

Required fields are shown with yellow backgrounds and asterisks.

Filing by **NASDAQ OMX PHLX LLC.**
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

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

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

A proposed rule change to adopt anti-internalization functionality for registered market makers on the PHLX Options Market.

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 * <input type="text" value="Jeffrey"/>	Last Name * <input type="text" value="Davis"/>
Title * <input type="text" value="Vice President - Deputy General Counsel"/>	
E-mail * <input type="text" value="Jeffrey.Davis@nasdaq.com"/>	
Telephone * <input type="text" value="(301) 978-8484"/>	Fax <input type="text" value="(301) 978-8472"/>

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 <input type="text" value="11/19/2014"/>	Executive Vice President and General Counsel
By <input type="text" value="Edward S. Knight"/>	<input type="text"/>
(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.

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 *

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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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

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 Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² NASDAQ OMX PHLX (“PHLX”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to adopt anti-internalization functionality for registered market makers on the PHLX Options Market. PHLX is also grouping related rules under a single rule subsection -- Rule 1080(p) -- without modification to any rule or functionality.

PHLX has filed this proposal under Rule 19b-4(f)(6)³ under the Act and provided the Commission with the notice required by Rule 19b-4(f)(6)(iii) under the Act.⁴ This change is scheduled to be implemented on PHLX on or before January 15, 2015; the Exchange will announce the implementation schedule by Options Trader Alert, once the rollout schedule is finalized.

The text of the proposed rule change is below. Proposed new language is underlined; proposed deletions are in brackets.⁵

* * * * *

Rule 1080. Phlx XL and Phlx XL II

(a) – (o) **No Change.**

(p) **Execution Protections**

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6).

⁴ 17 CFR 240.19b-4(f)(6)(iii).

⁵ Changes are marked to the rules of NASDAQ OMX PHLX LLC found at <http://nasdaqomxphlx.cchwallstreet.com>.

(1) Acceptable Trade Range.

(A) After the opening, the System will calculate an Acceptable Trade Range to limit the range of prices at which an order or quote (except an All-or-none order) will be allowed to execute. The Acceptable Trade Range is calculated by taking the Reference Price, plus or minus a value to be determined by the Exchange. (i.e., the Reference Price - (x) for sell orders/quotes and the Reference Price + (x) for buy orders/quotes). Upon receipt of a new order/quote, the Reference Price is the National Best Bid ("NBB") for sell orders and the National Best Offer ("NBO") for buy orders/quotes or the last price at which the order/quote is posted whichever is higher for a buy order/quote or lower for a sell order/quote.

(B) If an order/quote reaches the outer limit of the Acceptable Trade Range (the "Threshold Price") without being fully executed, it will be posted at the Threshold Price for a brief period, not to exceed one second ("Posting Period"), to allow more liquidity to be collected, unless a Quote Exhaust has occurred, in which case the Quote Exhaust process in Rule 1082(a)(ii)(B)(3) will ensue, triggering a new Reference Price. Upon posting, either the current Threshold Price of the order or an updated NBB for buy orders or the NBO for sell orders (whichever is higher for a buy order/lower for a sell order) then becomes the Reference Price for calculating a new Acceptable Trade Range. If the order/quote remains unexecuted, a New Acceptable Trade Range will be calculated and the order/quote will execute, route, or post up to the new Acceptable Trade Range Threshold Price, unless a member organization has requested that their orders be returned if posted at the outer limit of the Acceptable Trade Range (in which case, the order will be returned). This process will repeat until either i) the order/quote is executed, cancelled, or posted at its limit price or ii) the order has been subject to a configurable number of instances of the Acceptable Trade Range as determined by the Exchange (in which case it will be returned).

(C) During the Posting Period, the Exchange will disseminate as a quotation: (i) the Threshold Price for the remaining size of the order triggering the Acceptable Trade Range and (ii) on the opposite side of the market, the best price will be displayed using the "non-firm" indicator message in accordance with the specifications of the network processor. Following the Posting Period, the Exchange will return to a normal trading state and disseminate its best bid and offer.

(2) Anti-Internalization – Quotes and orders entered by Specialists and Registered Options Traders (as defined in Rule 1014) using the same Phlx badge will not be executed against quotes and orders entered on the opposite side of the market using the same badge. In such a case, the System will cancel the resting quote or order back to the entering party

prior to execution. This functionality shall not apply in any auction or with respect to complex transactions.

(3) Order Price Protection ("OPP"). OPP is a feature of Phlx XL that prevents certain day limit, good til cancelled, immediate or cancel, and all-or-none orders at prices outside of pre-set standard limits from being accepted by the system. OPP applies to all options but does not apply to market orders, stop limit orders, Intermarket Sweep Orders or complex orders.

(A) OPP is operational each trading day after the opening until the close of trading, except during trading halts. The Exchange may also temporarily deactivate OPP from time to time on an intraday basis at its discretion if it determines that volatility warrants deactivation. Members will be notified of intraday OPP deactivation due to volatility and any subsequent intraday reactivation by the Exchange through the issuance of system status messages.

(B) OPP will reject incoming orders that exceed certain parameters according to the following algorithm.

(i) If the NBBO on the contra-side of an incoming order is greater than \$1.00, orders with a limit more than 50% through such contra-side NBBO will be rejected by Phlx XL upon receipt. For example, if the NBBO on the offer side is \$1.10, an order to buy options for more than \$1.65 would be rejected. Similarly, if the NBBO on the bid side is \$1.10, an order to sell options for less than \$0.55 will be rejected.

(ii) If the NBBO on the contra-side of an incoming order is less than or equal to \$1.00, orders with a limit more than 100% through such contra-side NBBO will be rejected by Phlx XL upon receipt. For example, if the NBBO on the offer side is \$1.00, an order to buy options for more than \$2.00 would be rejected. However, if the NBBO of the bid side of an incoming order to sell is less than or equal to \$1.00, the OPP limits set forth above will result in all incoming sell orders being accepted regardless of their limit. To illustrate, if the NBBO on the bid side is equal to \$1.00, the OPP limits provide protection such that all orders to sell with a limit less than \$0.00 would be rejected.

(iii) For purposes of this rule, the NBBO is defined as the PBBO for singly-listed issues.

Commentary .01 -- .06 No Change.

[Commentary .07 – Order Price Protection ("OPP"). OPP is a feature of Phlx XL that prevents certain day limit, good til cancelled, immediate or cancel, and all-or-none orders at prices outside of pre-set standard limits from being accepted by the system. OPP applies to all options but does not apply to market orders, stop limit orders, Intermarket Sweep Orders or complex orders.

(a) OPP is operational each trading day after the opening until the close of trading, except during trading halts. The Exchange may also temporarily deactivate OPP from time to time on an intraday basis at its discretion if it determines that volatility warrants deactivation. Members will be notified of intraday OPP deactivation due to volatility and any subsequent intraday reactivation by the Exchange through the issuance of system status messages.

(b) OPP will reject incoming orders that exceed certain parameters according to the following algorithm.

(i) If the NBBO on the contra-side of an incoming order is greater than \$1.00, orders with a limit more than 50% through such contra-side NBBO will be rejected by Phlx XL upon receipt. For example, if the NBBO on the offer side is \$1.10, an order to buy options for more than \$1.65 would be rejected. Similarly, if the NBBO on the bid side is \$1.10, an order to sell options for less than \$0.55 will be rejected.

(ii) If the NBBO on the contra-side of an incoming order is less than or equal to \$1.00, orders with a limit more than 100% through such contra-side NBBO will be rejected by Phlx XL upon receipt. For example, if the NBBO on the offer side is \$1.00, an order to buy options for more than \$2.00 would be rejected. However, if the NBBO of the bid side of an incoming order to sell is less than or equal to \$1.00, the OPP limits set forth above will result in all incoming sell orders being accepted regardless of their limit. To illustrate, if the NBBO on the bid side is equal to \$1.00, the OPP limits provide protection such that all orders to sell with a limit less than \$0.00 would be rejected.

(iii) For purposes of this rule, the NBBO is defined as the PBBO for singly-listed issues.]

Commentary .08 -- Renumbered as Commentary .07.

Commentary .09 -- Renumbered as Commentary .08.

* * * * *

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of PHLX pursuant to authority delegated by the Board of Directors of PHLX on July 16, 2014. PHLX staff will advise the Board of Directors of PHLX of any action taken pursuant to delegated authority. No other action by PHLX is necessary for the filing of the rule change.

Questions regarding this rule filing may be directed to Jeffrey S. Davis, Deputy General Counsel, at (301) 978-8484 (telephone) or (301) 978-8472 (fax).

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

a. Purpose

PHLX is proposing to provide anti-internalization (“AIQ”) functionality to Specialists and Registered Options Traders on the PHLX Options Market.⁶ Anti-internalization functionality is widely available and has been for many years.⁷ It is designed to assist market participants in complying with certain rules and regulations of the Employee Retirement Income Security Act (“ERISA”) that preclude and/or limit

⁶ See PHLX Rule 1014. The category of Specialist and Registered Options Traders (“ROT”) as defined in Rule 1014 are all considered market makers on the Exchange. This category includes the subcategories of Streaming Quote Traders (“SQT”), Remote Streaming Quote Traders (“RSQT”), and Non-SQT ROTs, all of which have market making obligations also defined in Rule 1014.

⁷ See, e.g., NASDAQ Rule 4757(a)(4), NASDAQ Options Market Rule Chapter VI, Section 10(6), NYSE Arca Equities Rule 7.31(qq)(2), and BATS Rule 11.9(f)(2). PSX Rule 3307(c) governing trading on the PHLX equity facility provides similar self-match prevention for equities trading.

managing broker-dealers of such accounts from trading as principal with orders generated for those accounts. It can also assist market makers in reducing trading costs from unwanted executions potentially resulting from the interaction of executable buy and sell trading interest from the same firm when performing the same market making function.

Under the proposal, quotes and orders entered by Specialists and Registered Options Traders using the same PHLX badge will automatically be prevented from interacting with each other in the System. Rather than executing quotes or orders from the same badge, the System will instead cancel the resting quotes and orders back to the entering party. PHLX uses “badges” to identify the party or parties entering trades into the System, similar to Market Participant Identifiers (MPIDs) and other pneumatic devices used at other exchanges. Because firms have multiple badges associated with multiple functions, linking AIQ to specific badges ensures that the functionality will be limited to the appropriate function, as explained in more detail below. Tying AIQ to specific PHLX badges will also enable market participants to carefully and systematically target the orders that should be prevented from interacting.

AIQ will apply in the PHLX XL system with respect to simple orders only; it will not apply in any auction or with respect to complex transactions. AIQ is difficult to apply during auctions, and there is limited benefit in doing so. The difficulty stems from the need to freeze the order book and quickly arrange and match large quantities of orders based upon simple instructions. Even if that could be accomplished, there is limited benefit because, generally speaking, auctions do not raise the same policy concerns for wash sales and ERISA due to the semi-random manner in which trades are matched.⁸

⁸ See NYSE Arca Equities Rule 7.31(qq).

AIQ is unnecessary with respect to complex orders due to the highly specialized nature of such orders and the high level of control that market participants exercise over complex orders. In addition, owing to the number of different legs involved in complex orders, applying AIQ to complex orders would also require freezing the book, which market participants and PHLX view as detrimental to the market.

Anti-internalization functionality was requested by Specialists and Registered Options Traders on PHLX. Anti-internalization processing is available only to market makers and only on an individual badge basis. Specialists and Registered Options Traders that conduct order entry business via alternative badges will not be afforded the protection of AIQ functionality with respect to such alternative badges. PHLX considered making AIQ functionality available to other participants, but rejected that approach. Limiting AIQ to Specialists and Registered Options Traders also helps to maintain simplicity of System processing.⁹

PHLX notes that use of the functionality does not relieve or otherwise modify the duty of best execution owed to orders received from public customers. Options market makers generally do not display customer orders in market making quotations, opting instead to enter customer orders using separate identifiers. In the event that an options market maker opts to include a customer order within a market making quotation, the market maker must take appropriate steps to ensure that public customer orders that do not execute due to anti-internalization functionality ultimately receive the same execution price (or better) they would have originally obtained if execution of the order was not inhibited by the functionality.

⁹ If demand should arise from other participants, PHLX will reconsider providing this functionality to all participants at that time.

Finally, the Exchange is proposing to combine several existing price protection mechanisms in Rule 1080(p) and to rename that subsection as “Execution Protections, PHLX believes the rules will become clearer by adding AIQ and moving current Commentary .07 governing Order Price Protection to existing Rule 1080(p) governing the Acceptable Trade Range. As a result, PHLX will renumber existing Commentaries .08 and .09 as Commentaries .07 and .08. The proposed changes will not impact the substance and operation of the existing functionality of the Acceptable Trade Range, Order Price Protection or Commentaries .08 and .09.

b. Statutory Basis

PHLX believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,¹⁰ in general, and with Section 6(b)(5) of the Act¹¹ in particular, in that the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Specifically, PHLX believes that the change, which is responsive to member input, will facilitate transactions in securities and perfect the mechanism of a free and open market by providing Specialists and Registered Options Traders with additional optional functionality that may assist them with

¹⁰ 15 U.S.C. 78f.

¹¹ 15 U.S.C. 78f(b)(5).

managing the book of orders that they submit to PHLX and the associated execution costs.

PHLX believes the proposal is consistent with the Act because it provides tools for Specialists and Registered Options Traders to comply with existing rules against internalization in certain circumstances. Limiting AIQ to Specialists and Registered Options Traders is consistent with Act because inadvertent internalization is much more likely to impact market makers than other participants and offering AIQ more broadly would burden the System and provide little or no offsetting regulatory benefit. Finally, PHLX believes that it is reasonable to limit AIQ to simple options orders, as opposed to complex options and auctions, because the execution risk is much lower with respect to complex options and auctions and because those functions operate quite differently than individual orders in simple options.

4. Self-Regulatory Organization's Statement on Burden on Competition

PHLX does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. Specifically, by providing market participants additional tools to prevent inadvertent internalization of orders submitted to PHLX, the change has the potential to improve the trading environment on the Exchange, which will enhance PHLX's competitiveness with respect to other trading venues, thereby promoting greater competition. Moreover, the change does not burden competition in that it will be provided at no additional cost to members.

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

Written comments were neither solicited nor received.

6. Extension of Time Period for Commission Action

Not applicable.

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

The proposed rule change is effective upon filing pursuant to Section 19(b)(3)(A) of the Act¹² and paragraph (f)(6) of Rule 19b-4 thereunder,¹³ in that the proposed rule change: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) 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; provided the self-regulatory organization has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of 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. PHLX provided written notice of the proposed rule change on October 20, 2014. The Exchange will release the AIQ functionality no sooner than 30 days after filing this proposal.

PHLX believes that the proposed rule change does not significantly affect the protection of investors or the public interest and does not impose any significant burden on competition. Specifically, by providing Specialists and Registered Options Traders additional tools for preventing inadvertent internalization, the change has the potential to enhance regulatory compliance and also PHLX's competitiveness with respect to other trading venues, thereby promoting greater competition. In addition, the change does not

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4(f)(6).

significantly affect the protection of investors or the public interest because it serves only to provide market participants with additional functionality at no additional cost.

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

The proposed rule change is based on NASDAQ Options Market Rule Chapter VI, Section 10(6). The rule proposed herein resembles NASDAQ Rule 4757(a)(4) and PSX Rule 3307(c) which offer AIQ functionality but differs from those rules in that it is mandatory for and limited to registered market makers. BATS Exchange Rule 11.9(f)(2) provides multiple forms of AIQ functionality to BATS members that choose it. NYSE Arca Equities Rule 7.31(qq) offers AIQ functionality but, unlike the rule proposed herein, it permits users to execute in auctions.

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. Completed notice of proposed rule change for publication in the Federal Register.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. _____ ; File No. SR-Phlx-2014-76)

November __, 2014

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Adopt Anti-Internalization Functionality for Registered Market Makers on the PHLX Options Market.

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 November 19, 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 adopt anti-internalization functionality for registered market makers on the PHLX Options Market.

While these amendments are effective upon filing, the Exchange has designated the proposed amendments to be operative on or before January 15, 2015.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

* * * * *

Rule 1080. Phlx XL and Phlx XL II

(a) – (o) No Change.

(p) **Execution Protections**

(1) **Acceptable Trade Range.**

(A) After the opening, the System will calculate an Acceptable Trade Range to limit the range of prices at which an order or quote (except an All-or-none order) will be allowed to execute. The Acceptable Trade Range is calculated by taking the Reference Price, plus or minus a value to be determined by the Exchange. (i.e., the Reference Price - (x) for sell orders/quotes and the Reference Price + (x) for buy orders/quotes). Upon receipt of a new order/quote, the Reference Price is the National Best Bid ("NBB") for sell orders and the National Best Offer ("NBO") for buy orders/quotes or the last price at which the order/quote is posted whichever is higher for a buy order/quote or lower for a sell order/quote.

(B) If an order/quote reaches the outer limit of the Acceptable Trade Range (the "Threshold Price") without being fully executed, it will be posted at the Threshold Price for a brief period, not to exceed one second ("Posting Period"), to allow more liquidity to be collected, unless a Quote Exhaust has occurred, in which case the Quote Exhaust process in Rule 1082(a)(ii)(B)(3) will ensue, triggering a new Reference Price. Upon

posting, either the current Threshold Price of the order or an updated NBB for buy orders or the NBO for sell orders (whichever is higher for a buy order/lower for a sell order) then becomes the Reference Price for calculating a new Acceptable Trade Range. If the order/quote remains unexecuted, a New Acceptable Trade Range will be calculated and the order/quote will execute, route, or post up to the new Acceptable Trade Range Threshold Price, unless a member organization has requested that their orders be returned if posted at the outer limit of the Acceptable Trade Range (in which case, the order will be returned). This process will repeat until either i) the order/quote is executed, cancelled, or posted at its limit price or ii) the order has been subject to a configurable number of instances of the Acceptable Trade Range as determined by the Exchange (in which case it will be returned).

(C) During the Posting Period, the Exchange will disseminate as a quotation: (i) the Threshold Price for the remaining size of the order triggering the Acceptable Trade Range and (ii) on the opposite side of the market, the best price will be displayed using the "non-firm" indicator message in accordance with the specifications of the network processor. Following the Posting Period, the Exchange will return to a normal trading state and disseminate its best bid and offer.

(2) **Anti-Internalization** – Quotes and orders entered by Specialists and Registered Options Traders (as defined in Rule 1014) using the same Phlx badge will not be executed against quotes and orders entered on the opposite side of the

market using the same badge. In such a case, the System will cancel the resting quote or order back to the entering party prior to execution. This functionality shall not apply in any auction or with respect to complex transactions.

(3) Order Price Protection ("OPP"). OPP is a feature of Phlx XL that prevents certain day limit, good til cancelled, immediate or cancel, and all-or-none orders at prices outside of pre-set standard limits from being accepted by the system. OPP applies to all options but does not apply to market orders, stop limit orders, Intermarket Sweep Orders or complex orders.

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(B) OPP will reject incoming orders that exceed certain parameters according to the following algorithm.

(i) If the NBBO on the contra-side of an incoming order is greater than \$1.00, orders with a limit more than 50% through such contra-side NBBO will be rejected by Phlx XL upon receipt. For example, if the NBBO on the offer side is \$1.10, an order to buy options for more than \$1.65 would be rejected. Similarly, if the NBBO on the

bid side is \$1.10, an order to sell options for less than \$0.55 will be rejected.

(ii) If the NBBO on the contra-side of an incoming order is less than or equal to \$1.00, orders with a limit more than 100% through such contra-side NBBO will be rejected by Phlx XL upon receipt. For example, if the NBBO on the offer side is \$1.00, an order to buy options for more than \$2.00 would be rejected. However, if the NBBO of the bid side of an incoming order to sell is less than or equal to \$1.00, the OPP limits set forth above will result in all incoming sell orders being accepted regardless of their limit. To illustrate, if the NBBO on the bid side is equal to \$1.00, the OPP limits provide protection such that all orders to sell with a limit less than \$0.00 would be rejected.

(iii) For purposes of this rule, the NBBO is defined as the PBBO for singly-listed issues.

Commentary .01 -- .06 No Change.

[Commentary .07 – Order Price Protection ("OPP"). OPP is a feature of Phlx XL that prevents certain day limit, good til cancelled, immediate or cancel, and all-or-none orders at prices outside of pre-set standard limits from being accepted by the system. OPP applies to all options but does not apply to market orders, stop limit orders, Intermarket Sweep Orders or complex orders.

(a) OPP is operational each trading day after the opening until the close of trading, except during trading halts. The Exchange may also temporarily deactivate OPP from time to time on an intraday basis at its discretion if it determines that volatility warrants deactivation. Members will be notified of intraday OPP deactivation due to volatility and any subsequent intraday reactivation by the Exchange through the issuance of system status messages.

(b) OPP will reject incoming orders that exceed certain parameters according to the following algorithm.

(i) If the NBBO on the contra-side of an incoming order is greater than \$1.00, orders with a limit more than 50% through such contra-side NBBO will be rejected by Phlx XL upon receipt. For example, if the NBBO on the offer side is \$1.10, an order to buy options for more than \$1.65 would be rejected. Similarly, if the NBBO on the bid side is \$1.10, an order to sell options for less than \$0.55 will be rejected.

(ii) If the NBBO on the contra-side of an incoming order is less than or equal to \$1.00, orders with a limit more than 100% through such contra-side NBBO will be rejected by Phlx XL upon receipt. For example, if the NBBO on the offer side is \$1.00, an order to buy options for more than \$2.00 would be rejected. However, if the NBBO of the bid side of an incoming order to sell is less than or equal to \$1.00, the OPP limits set forth above will result in all

incoming sell orders being accepted regardless of their limit. To illustrate, if the NBBO on the bid side is equal to \$1.00, the OPP limits provide protection such that all orders to sell with a limit less than \$0.00 would be rejected.

(iii) For purposes of this rule, the NBBO is defined as the PBBO for singly-listed issues.]

Commentary .08 -- Renumbered as Commentary .07.

Commentary .09 -- Renumbered as Commentary .08.

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

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

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

1. Purpose

PHLX is proposing to provide anti-internalization (“AIQ”) functionality to Specialists and Registered Options Traders on the PHLX Options Market.³ Anti-

³ See PHLX Rule 1014. The category of Specialist and Registered Options Traders (“ROT”) as defined in Rule 1014 are all considered market makers on the Exchange. This category includes the subcategories of Streaming Quote Traders (“SQTs”), Remote Streaming Quote Traders (“RSQTs”), and Non-SQT ROTs, all of which have market making obligations also defined in Rule 1014.

internalization functionality is widely available and has been for many years.⁴ It is designed to assist market participants in complying with certain rules and regulations of the Employee Retirement Income Security Act (“ERISA”) that preclude and/or limit managing broker-dealers of such accounts from trading as principal with orders generated for those accounts. It can also assist market makers in reducing trading costs from unwanted executions potentially resulting from the interaction of executable buy and sell trading interest from the same firm when performing the same market making function.

Under the proposal, quotes and orders entered by Specialists and Registered Options Traders using the same PHLX badge will automatically be prevented from interacting with each other in the System. Rather than executing quotes or orders from the same badge, the System will instead cancel the resting quotes and orders back to the entering party. PHLX uses “badges” to identify the party or parties entering trades into the System, similar to Market Participant Identifiers (MPIDs) and other pneumatic devices used at other exchanges. Because firms have multiple badges associated with multiple functions, linking AIQ to specific badges ensures that the functionality will be limited to the appropriate function, as explained in more detail below. Tying AIQ to specific PHLX badges will also enable market participants to carefully and systematically target the orders that should be prevented from interacting.

AIQ will apply in the PHLX XL system with respect to simple orders only; it will not apply in any auction or with respect to complex transactions. AIQ is difficult to apply during auctions, and there is limited benefit in doing so. The difficulty stems from

⁴ See, e.g., NASDAQ Rule 4757(a)(4), NASDAQ Options Market Rule Chapter VI, Section 10(6), NYSE Arca Equities Rule 7.31(qq)(2), and BATS Rule 11.9(f)(2). PSX Rule 3307(c) governing trading on the PHLX equity facility provides similar self-match prevention for equities trading.

the need to freeze the order book and quickly arrange and match large quantities of orders based upon simple instructions. Even if that could be accomplished, there is limited benefit because, generally speaking, auctions do not raise the same policy concerns for wash sales and ERISA due to the semi-random manner in which trades are matched.⁵ AIQ is unnecessary with respect to complex orders due to the highly specialized nature of such orders and the high level of control that market participants exercise over complex orders. In addition, owing to the number of different legs involved in complex orders, applying AIQ to complex orders would also require freezing the book, which market participants and PHLX view as detrimental to the market.

Anti-internalization functionality was requested by Specialists and Registered Options Traders on PHLX. Anti-internalization processing is available only to market makers and only on an individual badge basis. Specialists and Registered Options Traders that conduct order entry business via alternative badges will not be afforded the protection of AIQ functionality with respect to such alternative badges. PHLX considered making AIQ functionality available to other participants, but rejected that approach. Limiting AIQ to Specialists and Registered Options Traders also helps to maintain simplicity of System processing.⁶

PHLX notes that use of the functionality does not relieve or otherwise modify the duty of best execution owed to orders received from public customers. Options market makers generally do not display customer orders in market making quotations, opting instead to enter customer orders using separate identifiers. In the event that an options

⁵ See NYSE Arca Equities Rule 7.31(qq).

⁶ If demand should arise from other participants, PHLX will reconsider providing this functionality to all participants at that time.

market maker opts to include a customer order within a market making quotation, the market maker must take appropriate steps to ensure that public customer orders that do not execute due to anti-internalization functionality ultimately receive the same execution price (or better) they would have originally obtained if execution of the order was not inhibited by the functionality.

Finally, the Exchange is proposing to combine several existing price protection mechanisms in Rule 1080(p) and to rename that subsection as “Execution Protections, PHLX believes the rules will become clearer by adding AIQ and moving current Commentary .07 governing Order Price Protection to existing Rule 1080(p) governing the Acceptable Trade Range. As a result, PHLX will renumber existing Commentaries .08 and .09 as Commentaries .07 and .08. The proposed changes will not impact the substance and operation of the existing functionality of the Acceptable Trade Range, Order Price Protection or Commentaries .08 and .09.

2. Statutory Basis

PHLX believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,⁷ in general, and with Section 6(b)(5) of the Act⁸ in particular, in that the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to

⁷ 15 U.S.C. 78f.

⁸ 15 U.S.C. 78f(b)(5).

protect investors and the public interest. Specifically, PHLX believes that the change, which is responsive to member input, will facilitate transactions in securities and perfect the mechanism of a free and open market by providing Specialists and Registered Options Traders with additional optional functionality that may assist them with managing the book of orders that they submit to PHLX and the associated execution costs.

PHLX believes the proposal is consistent with the Act because it provides tools for Specialists and Registered Options Traders to comply with existing rules against internalization in certain circumstances. Limiting AIQ to Specialists and Registered Options Traders is consistent with Act because inadvertent internalization is much more likely to impact market makers than other participants and offering AIQ more broadly would burden the System and provide little or no offsetting regulatory benefit. Finally, PHLX believes that it is reasonable to limit AIQ to simple options orders, as opposed to complex options and auctions, because the execution risk is much lower with respect to complex options and auctions and because those functions operate quite differently than individual orders in simple options.

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

PHLX does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. Specifically, by providing market participants additional tools to prevent inadvertent internalization of orders submitted to PHLX, the change has the potential to improve the trading environment on the Exchange, which will enhance PHLX's competitiveness with respect to other trading venues, thereby promoting greater

competition. Moreover, the change does not burden competition in that it will be provided at no additional cost to members.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act⁹ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹⁰

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.

⁹ 15 U.S.C. 78s(b)(3)(a)(ii).

¹⁰ 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-2014-76 on the subject line.

Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2014-76. 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-2014-76 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.¹¹

Kevin M O'Neill
Deputy Secretary

¹¹ 17 CFR 200.30-3(a)(12).