \$0.30 per contract. The Exchange does not assess Customers an electronic Options Transaction Charge in Penny Pilot Options because Customer order flow enhances liquidity on the Exchange for the benefit of all market participants. Specialists and Market Makers are assessed lower electronic Options Transaction Charges in Penny Pilot Options as compared to Professionals, Broker-Dealers and Firms because they have obligations to the market and regulatory requirements, which normally do not apply to other market participants.²⁹ They have obligations to make continuous markets, engage in a course of dealings reasonably

²⁹ See note 25.

calculated to contribute to the maintenance of a fair and orderly market, and not make bids or offers or enter into transactions that are inconsistent with a course of dealings.

The Exchange's proposal to continue to offer Professionals, and now Broker-Dealers and Firms, the opportunity to reduce electronic Complex Orders from \$0.70 to \$0.30 per contract in Non-Penny Pilot Options is reasonable because the Exchange desires to provide these market participants the opportunity to lower Complex Order fees in Penny and Non-Penny Pilot Options alike. This opportunity to lower electronic Complex Order fees, which is currently offered only to Professionals, will be extended to Broker-Dealers and Firms in Non-Penny Pilot Options. Professionals, Broker-Dealers and Firms are assessed the highest electronic Options Transactions Charges in Non-Penny Pilot Options of \$0.70 per contract, as compared to other market participants. The Exchange believes that offering these market participants the opportunity to lower Non-Penny Pilot electronic Complex Order fees will encourage the transaction of these types of orders on Phlx.

The Exchange's proposal to offer Broker-Dealers and Firms the same opportunity as Professionals to reduce electronic Complex Orders to a fee of \$0.30 per contract in Non-Penny Pilot Options is equitable and not unfairly discriminatory because the Exchange will assess Professionals, Broker-Dealers and Firms the same electronic Options Transaction Charge in Non-Penny Pilot Options of \$0.30 per contract. The Exchange does not assess Customers an electronic Options Transaction Charge in Non-Penny Pilot Options because Customer order flow enhances liquidity on the Exchange for the benefit of all market participants. Specialists and Market Makers are assessed lower electronic Options Transaction Charges in Non-Penny Pilot Options as compared to

Professionals, Broker-Dealers and Firms because they have obligations to the market and regulatory requirements, which normally do not apply to other market participants.³⁰

Customer Rebate Tier Incentives

The Exchange's proposal to offer Specialists and Market Makers an opportunity to lower electronic Options Transaction Charges in Non-Penny Pilot Options from \$0.25 to \$0.23 per contract, provided certain criteria are met, is reasonable because the Exchange desires to offer all market participants³¹ an opportunity to lower Non-Penny Pilot Options Transaction Fees. The electronic Options Transaction Charges in Non-Penny Pilot Options are higher as compared to electronic Options Transaction Charges in Penny Pilot Options. The Exchange believes that offering all market participants the opportunity to lower electronic Options Transaction Charges in Non-Penny Pilot Options by incentivizing them to transact Customer order flow in turn benefits all market participants.

The Exchange's proposal to offer Specialists and Market Makers the opportunity to lower electronic Options Transaction Charges in Non-Penny Pilot Options from \$0.25 to \$0.23 per contract is equitable and not unfairly discriminatory because the Exchange will offer all market participants, excluding Customers,³² a means to reduce Options

³⁰ See note 25.

³¹ Today, Professionals, Broker-Dealers and Firms have an opportunity to reduce fees to \$0.60 per contract in Non-Penny Pilot Options provided certain criteria are met. Professionals, Broker-Dealers and Firms are offered the opportunity to reduce electronic Non-Penny Pilot Options Transaction Charges to \$0.60 per contract if the member or member organization under Common Ownership with another member or member organization qualifies, in a given month, for Customer Rebate Tiers 2, 3, 4, or 5 in Section B of the Pricing Schedule.

³² Customers are not assessed a Non-Penny Pilot Options Transaction Charge.

Transaction Charges by qualifying for a Customer Rebate in Section B of the Pricing Schedule. Even with the reduced rate for Professionals, Broker-Dealers and Firms of \$0.60 per contract, Specialist and Market Makers will continue to be assessed the lowest electronic Options Transaction Charge in Non-Penny Pilot Options because they have obligations to the market and regulatory requirements, which normally do not apply to other market participants.³³

Monthly Market Maker Cap

The Exchange's proposal to not assess a fee to Specialists or Market Makers that (i) are on the contra-side of an electronically-delivered and executed Customer order; and (ii) have reached the Monthly Market Maker Cap in AAPL, BAC, FB, IWM and QQQ is reasonable because the Exchange desires to incentivize Specialists and Market Makers to transact more options in these symbols and bring additional liquidity to the Exchange. All market participants will benefit from the increased Customer liquidity brought to the Exchange. The Exchange today differentiates pricing by option symbols.³⁴ Specialists and Market Makers will continue to pay the same fee of \$0.17 per contract in Penny and Non-Penny Pilot Options, when the cap is satisfied, except for the symbols noted above.

The Exchange's proposal to not assess a fee to Specialists or Market Makers that (i) are on the contra-side of an electronically-delivered and executed Customer order; and (ii) have reached the Monthly Market Maker Cap in AAPL, BAC, FB, IWM and QQQ is equitable and not unfairly discriminatory. Specialists and Market Makers have

³³ See note 25.

³⁴ See Section I of the Pricing Schedule which differentiates pricing in SPDR S&P 500 ("SPY") options. See also Securities Exchange Release No. 66757 (April 6, 2012), 77 FR 22034 (April 12, 2012) (SR-Phlx-2012-45).

burdensome quoting obligations³⁵ to the market that do not apply to Customers, Professionals, Firms and Broker-Dealers. Specialists and Market Makers serve an important role on the Exchange with regard to order interaction and they provide liquidity in the marketplace. Additionally, Specialists and Market Makers incur costs unlike other market participants including, but not limited to, Payment for Order Flow (“PFOF”)³⁶ and other costs associated with market making activities, which results in a higher average cost per execution as compared to Firms, Broker-Dealers and Professionals. The proposed differentiation as between Specialists and Market Makers as compared to other market participants recognizes the differing contributions made to the trading environment on the Exchange by these market participants. Customer liquidity benefits all market participants by providing more trading opportunities, which attract Specialists and Market Makers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. The Exchange believes that offering Specialists and Market Makers the opportunity to cap fees in certain highly liquidity Penny Pilot Options is equitable and not unfairly discriminatory for the reasons noted above.

QCC Bonus

The Exchange’s proposal to remove rule text related to the QCC Bonus is reasonable because removing the outdated rule text will add clarity to the Pricing Schedule. The Exchange’s proposal to remove rule text related to the QCC Bonus is

³⁵ See note 25.

³⁶ Specialists and Market Makers, as compared to other market participants, are assessed PFOF when transacting Customer electronic orders.

equitable and not unfairly discriminatory because the QCC Bonus is no longer in effect and therefore not available to any market participant.

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. The Exchange's proposal to increase electronic Options Transaction Charges for Professionals, Broker-Dealers and Firms in Penny Pilot Options conforms pricing for these market participants. Customers continue not be assessed Penny Pilot Options Transaction Charges and Specialists and Market Makers continue to be assessed the lowest electronic Options Transaction Charges in Penny Pilot Options due to the obligations they bear in the market.³⁷

With respect to Non-Penny Pilot Options, the increase to Specialists and Market Makers for electronic orders is offset by the ability to reduce those fees by qualifying for certain Customer Rebates in Section B of the Pricing Schedule and also the ability to cap certain fees. The Exchange is offering all market participants that are assessed Non-Penny Pilot Options Transaction Charges the opportunity to reduce those fees by qualifying for certain Customer Rebates in Section B of the Pricing Schedule.

Professionals, as is the case today, as well as Broker-Dealers and Firms alike will be offered the opportunity to reduce electronic Complex Order fees in both Penny and Non-Penny Pilot Options as these market participants are assessed the highest Penny and Non-Penny Pilot Options Transaction Charges.

³⁷ See note 25.

Specialists and Market Makers will be offered the opportunity to pay no fees, after they have satisfied the obligations related to the Monthly Market Maker Cap, in the following symbols: AAPL, BAC, FB, IWM and QQQ. Specialists and Market Makers have burdensome quoting obligations³⁸ to the market that do not apply to Customers, Professionals, Firms and Broker-Dealers. Specialists and Market Makers serve an important role on the Exchange with regard to order interaction and they provide liquidity in the marketplace. Additionally, Specialists and Market Makers incur costs unlike other market participants including, but not limited to, PFOF and other costs associated with market making activities, which results in a higher average cost per execution as compared to Firms, Broker-Dealers and Professionals. The proposed differentiation as between Specialists and Market Makers as compared to other market participants recognizes the differing contributions made to the trading environment on the Exchange by these market participants. Customer liquidity benefits all market participants by providing more trading opportunities, which attract Specialists and Market Makers. An increase in the activity of these market participants in turn facilitates tighter spreads, which may cause an additional corresponding increase in order flow from other market participants. For these reasons noted above, the Exchange does not believe that offering Specialists and Market Makers the opportunity to cap fees in certain symbols imposes an undue burden on competition.

The Exchange operates in a highly competitive market, comprised of twelve options exchanges, in which market participants can easily and readily direct order flow to competing venues if they deem fee levels at a particular venue to be excessive or

³⁸ Id.

rebates to be inadequate. Accordingly, the fees that are described in the above proposal are influenced by these robust market forces and therefore must remain competitive with fees charged by other venues and therefore must continue to be reasonable and equitably allocated to those members that opt to direct orders to the Exchange rather than competing venues.

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

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.³⁹ At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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:

³⁹ 15 U.S.C. 78s(b)(3)(A)(ii).

- 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-2014-38 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-2014-38. 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-2014-38 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.⁴⁰

Kevin M. O'Neill
Deputy Secretary

⁴⁰ 17 CFR 200.30-3(a)(12).

Options Surcharge in BKX	N/A	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10
Cabinet Options	\$0.00	N/A	\$0.10	N/A	\$0.10	N/A	\$0.10	N/A	\$0.10

- These fees are per contract.

⁹The following symbols will be assessed the fees in Section III for Singly Listed Options: SOX, HGX and OSX.

¹³Electronic Complex Orders will be assessed \$0.30 per contract.

¹⁴Any member or member organization under Common Ownership with another member or member organization that qualifies for Customer Rebate Tiers 2, 3, 4 or 5 in Section B of the Pricing Schedule will be assessed \$0.60 per contract[, except that electronic Complex Orders will be assessed \$0.30 per contract, regardless of any Customer Rebate qualification].

¹⁵Any member or member organization under Common Ownership with another member or member organization that qualifies for Customer Rebate Tiers 2, 3, 4 or 5 in Section B of the Pricing Schedule will be assessed \$0.[60]23 per contract.

- The Cabinet Fees above are not in addition to the Options Transaction Charges.
- QCC Transaction Fees for a Specialist, Market Maker, Professional, Firm and Broker-Dealer are \$0.20 per contract. QCC Transaction Fees apply to QCC Orders, as defined in Exchange Rule 1080(o), and Floor QCC Orders, as defined in 1064(e). A rebate, as specified in the below QCC Rebate Schedule, will be paid for all qualifying executed QCC Orders, as defined in Exchange Rule 1080(o) and Floor QCC Orders, as defined in 1064(e), except where the transaction is either: (i) Customer-to-Customer; or (ii) a dividend, merger, short stock interest or reversal or conversion strategy execution (as defined in Section II).

QCC Rebate Schedule

Tier	Threshold	Rebate per Contract
Tier 1	0 to 299,999 contracts in a month	\$0.00
Tier 2	300,000 to 499,999 contracts in a month	\$0.07
Tier 3	500,000 to 699,999 contracts in a month	\$0.08
Tier 4	700,000 to 999,999 contracts in a month	\$0.09
Tier 5	Over 1,000,000 contracts in a month	\$0.11

The maximum QCC Rebate to be paid in a given month will not exceed \$375,000. [During the month of May 2014, if the Threshold exceeds 1,750,000 contracts, the Exchange will pay an additional rebate of \$35,000 for that month ("QCC Bonus"). The QCC Bonus will only be offered in May 2014. The QCC Bonus will not count toward the maximum QCC Rebate.]

- Specialists and Market Makers are subject to a "Monthly Market Maker Cap" of \$550,000 for: (i) electronic and floor Option Transaction Charges; (ii) QCC Transaction Fees (as defined in Exchange Rule 1080(o) and Floor QCC Orders, as defined in 1064(e)); and (iii) fees related to an order or quote that is contra to a PIXL

Order or specifically responding to a PIXL auction. The trading activity of separate Specialist and Market Maker member organizations will be aggregated in calculating the Monthly Market Maker Cap if there is Common Ownership between the member organizations. All dividend, merger, short stock interest, reversal and conversion, jelly roll and box spread strategy executions (as defined in this Section II) will be excluded from the Monthly Market Maker Cap. In addition, Specialists or Market Makers that (i) are on the contra-side of an electronically-delivered and executed Customer order; and (ii) have reached the Monthly Market Maker Cap will be assessed [a \$0.17 per contract fee.] fees as follows:

<u>Fee per contract</u>
<u>\$0.00 per contract in the following symbols: AAPL, BAC, FB, IWM and QQQ</u>
<u>\$0.17 per contract in Penny Pilot Options</u>
<u>\$0.17 per contract in Non-Penny Pilot Options</u>

- Firms are subject to a maximum fee of \$75,000 ("Monthly Firm Fee Cap"). Firm Floor Option Transaction Charges and QCC Transaction Fees, as defined in this section above, in the aggregate, for one billing month will not exceed the Monthly Firm Fee Cap per member organization when such members are trading in their own proprietary account. All dividend, merger, and short stock interest strategy executions (as defined in this Section II) will be excluded from the Monthly Firm Fee Cap. Reversal and conversion, jelly roll and box spread strategy executions (as defined in this Section II) will be included in the Monthly Firm Fee Cap. QCC Transaction Fees are included in the calculation of the Monthly Firm Fee Cap. Member organizations must notify the Exchange in writing of all accounts in which the member is not trading in its own proprietary account. The Exchange will not make adjustments to billing invoices where transactions are commingled in accounts which are not subject to the Monthly Firm Fee Cap.
- The Firm Floor Options Transaction Charges will be waived for members executing facilitation orders pursuant to Exchange Rule 1064 when such members are trading in their own proprietary account (including Cabinet Options Transaction Charges). The Firm Floor Options Transaction Charges will be waived for the buy side of a transaction if the same member or its affiliates under Common Ownership represents both sides of a Firm transaction when such members are trading in their own proprietary account. In addition, the Broker-Dealer Floor Options Transaction Charge (including Cabinet Options Transaction Charges) will be waived for members executing facilitation orders pursuant to Exchange Rule 1064 when such members would otherwise incur this charge for trading in their own proprietary account contra to a Customer ("BD-Customer Facilitation"), if the member's BD-Customer Facilitation average daily volume (including both FLEX and non-FLEX transactions) exceeds 10,000 contracts per day in a given month.
- Proprietary orders of affiliates of member organizations (non-member organizations) that qualify for the Monthly Firm Fee Cap ("Qualifying Member Organization") effected for purposes of hedging the proprietary over-the-counter trading of the Qualifying Member Organization or its affiliates will be included in calculating the Monthly Firm Fee Cap. Member organizations must notify the Exchange in writing of the account(s) designated for purposes of hedging the proprietary over-the-counter trading of the Qualifying Member Organization or its affiliates. The Exchange would require member organizations to segregate other orders from that of its affiliates for those orders to be eligible for the Monthly Firm Fee Cap. The Exchange will not make adjustments to billing invoices where transactions are commingled in accounts which are not subject to the Monthly Firm Fee Cap.