

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 83	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2015 - * 26	Amendment No. (req. for Amendments *)
Filing by NASDAQ OMX PHLX LLC. Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934				
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>
			Section 19(b)(3)(B) * <input type="checkbox"/>	
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule <input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(3) <input type="checkbox"/> 19b-4(f)(6)	
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010			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"/>			
<b>Description</b>				
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).				
<input type="text" value="A proposed rule change to amend and correct Rule 1080.08."/>				
<b>Contact Information</b>				
Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.				
First Name *	<input type="text" value="Edith"/>	Last Name *	<input type="text" value="Hallahan"/>	
Title *	<input type="text" value="Principal Associate General Counsel"/>			
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<b>Signature</b>				
Pursuant to the requirements of the Securities Exchange Act of 1934,				
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.				
(Title *)				
Date	<input type="text" value="03/12/2015"/>	<input type="text" value="Executive Vice President and General Counsel"/>		
By	<input type="text" value="Edward S. Knight"/>	<input type="text" value="edward.knight@nasdaq.com"/>		
(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 \***

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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 Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> NASDAQ OMX PHLX LLC ("Exchange" or "Phlx"), is filing with the Securities and Exchange Commission ("Commission") a proposed rule change to amend and correct Rule 1080.08 in a number of ways, as described further below.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and a copy of the applicable rule text 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 on July 16, 2014. No other action by the Exchange is necessary for the filing of the proposed rule change.

Questions regarding this rule filing may be directed to Edith Hallahan, Principal Associate General Counsel, The NASDAQ OMX Group, Inc., at 215-496-5179.

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

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

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

(a) Purpose

The purpose of the proposal is to correct certain rule text and provide additional clarity to Phlx Participants regarding the trading of Complex Orders on the Exchange. The Exchange's Complex Order System ("System"), which is governed by Rule 1080.08, includes an opening process called the Complex Order Opening Process or "COOP," the Complex Order Live Auction ("COLA"), an automated auction for seeking additional liquidity and price improvement for Complex Orders, and a Complex Limit Order book, the CBOOK.

The Exchange proposes to correct eight inconsistencies between the existing Complex Orders rule, Rule 1080.08,<sup>3</sup> and the operation of the Complex Orders System today.

Opening Inconsistencies

First, the Exchange proposes to amend the rule text applicable to its opening process. Specifically, Rule 1080.08(d) currently provides for performing a COOP Evaluation in order to identify a COLA-eligible order and then operating an auction respecting that order, similar to the way the COLA operates.<sup>4</sup> The Exchange proposes to amend Rule 1080.08(d) to reflect that the System operates the opening auction process

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<sup>3</sup> The Exchange is renumbering Rule 1080.07 as Rule 1080.08; it was recently changed and the Exchange has determined to revert to the original numbering. See Securities Exchange Act Release No. 73719 (December 2, 2014), 79 FR 72740 (December 8, 2014)(SR-Phlx-2014-76).

<sup>4</sup> The COLA is an auction intended to solicit interest in a particular Complex Order other than on the opening. See Rule 1080.08(e).

for Complex Orders differently than the COLA. Specifically, the COOP identifies a price at which the maximum number of contracts can trade on the opening based on interest received in the Complex Order Strategy.<sup>5</sup> Thus, the COOP operates like a traditional opening process, considering buys and sells, taking all interest into account (without bias toward any participant) to determine which interest is executable and identifying any imbalance.<sup>6</sup>

Despite the current rule text, a Complex Order on the opening would not have been designated as the COLA-eligible Order with priority over all other same-side orders. However, such order would have been considered for execution alongside other same-priced same-side orders received in the same Complex Order Strategy, both before and during the COOP, consistent with a normal opening process.

Specifically, for each Complex Order Strategy, the System will take into consideration all Complex Orders, identify the price at which the maximum number of contracts can trade and calculate the imbalance, if any, as follows:

- Pursuant to existing Rule 1080.08(d)(i), the Phlx XL System will accept pre-opening Complex Orders, and will accept Complex Orders prior to re-opening following a halt in trading on the Exchange. Complex Orders received prior to the opening or during a trading halt will reside on the

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<sup>5</sup> A Complex Order Strategy means a particular combination of components of a Complex Order and their ratios to one another. The Exchange will calculate both a bid price and an offer price for each Complex Order Strategy based on the current PBBO (as defined below) for each component of the Complex Order. Each Complex Order Strategy will be assigned a strategy identifier by the System. See Rule 1080.08(a)(ii).

<sup>6</sup> See Rule 1017.

CBOOK (as defined below). There will be one such COOP per Complex Order Strategy. These provisions are not changing.

- Rule 1080.08(d)(ii) will be amended to add reference to a timer.

Specifically, new rule text will provide that once trading in each option component of a Complex Order has opened (or re-opened following a trading halt) for a certain configurable time not to exceed 60 seconds<sup>7</sup> (and none of the conditions described in Rule 1080(c)(ii) exist),<sup>8</sup> the Phlx XL System will initiate the COOP, provided that a COOP will only be conducted for any Complex Order Strategy that has a Complex Order received before the opening<sup>9</sup> of that Complex Order Strategy. The Exchange is proposing to add new rule text to provide that the Exchange will not conduct a COOP when a particular Complex Order Strategy is already open as a result of another electronic auction process, such as PIXL pursuant to Rule 1080(n) or the Exchange's Solicitation

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<sup>7</sup> This is known as the opening delay timer, which is intended to allow a brief period of time for the prices for the various series of an option to stabilize after the opening of those series.

<sup>8</sup> These include: the Complex Order is received prior to the opening on the Exchange of any options component of the Complex Order; during an opening rotation for any options component of the Complex Order; during a trading halt for any options component of the Complex Order; when the Exchange's Risk Monitor Mechanism is engaged for any options component of the Complex Order that represents all of the PBBO pursuant to Rule 1093; or when the Exchange's market for any options component of the Complex Order is disseminated pursuant to Rule 1082(a)(ii)(B).

<sup>9</sup> Currently, the Rule provides that the COOP is conducted if a Complex Order is pending at the opening or re-opening. However, such Complex Order may no longer be pending (perhaps it was canceled), such that a COOP is actually triggered by *receipt* of the order.

mechanism.<sup>10</sup> If that Complex Order Strategy is already open, a COOP is not needed and will not occur.

- The Exchange is also proposing to add to Rule 1080.08(d)(ii) that following a trading halt, a COOP will be conducted for any Complex Order Strategy where a Complex Order was received before or during a trading halt or that Complex Order Strategy had previously opened prior to the trading halt.
- The COOP will be conducted in two phases, the "COOP Timer" (as defined below) and the "COOP Evaluation" (also defined below). A COOP can be occurring at the same time in different Complex Order Strategies.
- To add specificity, the Exchange is proposing to add to Rule 1080.08(d)(ii)(A)(1) that the Exchange will send a broadcast message indicating that a COOP has been initiated. The broadcast message will identify the Complex Order Strategy,<sup>11</sup> the opening price (based on the maximum number of contracts that can be executed at one particular price, except if there is no price at which any orders can be executed), and the imbalance side and volume, if any. This broadcast message is called the Complex Order Opening Auction Notification and is sent over an order

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<sup>10</sup> See SR-Phlx-2014-66.

<sup>11</sup> Each Complex Order Strategy has an identifier. See Rule 1080.08(a)(ii).

feed, PHLX Orders, which contains Complex Order information, as well as over Specialized Quote Feed (“SQF”).<sup>12</sup>

- Pursuant to Rule 1080.08(d)(ii)(A)(2), the Complex Order Opening Auction Notification starts a COOP Timer, which will begin counting a number of seconds during which the Complex Order, if any, may not be traded. The COOP Timer is configurable to a period ranging from 0 to 600 seconds as determined by the Exchange and communicated to Exchange membership on the Exchange's website. The COOP Timer will be configured for the same number of seconds for all options trading on the Exchange. Phlx XL Participants can submit responses to the Complex Order Opening Auction Notification pursuant to subparagraph (B) below.

#### Opening - Immediate-or-Cancel Orders and DNA Orders

Currently, Complex Orders marked as Immediate-or-Cancel (“IOC”)<sup>13</sup> and Do Not Auction (“DNA”)<sup>14</sup> can be submitted. The Exchange proposes to adopt into Rule 1080.08(d)(ii)(A)(5) how both IOC and DNA orders are handled on the opening. Complex Orders marked as IOC or DNA received before the COOP is initiated will be cancelled and will not participate in the COOP; however, a COOP will nevertheless occur in that Complex Order Strategy. The Exchange believes that it is appropriate for the

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<sup>12</sup> Securities Exchange Act Release Nos. 60877 (October 26, 2009), 74 FR 56255 (October 30, 2009) (SR-Phlx-2009-92) and 66693 (May 15, 2012), 77 FR 30043 (May 21, 2012)(SR-Phlx-2012-63) (addressing TOPO Plus Orders/PHLX Orders).

<sup>13</sup> See Rule 1080.08(b)(i) – (iii).

<sup>14</sup> See Rule 1080.08(a)(viii).



COOP to occur even though the IOC or DNA order that triggered it is cancelled, because the opening process is intended to open key strategies in which participants are interested. From a system perspective and as a practical matter, not every Complex Order Strategy can be opened each day, as there are millions of possible permutations, based on the number of options and option series available for trading today. This way, the System can focus on the Complex Order Strategies that attract interest and prepare to open those, making them available for trading on a particular day.

The Exchange believes it is appropriate for the COOP to occur, because responsive interest on both sides of the market can nevertheless trade against other responding interest. In fact, today, if an order that is not an IOC order (like a Day order) initiates a COOP and then is cancelled by the entering participant before the end of the COOP, responsive interest can nevertheless trade.

IOC and DNA orders are handled differently when received *during a COOP*. IOC Complex Orders received during a COOP will join the COOP and be treated like any other Complex Order, except such orders will be cancelled at the end of the COOP Timer if not executed. This is intended to try to execute the order, because the order may be responding to the Complex Order Opening Auction Notification. The Exchange notes that IOC Complex Orders are handled similarly in the Exchange's PIXL system for similar reasons;<sup>15</sup> that is, an attempt is made to execute the IOC Complex PIXL order, and therefore there is a delay in executing the order, even though it is marked IOC. Accordingly, the Exchange does not believe that participants will be surprised about this handling.

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<sup>15</sup> See Phlx Rule 1080(n).

The Exchange also notes that participants who want their order handled in a more immediate way during a COOP can submit a DNA order, which would not join a COOP that is in progress, because that would involve a delay. Consistent with the rule language that DNA Orders are cancelled if not immediately executed, DNA Orders do not participate in a COOP.

Opening - Responses During COOP Timer.

Pursuant to proposed Rule 1080.08(d)(ii)(B), Phlx XL participants<sup>16</sup> may bid and/or offer on either or both side(s) of the market during the COOP Timer by submitting one or more Complex Orders. In addition, Phlx XL market makers<sup>17</sup> may also bid and/or offer on either or both side(s) of the market during the COOP Timer by submitting one or more COOP Sweeps, which are a type of an order that is immediate. The Exchange is proposing to codify COOP Sweeps in Rule 1080.08(d)(ii)(B). COOP Sweeps are one-sided and always have a limit price. Like COLA Sweeps, COOP Sweeps can only be entered by Phlx XL participants who quote electronically as market makers for their own account (SQTs, RSQTs and specialists). Because non-SQT ROTs do not quote electronically, they cannot enter COOP Sweeps or COLA Sweeps, which are electronic.<sup>18</sup>

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<sup>16</sup> This term is currently defined in Rule 1080.08(a)(vii) as Streaming Quote Traders (“SQTs”), Remote Streaming Quote Traders (“RSQTs”), non-SQT Registered Options Traders (“non-SQT ROTs”), specialists and non-Phlx market makers on another exchange; non-broker-dealer customers and non-market-maker off-floor broker-dealers; and Floor Brokers using the Options Floor Broker Management System. This covers all potential users of the Complex Orders system.

<sup>17</sup> This is a new term that the Exchange believes will help distinguish Phlx market makers (which include specialists, SQTs, RSQTs and non-SQT ROTs) from other types of Phlx participants. See proposed Rule 1080.08(a)(vii).

<sup>18</sup> See Rule 1014(b)(ii)(C) and Rule 1080.08(e)(ix).

Specifically, a COOP Sweep is a one-sided electronic submission similar to a one-sided quotation; this definition is proposed to be added to the rule text.<sup>19</sup> A COOP Sweep is the equivalent of an IOC order. The Exchange believes it is appropriate to permit Phlx XL market makers to submit COOP Sweeps, in addition to Complex Orders, for several reasons. Today, Phlx XL market makers are the only participants who can submit quotes, sweeps of non-Complex Orders, COLA Sweeps and COOP Sweeps (“Sweeps”).<sup>20</sup> All of these, including COOP Sweeps, are submitted over the Specialized Quote Feed, SQF, which is a method of submitting quoting information and receiving information back about those quotes. Quotes and Sweeps can only be submitted over SQF, the quoting protocol, because this protocol is designed to handle quotes and Sweeps. Some Phlx XL market makers choose to submit their interest in the form of a Complex Order, which is submitted through a different interface than SQF and is geared toward the submission of orders (rather than quotes) to the Exchange. The Exchange developed Sweeps in order for Phlx XL market makers to be able to expeditiously submit one-sided responsive interest without having to enter an order, which involves an entirely different protocol and method of entry; this was intended to encourage Phlx XL market makers to submit responsive interest while managing risk, utilizing a single protocol, which should promote just and equitable principles of trade.

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<sup>19</sup> This definition parallels the definition of an opening sweep in Rule 1017(l)(vii)(A).

<sup>20</sup> Although Rule 1080.08(e)(iv) states that Phlx XL participants can submit COLA Sweeps, this is not correct. Only Phlx XL market makers can submit COLA Sweeps. The Exchange proposes to correct this in Rule 1080.08(a)(vii) and (e)(iv).

There is no advantage to submitting a COOP Sweep versus a Complex Order; Phlx market maker interest is handled the same once it is submitted, including for priority purposes.<sup>21</sup> Furthermore, there is no timing advantage of submitting a COOP Sweep versus a Complex Order (whether for a Phlx market maker or not), because none of the interest is processed until after the COOP Timer ends and all Phlx market maker interest is executed on a pro-rata basis, not in time priority.

A Phlx XL market maker may submit multiple COOP Sweeps at different prices (but not multiple COOP Sweeps at the same price, except as provided in sub-paragraph (2)), in increments of \$0.01 in response to a Complex Order Opening Auction Notification, regardless of the minimum trading increment applicable to the specific series.

In addition, Phlx XL market makers may change the size of a previously submitted COOP Sweep during the COOP Timer. The System will use the Phlx XL market maker's most recently submitted COOP Sweep at each price level as that market maker's response at that price level, unless the COOP Sweep has a size of zero. A COOP Sweep with a size of zero will remove a Phlx XL market maker's COOP Sweep from that COOP at that price level.<sup>22</sup> COOP Sweeps will not be visible to any participant and will not be disseminated by the Exchange.<sup>23</sup> This is because COOP Sweeps are immediate and only available to trade during the COOP. Similarly, orders responding to a message are not visible.

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<sup>21</sup> See e.g., proposed Rule 1080.08(d)(ii)(C).

<sup>22</sup> See Rule 1080.08(d)(ii)(B)(2).

<sup>23</sup> See Rule 1080.08(d)(ii)(B)(3).

Opening - COOP Evaluation

Upon expiration of the COOP Timer,<sup>24</sup> the System will conduct a COOP Evaluation to determine, for a particular Complex Order Strategy, the price at which the maximum number of contracts can trade, taking into account Complex Orders marked all-or-none, unless the maximum number of contracts can only trade without including all-or-none orders.<sup>25</sup> The Exchange will open at that price, executing marketable trading interest, in the following order: first, to customers in time priority; next to Phlx XL market makers on a pro-rata basis; and then to all other participants on a pro-rata basis.<sup>26</sup> The imbalance of Complex Orders that are unexecutable at that price are placed on the CBOOK.<sup>27</sup>

The following examples illustrate the handling of an all-or-none order.

Example 1:

Complex Order #1: Buy 40 for \$1.05 AON customer

Complex Order #2: Buy 30 for \$1.05 customer

Complex Order #3: Buy 20 for \$1.05 customer

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<sup>24</sup> See Rule 1080.08(d)(ii)(B)(4).

<sup>25</sup> The Exchange has incorporated a definition of all-or-none orders in SR-Phlx-2014-39. The Exchange stopped accepting all-or-none Complex Orders on March 17, 2014 in order to align the System with the rule. Now, the Exchange proposes to begin accepting them again and explain how they are handled, including how they are treated on the opening and that they do not leg. See Rule 1080.08(d)(ii)(B)(4), (e)(vi)(A)(1) and (f)(iii)(A).

<sup>26</sup> This is consistent with the Exchange's normal priority allocation process. See e.g., Rule 1080.08(e)(vi)(B) and Rule 1014(g)(vii).

<sup>27</sup> The rule provides that the System determines which Complex Order, if any, on the CBOOK will be the "COLA-eligible order" (as defined below) subject to a COLA. This is not correct.

Complex Order #4: Sell 50 at \$1.04 AON customer

The result is that Complex Order #4 will trade against the full size of Complex Order #1 (because it was first) and 10 contracts of Complex Order #2.

Example 2:

Complex Order #1: Buy 40 for \$1.05 AON customer

Complex Order #2: Buy 30 for \$1.05 customer

Complex Order #3: Buy 20 for \$1.05 customer

Complex Order #4: Sell 20 at \$1.04 AON customer

The result is that Complex Order #4 will trade against 20 contracts of Complex Order #2 since the all-or-none contingency of Order #1 cannot be satisfied.

Opening - No trade possible. If at the end of the COOP Timer the Phlx XL System determines that no market or marketable limit Complex Orders or COOP Sweeps, Complex Orders or COOP Sweeps that are equal to or improve the cPBBO,<sup>28</sup> and/or Complex Orders or COOP Sweeps that cross within the cPBBO exist in the System, all Complex Orders received during the COOP Timer will be placed on the CBOOK, as described in Rule 1080.08(f). This is because, without an opening execution possible based on the prices of orders and COOP Sweeps in a particular strategy, such Complex Orders shall rest on the CBOOK for potential execution later while COOP Sweeps expire.

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<sup>28</sup> The term "cPBBO" means the best net debit or credit price for a Complex Order Strategy based on the Phlx Best Bid and/or Offer ("PBBO") for the individual options components of such Complex Order Strategy, and, where the underlying security is a component of the Complex Order, the National Best Bid and/or Offer for the underlying security. The cPBBO is a calculated number and does not include orders on the CBOOK or interest on other exchanges. See Rule 1080.08(a)(iv).

Opening - Trade is possible. If at the end of the COOP Timer the Phlx XL System determines that there are market or marketable limit Complex Orders or COOP Sweeps, Complex Orders or COOP Sweeps that are equal to or improve the cPBBO, and/or Complex Orders or COOP Sweeps that cross within the cPBBO in the Phlx XL System, the Phlx XL System will do the following: if such interest crosses and does not match in size, the execution price is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding), provided, however, that if there is more than one price at which the interest may execute, the execution price when the larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment. If the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment. This process maximizes the interest which is traded during the opening process and delivers a rational price for the available interest on the opening. The opening price logic maximizes the number of contracts executed during the opening process and ensures that residual contracts of partially executed orders or quotes are at a price equal to or inferior to the opening price, in other words, the logic ensures there is no remaining unexecuted interest available at a price which crosses the opening price. If multiple prices exist that ensure that there is no remaining unexecuted interest available through such price(s), the opening logic chooses the midpoint of such price points.

In determining the execution price and which interest will trade, the System affords priority to customers on the opening as well. Executable bids/offers include any

interest which could be executed without trading *through* residual interest or the cPBBO, or without trading *at* the cPBBO where there is non-broker-dealer customer interest. This is consistent with Rule 1080.08(c)(iii).

To illustrate “*if such interest crosses and does not match in size, the execution price is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding)*” as referenced above, assume the following is present at the end the COOP Timer for a given Complex Order Strategy:

cPBBO = 3.50 (10) – 3.90 (10)

Complex Order #1: Buy 30 for \$3.79

Complex Order #2: Sell 20 at \$3.56

COOP Opening execution will be for 20 strategies at a price of \$3.79 because there were more contracts to buy than there were to sell. In this example, while there are multiple price points at which the System can open the same number of contracts, there is only one price point, \$3.79, at which there will be no residual contracts available after the opening process at a price which crosses the opening price. After the System executes 20 strategies at \$3.79, there will remain 10 unexecuted strategies to buy for \$3.79.

If the example were changed slightly such that Complex Order #1 was a market order instead of a limit order, the market order is limited by the cPBBO assuming no customer interest is present, and the COOP Opening execution price for 20 strategies would be \$3.90. The remaining 10 strategies of Complex Order #1 will then leg to the simple market at \$3.90.

To illustrate “*if there is more than one price at which the interest may execute, the execution price when the larger sized interest is offering (bidding) is the midpoint of the*



*highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment”* as referenced above, assume the following is present at the end the COOP Timer for a given Complex Order Strategy:

$$\text{cPBBO} = 3.50 (10) - 3.90 (10)$$

Complex Order #1: Buy 20 for \$3.79

Complex Order #4: Sell 20 at \$3.60

Complex Order #2: Buy 20 for \$3.77

Complex Order #5: Sell 20 at \$3.62

Complex Order #3: Buy 20 at \$3.74

COOP Opening execution will be for 40 strategies at a price of \$3.76. The execution price of \$3.76 is derived from the midpoint of the lowest executable bid price of \$3.74 and the next available executable bid price of \$3.77, rounded up to the closest minimum trading increment. In this example, 40 strategies can be opened at multiple price points ranging from \$3.74 up to \$3.77. None of these potential opening prices will cause the unexecuted \$3.74 buy order to be available at a price which crosses the opening price, therefore, the System opens at the midpoint of such prices, \$3.76.

If the example were changed slightly such that Complex Order #1 and Complex Order #2 were market orders instead of a limit orders, the COOP Opening execution price for the 40 strategies would be \$3.82, which is the midpoint of the potential opening prices ranging from \$3.74 to \$3.90.

To illustrate *“if the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment”* as referenced above, assume the following is present at the end the COOP Timer for a given Complex Order Strategy:

$$cPBBO = 3.50 (10) - 3.90 (10)$$

Complex Order #1: Buy 10 for \$3.78

Complex Order #4: Sell 20 at \$3.64

Complex Order #2: Buy 20 for \$3.74

Complex Order #5: Sell 20 at \$3.66

Complex Order #3: Buy 10 at \$3.71

COOP Opening execution will be for 40 strategies at a price of \$3.69. The execution price of \$3.69 is derived from the midpoint of the lowest executable bid price of \$3.71 and the highest executable offer price of \$3.66, rounded up to the closest minimum trading increment. If the example were changed slightly such that Complex Order #4 and Complex Order #5 were market orders rather than limit orders, the COOP Opening execution price for the 40 strategies would be \$3.61, which is derived from the midpoint of the lowest executable bid price of \$3.71 and the highest executable offer of \$3.50, rounded to the closest minimum trading increment.

To illustrate the application of the Acceptable Complex Execution (ACE) parameter as defined in Rule 1080.08(i), assume the following is present at the end the COOP Timer for a given Complex Order Strategy:

ACE Parameter of \$0.05

$$cPBBO = 3.50 (10) - 4.00 (10)$$

$$cNBBO = 3.70 (10) - 3.90 (10)$$

Complex Order #1: Buy 10 for \$3.78

Complex Order #4: Sell 20 at market

Complex Order #2: Buy 20 for \$3.74

Complex Order #5: Sell 20 at market

Complex Order #3: Buy 10 at \$3.71

The COOP Opening execution may not occur more than \$0.05 outside of the cNBBO, and thus cannot occur at a price of less than \$3.65 or more than \$3.95. In this

case, Complex Order #4 and Complex Order #5 will both be considered in determining the COOP Opening execution price as orders to sell limited by the contra side cNBBO ACE limit of \$3.65. Therefore, the COOP Opening execution price for the 40 strategies would be \$3.68, which is derived from the midpoint of the lowest executable bid price of \$3.71 and the highest executable offer of \$3.65.

If there is any remaining interest after complex interest has traded against other complex interest and there is no component that consists of the underlying security,<sup>29</sup> such interest may “leg” whereby each options component may trade at the PBBO with existing quotes and/or limit orders on the limit order book for the individual components of the Complex Order; provided that remaining interest may execute against any eligible Complex Orders received before legging occurs.<sup>30</sup> If the remaining interest has a component that consists of the underlying security, such Complex Order will be placed on the CBOOK (as defined below). Although the current rule text does not provide for legging on the opening, the System is currently programmed to consider whether legging is possible in order to maximize the number of executions. Accordingly, the Exchange proposes to add rule text regarding legging to Rule 1080.08(d)(ii)(C)(3).

The Exchange also proposes to add that the Complex Order Strategy will be open for trading after the COOP even if no executions occur. This is intended to attract additional interest to a Complex Order Strategy that had already been opened, indicating

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<sup>29</sup> Complex Orders that are not executable at the opening price, including those that could not leg because there is a component that consists of the underlying security, will be placed on the CBOOK. See proposed Rule 1080.08(d)(ii)(C).

<sup>30</sup> Remaining interest includes Complex Orders that did not execute at the opening price and are therefore on the CBOOK and available to be traded before legging occurs.

there was interest in it. If additional interest arrives, the Exchange does not believe another COOP is needed, because such interest will under the normal processes of the system either be subject to a COLA, be placed on the CBOOK (both of which are disseminated), or be cancelled.

#### Other Inconsistencies

Second, Rule 1080.08(e)(vi)(C) currently provides that when executing against the COLA-eligible order after a COLA, a participating specialist shall be entitled to receive, respecting an option in which he is the specialist, the greater of: (1) the proportion of the aggregate size at the cPBBO associated with such specialist's COLA Sweep, SQT and RSQT COLA Sweeps, and non-SQT ROT Complex Orders on the CBOOK;<sup>31</sup> (2) the Enhanced Specialist Participation as described in Rule 1014(g)(ii)<sup>32</sup> (60/40/30%); or (3) 40% of the remainder of the order.<sup>33</sup>

In actuality, the System looks at all of a specialist's COLA Sweeps at a particular price, not just at the cPBBO and compares it to all other Phlx XL market maker interest.

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<sup>31</sup> This is commonly known as size pro-rata allocation.

<sup>32</sup> Rule 1014(g)(ii) provides that when the registered specialist is on parity with a controlled account, in accordance with Exchange Rules 119 and 120 and the number of contracts to be bought or sold is greater than five, the specialist is entitled to receive an enhanced participation of 30% of the Remainder of the Order ("Enhanced Specialist Participation"), except in the following circumstances: (1) where there is one controlled account on parity, the specialist is entitled to receive 60% of the Remainder of the Order; or (2) where there are two controlled accounts on parity, in which case, the specialist is entitled to receive 40% of the Remainder of the Order. See also ISE Rule 722.05.

<sup>33</sup> A specialist is not entitled to this enhanced allocation in options in which he is not registered as the specialist.

In addition, the System does not provide for a minimum 40% allocation above the 60/40/30 specialist enhancement when trading a specialist's COLA Sweeps. When executing against COLA-eligible interest in a limited number of situations, the specialist may have received less of an allocation than expected, because the minimum 40% allocation did not operate. The Exchange believes that the 40% language being deleted may have been an error, because given the "greater of" language in this provision, the 30% guarantee would never have operated.

Thus, the Exchange proposes to change Rule 1080.08(e)(vi)(C) to address these three items. Specifically, the specialist would be entitled to receive the greater of: (1) the proportion of the aggregate size associated with such specialist's COLA Sweep, SQT and RSQT COLA Sweeps, and non-SQT ROT Complex Orders on the CBOOK; or (2) the 60/40/30% Enhanced Specialist Participation described in Rule 1014(g)(ii). The Exchange believes that the specialist guarantee of 60/40/30% is a sufficient incentive for participants to become specialists and make continuous markets in individual options. The Exchange notes that this is the same enhanced pro-rata specialist allocation that applies to non-Complex Orders.<sup>34</sup>

In addition, the limitation of aggregating size only at the cPBBO is being deleted; the size of the specialist's COLA Sweep, SQT and RSQT COLA Sweeps, and non-SQT ROT Complex Orders on the CBOOK are all aggregated, regardless of price.

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<sup>34</sup> Unlike regular, single component options listed and traded on the Exchange, Complex Orders do not have a specialist or required market maker providing continuous markets. Complex Orders operate as an order-driven process, with the prices derived from the prices of the individual components.

Third, pursuant to Rule 1080.08(e)(vi)(B), for allocation purposes, the rule states that the size of a COLA Sweep or responsive Complex Order received during the COLA Timer shall be limited to the size of the COLA-eligible order. In actuality, the Exchange will accept size in excess of the COLA-eligible order size and such size can be executed against remaining interest<sup>35</sup> after the COLA-eligible order has been executed to the fullest extent possible.<sup>36</sup> For example, where there is a COLA-eligible order bidding \$2.00 for 20 contracts, and the other interest consists of a \$2.10 bid for 10 contracts, a \$2.10 offer for 10 contracts and a \$2.00 offer for 10 contracts, even though only 10 contracts of the COLA-eligible order are executable, the buy and sell orders at \$2.10 can nevertheless execute against each other; thus, although the COLA-eligible order was not fully executed, it was executed to the fullest extent possible, which permitted additional executions of responsive interest at a different price, to the benefit of those orders.

As a result, participants would have had a greater opportunity for execution and may have received executions in excess of the COLA-eligible order volume, up to the full size of their order. If the System operated as stated in the current rule text, fewer contracts would have been executed, because fewer contracts would have been available for execution against the COLA-eligible order and other responsive interest.

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<sup>35</sup> The remaining interest consists of any potential interest that has been received, including orders, quotes and COLA Sweeps, as well as the individual leg market.

<sup>36</sup> The Exchange notes that this is similar to NYSEArca Rule 6.91(c)(7), which permits executions above such size. The Exchange also notes that this reflects an internal inconsistency in this rule, because another sub-paragraph in the rule addresses the execution of remaining bids or offers from the incoming non-customer Complex Order(s). See Rule 1080.08(e)(viii)(2)(e).

The Exchange is proposing to amend the rule to permit the full size of responding interest to trade against non-COLA-eligible interest. This change is intended to have as many contracts trade as possible. The Exchange does not believe that the current size limitation in the rule is useful. The Exchange notes that the size of a COLA Sweep or responsive Complex Order is only relevant where the resulting allocation of a trade is conducted on a pro-rata basis, such as respecting market maker allocations and off-floor broker-dealer allocations, but not respecting non-broker-dealer customer allocations, which are based on time priority. The Exchange believes that permitting executions in excess of the COLA-eligible volume benefits market participants, because it helps ensure that as many contracts as possible are executed.

Fourth, Rule 1080.08(e)(viii)(C)(1)(d) currently provides that if multiple customer Complex Orders are received on the opposite side of the market from the COLA-eligible order, customer orders will be executed in the order in which they were received. In the context of allocating these orders, the Exchange uses the term “customer” to include both non-broker-dealer customer orders as well as non-market maker off-floor broker-dealer orders. The System executes non-broker-dealer customer orders in the order in which they were received and non-market maker off-floor broker-dealer orders on a pro-rata basis at each price level. Thus, non-market maker off-floor broker-dealer orders may have received a higher or lower allocation at a particular price than they would have received in time priority allocation, which is required under the current rule, depending on their particular time and size.

The Exchange proposes to change Rule 1080.08(e)(viii)(C)(1)(d) to reflect that off-floor broker- dealer orders at the same price are executed on a pro-rata basis,

consistent with the priority rules applicable in other aspects of the execution of Complex Orders<sup>37</sup> and simple orders.<sup>38</sup>

Fifth, pursuant to Rule 1080.08(e)(viii)(C)(2)(d), if multiple non-customer<sup>39</sup> Complex Orders are received on the opposite side of the market from the COLA-eligible order, such orders will be executed in the order in which they were received. Instead, the System executes non-customer orders on a pro-rata basis among Phlx market maker interest and then, again on a pro-rata basis, among remaining Phlx XL participants at each price level, as described in Rule 1080.08(e)(vi)(B). Non-customer orders may have received a higher or lower allocation at a particular price than they would have received in time priority allocation, depending on their particular time and size.

The Exchange proposes to amend the rule to reflect that non-customer orders are executed on a pro-rata basis, consistent with the priority rules applicable in other aspects of the execution of Complex Orders and simple orders.<sup>40</sup>

Sixth, pursuant to Rule 1080.08(f)(i)(F), when a Complex Order is received during the final 10 seconds of the trading session, the rule provides that it will go onto the CBOOK. At this time, the Exchange proposes to change the rule to reflect a configurable time period for all options so the System can maximize COLA responses and executions rather than a fixed time period of 10 seconds. The Exchange will notify participants on

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<sup>37</sup> See e.g., Rule 1080.08(e)(vi)(B).

<sup>38</sup> See Rule 1014(g)(vii).

<sup>39</sup> In the context of allocating these orders, the Exchange uses the term “non-customer” to include all interest other than non-broker-dealer customer interest and non-Phlx market maker off-floor broker-dealer interest.

<sup>40</sup> See supra notes 31 and 33.



its website in advance when the number of seconds will change. In addition, the Exchange is adding to this provision a reference to any marketable portion of the Complex Order being executed, because the System seeks to execute any portion that can be traded before placing a Complex Order on the CBOOK. The Exchange believes that this is a useful change, because the Exchange believes that 10 seconds may be too long and may prevent executions from occurring; a COLA can be triggered and completed in less than 3 seconds so the Exchange believes a smaller number than 10 seconds is appropriate to maximize executions.

Currently, the System operates such that when a Complex Order is received during the final 3 seconds of the trading session, it will go onto the CBOOK. More Complex Orders may have started a COLA and were perhaps executed rather than sitting on the CBOOK, which the Exchange believes may have been considered a benefit by those participants. The System was changed on March 7, 2014 to 10 seconds to align with the rule.

Seventh, after the COLA-eligible order has been executed in its entirety, Rule 1080.08(e)(viii)(C)(3) provides that the execution price of crossing interest is based on the price of the smaller sized interest. Crossing interest refers to any buy or sell interest that crosses in price such that a buyer order is at a higher price than the best sell price, for example. If such interest crosses and does not match in size, the execution price of the remaining interest is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding), provided, however, that if there is more than one price at which the interest may execute, the execution price when the larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid)

price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment. If the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment.

In determining the execution price and which interest will trade, the System affords priority to non-broker-dealer customers. Executable bids/offers include any interest which could be executed without trading *through* residual interest or the cPBBO, or without trading *at* the cPBBO where there is non-broker-dealer customer interest. This is consistent with Rule 1080.08(c)(iii).

While participants are “blind” to the determination of the execution price because they do not know the size of all eligible interest, the participants that were part of the smaller sized interest would likely have received a better execution price than the rule states.

The Exchange proposes to amend Rule 1080.08(e)(viii)(C)(3) will be amended to reflect the use of larger sized interest, because it is indicative of the price of remaining unexecuted interest. The Exchange believes that this correction and level of detail should help participants understand how their execution prices are determined, and this method is fair and orderly, based on both size and midpoint, which reflect the totality of the remaining interest. This is the same process used in the COOP as proposed in Rule 1080.08(d)(ii)(C)(2).

This provision is also proposed to state that if there is any remaining interest, which means any interest present in the System in that Complex Order Strategy at that

time, and there is no component that consists of the underlying security,<sup>41</sup> such interest may “leg” whereby each options component may trade at the PBBO with existing quotes and/or limit orders on the limit order book for the individual components of the Complex Order; provided that remaining interest may execute against any eligible Complex Orders received before legging occurs. This is intended to maximize the number of contracts that execute.

Eighth, Rule 1080.08(b)(i) governs the types of Complex Orders that different participants may submit to the Exchange. The rule does not currently specify a category of participant known as Firms. Because the current rule does not define a Firm, under the current language Firms are broker-dealers that fit the definition of non-market maker off-floor broker-dealer.

At this time, the Exchange is proposing to adopt a definition of Firm in Rule 1080.08(a)(x), based on the current definition in the Phlx fee schedule.<sup>42</sup> Specifically, the term “Firm” means a broker-dealer trading for its own (proprietary) account that is: (i) a member of The Options Clearing Corporation (“OCC”); or (ii) maintains a Joint Back Office (“JBO”)<sup>43</sup> arrangement with an OCC member. Firms are distinct from non-market

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<sup>41</sup> Complex Orders that are not executable at the opening price, including those that could not leg because there is a component that consists of the underlying security, will be placed on the CBOOK. See proposed Rule 1080.08(d)(ii)(C).

<sup>42</sup> See Securities Exchange Act Release No. 62140 (May 20, 2010), 75 FR 29788 (May 27, 2010)(SR-Phlx-2010-69).

<sup>43</sup> A member organization can establish and maintain a JBO arrangement with a clearing broker-dealer subject to the requirements of Regulation T Section 220.7 of the Federal Reserve System if each JBO participant is registered as a broker-dealer, maintains a minimum account equity requirement of \$1,000,000, and comply with certain ownership standards. See Rule 703(a)(vi).

maker off-floor broker-dealers because of their OCC membership, which implies that Firms are large, well-capitalized entities.

The pricing schedule currently provides that Firm means a non-customer broker-dealer for which orders are identified by a member or member organization as clearing in the firm range at OCC.<sup>44</sup> The term “clearing in the firm range at OCC” refers to what type of an account is held at OCC and is commonly used by exchanges.<sup>45</sup> The participants that clear in the firm range at OCC are Firms, including both broker-dealers trading for their own (proprietary) account who are OCC members as well as JBO participants. In contrast, broker-dealers trading for their own (proprietary) account who are *not* OCC members must have their trades cleared via an OCC member and do not clear in the firm range.<sup>46</sup> Accordingly, the proposed definition of Firm comports with the definition used in the pricing schedule, with respect to which dozens of proposed rule changes have taken effect based on such pricing differentiation being consistent with the Act, including not being unfairly discriminatory.<sup>47</sup>

In addition, the Exchange proposes to specify the two ways in which Firm orders are handled like Phlx XL market maker orders rather than non-market maker off-floor broker-dealer orders. Specifically, the Exchange proposes to amend Rule 1080.08(e)(i)(B)(1) to provide that Firm orders, like Phlx market maker orders, are not

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<sup>44</sup> See preface to Phlx Pricing Schedule.

<sup>45</sup> See e.g., <http://www.cboe.com/publish/RegCir/RG13-038.pdf>.

<sup>46</sup> These broker-dealer orders are ultimately cleared as customer orders at OCC.

<sup>47</sup> See e.g., Securities Exchange Act Release Nos. 68880 (February 8, 2013), 78 FR 10664 (February 14, 2013) (SR-Phlx-2013-10); and 67189 (June 12, 2012), 77 FR 36310 (June 18, 2012) (SR-Phlx-2012-77).

COLA-eligible orders and therefore cannot start a COLA; non-market maker off-floor broker-dealer orders can start a COLA. In addition, for purposes of Rule 1080.08(e)(viii)(C), Firms orders are proposed to be treated as “non-customer” orders. Specifically, when the System determines how Complex Orders on the opposite side of the market from a COLA-eligible order are executed, the System executes Firm orders on a pro-rata basis along with non-Phlx market maker orders. Non-market maker off-floor broker-dealer orders are executed along with non-broker-dealer customer orders. In these two ways, Firm orders are proposed to be treated the same way as non-Phlx market makers, rather than the same way as off-floor broker-dealers, because the Exchange believes that the trading style and needs of Firms are more like market makers. Firms are large, well-capitalized broker-dealers trading for their own account, generally submitting large orders, including orders that facilitate their clients’ orders or offset often large positions taken to accommodate their customers;<sup>48</sup> in order to do so, Firms must have the financial wherewithal that this role necessitates, which by OCC rule applicable to OCC clearing members, generally requires a certain amount of net capital, risk management procedures addressing certain risks and margin requirements, among other things.<sup>49</sup> Thus, in general, Firms are commonly viewed as providers of liquidity, much like market makers.

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<sup>48</sup> Of course, the clients/customers of a Firm could be other broker-dealers.

<sup>49</sup> See OCC Rules 301, 311 and 601.

(b) Statutory Basis

The Exchange believes the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>50</sup> in general, and with Section 6(b)(5) of the Act,<sup>51</sup> in particular, which requires, among other things, that the rules of an exchange be designed to promote just and equitable principles of trade as well as protect investors and the public interest. Specifically, the Exchange is proposing various changes that should promote just and equitable principles of trade, because Complex Orders will be handled in a fair and orderly manner by the System, as described above. The Exchange believes that the proposed changes are consistent with how participants could reasonably expect that their complex interest should be treated. The various corrections are, together, intended to improve the rule overall. The Exchange believes that this should promote just and equitable principles of trade as well as protect investors and the public interest by making more clear how specifically Complex Orders are handled on the Exchange.

More specifically, the opening changes are intended to promote just and equitable principles of trade by seeking to execute as much interest as possible at the best possible price(s). The opening process maximizes price discovery and liquidity while employing price priority, which the Exchange believes is a fairer process on the opening when dealing with potentially different sources of interest, versus a single Complex Order triggering a COLA during the day's trading. Although the COOP operates differently than the COLA, the Exchange notes that the COOP operates like a traditional opening

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<sup>50</sup> 15 U.S.C. 78f.

<sup>51</sup> 15 U.S.C. 78f(b)(5).

process, seeking to execute as much interest as possible, which is consistent with just and equitable principles of trade.

The opening delay timer promotes just and equitable principles of trade by allowing options prices to stabilize after the options opening, before permitting Complex Orders to become available for trading. If a particular Complex Order Strategy is already open, the COOP does not occur, which is consistent with just and equitable principles of trade, because there is no need for an opening process. The Complex Order Opening Auction Notification is intended to attract interest to the opening process and encourage the opening of a Complex Order Strategy, like the COLA message is intended to attract interest to the COLA. Accordingly, the Complex Order Opening Auction Notification, which contains the opening price, imbalance, if any, and volume, promotes just and equitable principles of trade.

The change to Rule 1080.08(d)(ii)(B)(3) enumerating that COOP responses are not visible promotes just and equitable principles of trade by making this clear to participants and because the temporary, quick nature of the COOP would not render this information useful. The Complex Order Opening Auction Notification is sufficient notification of the forthcoming opening of a particular Complex Order Strategy.

The Exchange noted above that Complex Orders marked IOC do not participate in an auction that such order may trigger if that order would be the first order in that Complex Order Strategy, thereby opening that Strategy for the day. The Exchange does not believe that this raises regulatory issues, such as the potential for manipulation or abuse relating to the opening auction. The Exchange similarly treats non-Complex Orders marked IOC, in that such orders, if received prior to the opening in an option, are

cancelled upon receipt. Thus, the fact that Complex Orders marked IOC do not participate in the opening auction does not raise new concerns for manipulation; today, if a participant enters a DAY or GTC order and then immediately cancels it, an auction will ensue without that order. Accordingly, the Exchange believes that its proposed handling of IOC orders should promote just and equitable principles of trade. Similarly, the proposal addresses how DNA orders are handled, which also promotes just and equitable principles of trade by providing an order type that involves immediate handling.

The Exchange believes that COOP Sweeps, as described above, promote just and equitable principles of trade by providing an opportunity for a single sided quote to be entered by Phlx XL market makers responding to a COOP, much like opening sweeps in Rule 1017 and regular sweeps in Rule 1080. The Exchange does not believe it is unfairly discriminatory for COOP Sweeps to be available only to Phlx XL market makers, because the ability to enter two-sided quotes is also available only to Phlx XL market makers, who use a particular protocol to submit quotes and sweeps to the Exchange. Other Phlx XL participants can submit orders over the protocol specific to orders, specifically IOC orders which behave in the same manner as a sweep.

With respect to the provision in Rule 1080.08(d)(ii)(C)(3) that provides that a Complex Order Strategy will be open after a COOP even if no executions occur, the Exchange believes that this proposed language should promote just and equitable of trade by opening a Complex Order Strategy based on the fact that interest was received, regardless of whether the responsive interest resulted in an execution. In addition, it promotes just and equitable principles of trade for the rule to reflect this.



With respect to any priority provisions addressed herein, the proposed treatment is similar to the Exchange's priority rule respecting orders other than Complex Orders, as well as the comparable rules of other options exchanges.<sup>52</sup> This includes allocating to the specialist based on all of his interest at a particular price pursuant to proposed Rule 1080.08(e)(vi)(C), off-floor broker-dealer customer orders on a pro-rata basis pursuant to proposed Rule 1080.08(e)(viii)(C)(1)(d), and to Phlx XL market makers and other non-customers each on a pro-rata basis pursuant to proposed Rule 1080.08(e)(viii)(C)(2)(d). The deletion of the 40% allocation promotes just and equitable principles of trade both by correcting the rule text as well as by rendering meaning to the reference to Rule 1014(g)(ii), which is otherwise pointless. The deletion of aggregating size only at the cPBBO for purposes of determining the pro rata allocation promotes just and equitable principles of trade by taking into account all expressed interest (the specialist's COLA Sweep, SQT and RSQT COLA Sweeps and non-SQT ROT Complex Orders on the CBOOK) regardless of price. This should maximize the number of contracts executed, to the benefit of those participating in that Complex Order Strategy. The deletion of aggregating the specialist's quotes/orders in individual components with such specialist's COLA Sweeps in Rule 1080.08(e)(vi)(C)(4) should promote just and equitable principles of trade by correcting the rule text and by only including the specialist's complex interest. Accordingly, the Exchange believes that these changes are consistent with the Act for the reasons stated above. The priority treatment of Firms is discussed below.

The change to Rule 1080.08(e)(vi)(B) permitting responses for a size greater than the size of the COLA-eligible orders is consistent with just and equitable principles of

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<sup>52</sup> See Phlx Rule 1014(g)(vii)(B)(1)(b). See also CBOE Rule 6.53C(c)(ii)(2).

trade, because it enables as many contracts as possible to trade, which is also consistent with protecting investors and the public interest. Restricting responses to the size of the COLA-eligible order serves no regulatory purpose and, instead, merely limits the number of contracts that can trade. Some responsive interest may not have been intentionally responsive but rather coincidental, for which there is even less reason to impose this size restriction; the size of the COLA-eligible order was irrelevant to the submission of the larger-sized order.

The Exchange believes a configurable end of day timer as proposed in Rule 1080.08(f)(i)(F) is consistent with just and equitable principles of trade, because it can be tailored to maximize the number of executions but is still limited to 600 seconds, as originally approved.

The Exchange also believes that the proposed execution process in proposed Rule 1080.08(d)(ii)(C)(2) and (e)(viii)(C)(3) for crossing interest is consistent with just and equitable principles of trade, because it is based on the price of the larger sized interest, which affects more options contracts and is likely to result in more executions than the current rule provides, because the current rule is based on the mid-point, regardless of size.

The reference to legging remaining interest in these same subparagraphs promotes just and equitable principles of trade by providing an opportunity for additional Complex Orders to trade. The additional executions would be expected by users who expressed an interest to trade by submitting their interest; their expression of interest is not limited to the COLA-eligible order but rather to the Complex Order Strategy as a whole.

In addition, this proposal is not unfairly discriminatory, including to the new category of Firm orders, because it proposes to deal with Complex Orders and responsive interest in a reasonable way. As explained above, it is not uncommon to have certain order types and time-in-force conditions available only to certain participant types, both on the Exchange<sup>53</sup> as well as other exchanges.<sup>54</sup> Indeed, the Exchange's pricing schedule has long distinguished Firms from other broker-dealers.<sup>55</sup> The Exchange believes that certain order types and time-in-force conditions, if made available, would likely not be used by certain market participants, because of the particular trading style of those participants. For example, Phlx XL market makers are not permitted to send in GTC orders; the Exchange does not believe that Phlx XL market makers would be interested in submitting GTC orders, as they generally participate in the marketplace using electronic quotations, which are updated and replaced frequently, unlike GTC orders.

Similarly, the Exchange believes that Firms do not expect or need their Complex Orders to trigger a COLA nor to submit GTC orders, because these are features commonly associated with customers rather than liquidity providers who functions to accommodate trading interest. Both of these features involve a temporal component; both a delay and long-lasting interest are inconsistent with the sort of accommodation that Firms provide. Accordingly, the Exchange believes that by tailoring its offerings to the needs and trading style of Firms, Firms are more likely to send orders to the

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<sup>53</sup> See Phlx Rule 1080(b).

<sup>54</sup> See CBOE Rule 6.53C(d)(iii).

<sup>55</sup> See supra notes 43 and 46.

Exchange, which should increase order interaction with other market participants, consistent with promoting just and equitable principles of trade.

The Exchange believes that its proposal to accept all-or-none Complex Orders should promote just and equitable principles of trade by offering this order type, commonly available for non-Complex Orders as well as complex orders on other options exchanges, to market participants, who may want a certain minimum size. This contingency is particularly appropriate respecting Complex Orders, because of the complexity of the strategies employed by users; the size of the order may be relevant to such strategy.

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

The Exchange 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, the proposal does not impose an intra-market burden on competition, because these changes make the rule clearer and more complete for all participants. Nor will the proposal impose a burden on competition among the options exchanges, because of the vigorous competition for order flow among the options exchanges. To the extent that market participants disagree with the particular approach taken by the Exchange herein, market participants can easily and readily direct complex order flow to competing venues.

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)

Not applicable.

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. Advanced 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.

5. Text of proposed rule change.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-Phlx-2015-26)

March \_\_, 2015

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing of  
Proposed Rule Change to Amend the Rule 1080.08

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 12, 2015, 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 and correct Rule 1080.08 in a number of ways, as described further below.

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.

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

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

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

received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of the proposal is to correct certain rule text and provide additional clarity to Phlx Participants regarding the trading of Complex Orders on the Exchange. The Exchange's Complex Order System ("System"), which is governed by Rule 1080.08, includes an opening process called the Complex Order Opening Process or "COOP," the Complex Order Live Auction ("COLA"), an automated auction for seeking additional liquidity and price improvement for Complex Orders, and a Complex Limit Order book, the CBOOK.

The Exchange proposes to correct eight inconsistencies between the existing Complex Orders rule, Rule 1080.08,<sup>3</sup> and the operation of the Complex Orders System today.

Opening Inconsistencies

First, the Exchange proposes to amend the rule text applicable to its opening process. Specifically, Rule 1080.08(d) currently provides for performing a COOP Evaluation in order to identify a COLA-eligible order and then operating an auction

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<sup>3</sup> The Exchange is renumbering Rule 1080.07 as Rule 1080.08; it was recently changed and the Exchange has determined to revert to the original numbering. See Securities Exchange Act Release No. 73719 (December 2, 2014), 79 FR 72740 (December 8, 2014)(SR-Phlx-2014-76).

respecting that order, similar to the way the COLA operates.<sup>4</sup> The Exchange proposes to amend Rule 1080.08(d) to reflect that the System operates the opening auction process for Complex Orders differently than the COLA. Specifically, the COOP identifies a price at which the maximum number of contracts can trade on the opening based on interest received in the Complex Order Strategy.<sup>5</sup> Thus, the COOP operates like a traditional opening process, considering buys and sells, taking all interest into account (without bias toward any participant) to determine which interest is executable and identifying any imbalance.<sup>6</sup>

Despite the current rule text, a Complex Order on the opening would not have been designated as the COLA-eligible Order with priority over all other same-side orders. However, such order would have been considered for execution alongside other same-priced same-side orders received in the same Complex Order Strategy, both before and during the COOP, consistent with a normal opening process.

Specifically, for each Complex Order Strategy, the System will take into consideration all Complex Orders, identify the price at which the maximum number of contracts can trade and calculate the imbalance, if any, as follows:

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<sup>4</sup> The COLA is an auction intended to solicit interest in a particular Complex Order other than on the opening. See Rule 1080.08(e).

<sup>5</sup> A Complex Order Strategy means a particular combination of components of a Complex Order and their ratios to one another. The Exchange will calculate both a bid price and an offer price for each Complex Order Strategy based on the current PBBO (as defined below) for each component of the Complex Order. Each Complex Order Strategy will be assigned a strategy identifier by the System. See Rule 1080.08(a)(ii).

<sup>6</sup> See Rule 1017.



- Pursuant to existing Rule 1080.08(d)(i), the Phlx XL System will accept pre-opening Complex Orders, and will accept Complex Orders prior to re-opening following a halt in trading on the Exchange. Complex Orders received prior to the opening or during a trading halt will reside on the CBOOK (as defined below). There will be one such COOP per Complex Order Strategy. These provisions are not changing.
- Rule 1080.08(d)(ii) will be amended to add reference to a timer. Specifically, new rule text will provide that once trading in each option component of a Complex Order has opened (or re-opened following a trading halt) for a certain configurable time not to exceed 60 seconds<sup>7</sup> (and none of the conditions described in Rule 1080(c)(ii) exist),<sup>8</sup> the Phlx XL System will initiate the COOP, provided that a COOP will only be conducted for any Complex Order Strategy that has a Complex Order received before the opening<sup>9</sup> of that Complex Order Strategy. The

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<sup>7</sup> This is known as the opening delay timer, which is intended to allow a brief period of time for the prices for the various series of an option to stabilize after the opening of those series.

<sup>8</sup> These include: the Complex Order is received prior to the opening on the Exchange of any options component of the Complex Order; during an opening rotation for any options component of the Complex Order; during a trading halt for any options component of the Complex Order; when the Exchange's Risk Monitor Mechanism is engaged for any options component of the Complex Order that represents all of the PBBO pursuant to Rule 1093; or when the Exchange's market for any options component of the Complex Order is disseminated pursuant to Rule 1082(a)(ii)(B).

<sup>9</sup> Currently, the Rule provides that the COOP is conducted if a Complex Order is pending at the opening or re-opening. However, such Complex Order may no longer be pending (perhaps it was canceled), such that a COOP is actually triggered by *receipt* of the order.

Exchange is proposing to add new rule text to provide that the Exchange will not conduct a COOP when a particular Complex Order Strategy is already open as a result of another electronic auction process, such as PIXL pursuant to Rule 1080(n) or the Exchange's Solicitation mechanism.<sup>10</sup> If that Complex Order Strategy is already open, a COOP is not needed and will not occur.

- The Exchange is also proposing to add to Rule 1080.08(d)(ii) that following a trading halt, a COOP will be conducted for any Complex Order Strategy where a Complex Order was received before or during a trading halt or that Complex Order Strategy had previously opened prior to the trading halt.
- The COOP will be conducted in two phases, the "COOP Timer" (as defined below) and the "COOP Evaluation" (also defined below). A COOP can be occurring at the same time in different Complex Order Strategies.
- To add specificity, the Exchange is proposing to add to Rule 1080.08(d)(ii)(A)(1) that the Exchange will send a broadcast message indicating that a COOP has been initiated. The broadcast message will identify the Complex Order Strategy,<sup>11</sup> the opening price (based on the maximum number of contracts that can be executed at one particular price, except if there is no price at which any orders can be executed), and the

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<sup>10</sup> See SR-Phlx-2014-66.

<sup>11</sup> Each Complex Order Strategy has an identifier. See Rule 1080.08(a)(ii).

imbalance side and volume, if any. This broadcast message is called the Complex Order Opening Auction Notification and is sent over an order feed, PHLX Orders, which contains Complex Order information, as well as over Specialized Quote Feed (“SQF”).<sup>12</sup>

- Pursuant to Rule 1080.08(d)(ii)(A)(2), the Complex Order Opening Auction Notification starts a COOP Timer, which will begin counting a number of seconds during which the Complex Order, if any, may not be traded. The COOP Timer is configurable to a period ranging from 0 to 600 seconds as determined by the Exchange and communicated to Exchange membership on the Exchange's website. The COOP Timer will be configured for the same number of seconds for all options trading on the Exchange. Phlx XL Participants can submit responses to the Complex Order Opening Auction Notification pursuant to subparagraph (B) below.

#### Opening - Immediate-or-Cancel Orders and DNA Orders

Currently, Complex Orders marked as Immediate-or-Cancel (“IOC”)<sup>13</sup> and Do Not Auction (“DNA”)<sup>14</sup> can be submitted. The Exchange proposes to adopt into Rule 1080.08(d)(ii)(A)(5) how both IOC and DNA orders are handled on the opening. Complex Orders marked as IOC or DNA received before the COOP is initiated will be cancelled and will not participate in the COOP; however, a COOP will nevertheless occur

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<sup>12</sup> Securities Exchange Act Release Nos. 60877 (October 26, 2009), 74 FR 56255 (October 30, 2009) (SR-Phlx-2009-92) and 66693 (May 15, 2012), 77 FR 30043 (May 21, 2012)(SR-Phlx-2012-63) (addressing TOPO Plus Orders/PHLX Orders).

<sup>13</sup> See Rule 1080.08(b)(i) – (iii).

<sup>14</sup> See Rule 1080.08(a)(viii).

in that Complex Order Strategy. The Exchange believes that it is appropriate for the COOP to occur even though the IOC or DNA order that triggered it is cancelled, because the opening process is intended to open key strategies in which participants are interested. From a system perspective and as a practical matter, not every Complex Order Strategy can be opened each day, as there are millions of possible permutations, based on the number of options and option series available for trading today. This way, the System can focus on the Complex Order Strategies that attract interest and prepare to open those, making them available for trading on a particular day.

The Exchange believes it is appropriate for the COOP to occur, because responsive interest on both sides of the market can nevertheless trade against other responding interest. In fact, today, if an order that is not an IOC order (like a Day order) initiates a COOP and then is cancelled by the entering participant before the end of the COOP, responsive interest can nevertheless trade.

IOC and DNA orders are handled differently when received *during a COOP*. IOC Complex Orders received during a COOP will join the COOP and be treated like any other Complex Order, except such orders will be cancelled at the end of the COOP Timer if not executed. This is intended to try to execute the order, because the order may be responding to the Complex Order Opening Auction Notification. The Exchange notes that IOC Complex Orders are handled similarly in the Exchange's PIXL system for similar reasons;<sup>15</sup> that is, an attempt is made to execute the IOC Complex PIXL order, and therefore there is a delay in executing the order, even though it is marked IOC.

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<sup>15</sup> See Phlx Rule 1080(n).

Accordingly, the Exchange does not believe that participants will be surprised about this handling.

The Exchange also notes that participants who want their order handled in a more immediate way during a COOP can submit a DNA order, which would not join a COOP that is in progress, because that would involve a delay. Consistent with the rule language that DNA Orders are cancelled if not immediately executed, DNA Orders do not participate in a COOP.

Opening - Responses During COOP Timer.

Pursuant to proposed Rule 1080.08(d)(ii)(B), Phlx XL participants<sup>16</sup> may bid and/or offer on either or both side(s) of the market during the COOP Timer by submitting one or more Complex Orders. In addition, Phlx XL market makers<sup>17</sup> may also bid and/or offer on either or both side(s) of the market during the COOP Timer by submitting one or more COOP Sweeps, which are a type of an order that is immediate. The Exchange is proposing to codify COOP Sweeps in Rule 1080.08(d)(ii)(B). COOP Sweeps are one-sided and always have a limit price. Like COLA Sweeps, COOP Sweeps can only be entered by Phlx XL participants who quote electronically as market makers for their own account (SQTs, RSQTs and specialists). Because non-SQT ROTs do not quote

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<sup>16</sup> This term is currently defined in Rule 1080.08(a)(vii) as Streaming Quote Traders (“SQTs”), Remote Streaming Quote Traders (“RSQTs”), non-SQT Registered Options Traders (“non-SQT ROTs”), specialists and non-Phlx market makers on another exchange; non-broker-dealer customers and non-market-maker off-floor broker-dealers; and Floor Brokers using the Options Floor Broker Management System. This covers all potential users of the Complex Orders system.

<sup>17</sup> This is a new term that the Exchange believes will help distinguish Phlx market makers (which include specialists, SQTs, RSQTs and non-SQT ROTs) from other types of Phlx participants. See proposed Rule 1080.08(a)(vii).

electronically, they cannot enter COOP Sweeps or COLA Sweeps, which are electronic.<sup>18</sup> Specifically, a COOP Sweep is a one-sided electronic submission similar to a one-sided quotation; this definition is proposed to be added to the rule text.<sup>19</sup> A COOP Sweep is the equivalent of an IOC order. The Exchange believes it is appropriate to permit Phlx XL market makers to submit COOP Sweeps, in addition to Complex Orders, for several reasons. Today, Phlx XL market makers are the only participants who can submit quotes, sweeps of non-Complex Orders, COLA Sweeps and COOP Sweeps (“Sweeps”).<sup>20</sup> All of these, including COOP Sweeps, are submitted over the Specialized Quote Feed, SQF, which is a method of submitting quoting information and receiving information back about those quotes. Quotes and Sweeps can only be submitted over SQF, the quoting protocol, because this protocol is designed to handle quotes and Sweeps. Some Phlx XL market makers choose to submit their interest in the form of a Complex Order, which is submitted through a different interface than SQF and is geared toward the submission of orders (rather than quotes) to the Exchange. The Exchange developed Sweeps in order for Phlx XL market makers to be able to expeditiously submit one-sided responsive interest without having to enter an order, which involves an entirely different protocol and method of entry; this was intended to encourage Phlx XL market makers to submit

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<sup>18</sup> See Rule 1014(b)(ii)(C) and Rule 1080.08(e)(ix).

<sup>19</sup> This definition parallels the definition of an opening sweep in Rule 1017(l)(vii)(A).

<sup>20</sup> Although Rule 1080.08(e)(iv) states that Phlx XL participants can submit COLA Sweeps, this is not correct. Only Phlx XL market makers can submit COLA Sweeps. The Exchange proposes to correct this in Rule 1080.08(a)(vii) and (e)(iv).

responsive interest while managing risk, utilizing a single protocol, which should promote just and equitable principles of trade.

There is no advantage to submitting a COOP Sweep versus a Complex Order; Phlx market maker interest is handled the same once it is submitted, including for priority purposes.<sup>21</sup> Furthermore, there is no timing advantage of submitting a COOP Sweep versus a Complex Order (whether for a Phlx market maker or not), because none of the interest is processed until after the COOP Timer ends and all Phlx market maker interest is executed on a pro-rata basis, not in time priority.

A Phlx XL market maker may submit multiple COOP Sweeps at different prices (but not multiple COOP Sweeps at the same price, except as provided in sub-paragraph (2)), in increments of \$0.01 in response to a Complex Order Opening Auction Notification, regardless of the minimum trading increment applicable to the specific series.

In addition, Phlx XL market makers may change the size of a previously submitted COOP Sweep during the COOP Timer. The System will use the Phlx XL market maker's most recently submitted COOP Sweep at each price level as that market maker's response at that price level, unless the COOP Sweep has a size of zero. A COOP Sweep with a size of zero will remove a Phlx XL market maker's COOP Sweep from that COOP at that price level.<sup>22</sup> COOP Sweeps will not be visible to any participant and will not be disseminated by the Exchange.<sup>23</sup> This is because COOP Sweeps are immediate

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<sup>21</sup> See e.g., proposed Rule 1080.08(d)(ii)(C).

<sup>22</sup> See Rule 1080.08(d)(ii)(B)(2).

<sup>23</sup> See Rule 1080.08(d)(ii)(B)(3).

and only available to trade during the COOP. Similarly, orders responding to a message are not visible.

#### Opening - COOP Evaluation

Upon expiration of the COOP Timer,<sup>24</sup> the System will conduct a COOP Evaluation to determine, for a particular Complex Order Strategy, the price at which the maximum number of contracts can trade, taking into account Complex Orders marked all-or-none, unless the maximum number of contracts can only trade without including all-or-none orders.<sup>25</sup> The Exchange will open at that price, executing marketable trading interest, in the following order: first, to customers in time priority; next to Phlx XL market makers on a pro-rata basis; and then to all other participants on a pro-rata basis.<sup>26</sup> The imbalance of Complex Orders that are unexecutable at that price are placed on the CBOOK.<sup>27</sup>

The following examples illustrate the handling of an all-or-none order.

#### Example 1:

Complex Order #1: Buy 40 for \$1.05 AON customer

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<sup>24</sup> See Rule 1080.08(d)(ii)(B)(4).

<sup>25</sup> The Exchange has incorporated a definition of all-or-none orders in SR-Phlx-2014-39. The Exchange stopped accepting all-or-none Complex Orders on March 17, 2014 in order to align the System with the rule. Now, the Exchange proposes to begin accepting them again and explain how they are handled, including how they are treated on the opening and that they do not leg. See Rule 1080.08(d)(ii)(B)(4), (e)(vi)(A)(1) and (f)(iii)(A).

<sup>26</sup> This is consistent with the Exchange's normal priority allocation process. See e.g., Rule 1080.08(e)(vi)(B) and Rule 1014(g)(vii).

<sup>27</sup> The rule provides that the System determines which Complex Order, if any, on the CBOOK will be the "COLA-eligible order" (as defined below) subject to a COLA. This is not correct.



Complex Order #2: Buy 30 for \$1.05 customer

Complex Order #3: Buy 20 for \$1.05 customer

Complex Order #4: Sell 50 at \$1.04 AON customer

The result is that Complex Order #4 will trade against the full size of Complex Order #1 (because it was first) and 10 contracts of Complex Order #2.

Example 2:

Complex Order #1: Buy 40 for \$1.05 AON customer

Complex Order #2: Buy 30 for \$1.05 customer

Complex Order #3: Buy 20 for \$1.05 customer

Complex Order #4: Sell 20 at \$1.04 AON customer

The result is that Complex Order #4 will trade against 20 contracts of Complex Order #2 since the all-or-none contingency of Order #1 cannot be satisfied.

Opening - No trade possible. If at the end of the COOP Timer the Phlx XL System determines that no market or marketable limit Complex Orders or COOP Sweeps, Complex Orders or COOP Sweeps that are equal to or improve the cPBBO,<sup>28</sup> and/or Complex Orders or COOP Sweeps that cross within the cPBBO exist in the System, all Complex Orders received during the COOP Timer will be placed on the CBOOK, as described in Rule 1080.08(f). This is because, without an opening execution possible based on the prices of orders and COOP Sweeps in a particular strategy, such Complex

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<sup>28</sup> The term "cPBBO" means the best net debit or credit price for a Complex Order Strategy based on the Phlx Best Bid and/or Offer ("PBBO") for the individual options components of such Complex Order Strategy, and, where the underlying security is a component of the Complex Order, the National Best Bid and/or Offer for the underlying security. The cPBBO is a calculated number and does not include orders on the CBOOK or interest on other exchanges. See Rule 1080.08(a)(iv).

Orders shall rest on the CBOOK for potential execution later while COOP Sweeps expire.

Opening - Trade is possible. If at the end of the COOP Timer the Phlx XL System determines that there are market or marketable limit Complex Orders or COOP Sweeps, Complex Orders or COOP Sweeps that are equal to or improve the cPBBO, and/or Complex Orders or COOP Sweeps that cross within the cPBBO in the Phlx XL System, the Phlx XL System will do the following: if such interest crosses and does not match in size, the execution price is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding), provided, however, that if there is more than one price at which the interest may execute, the execution price when the larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment. If the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment. This process maximizes the interest which is traded during the opening process and delivers a rational price for the available interest on the opening. The opening price logic maximizes the number of contracts executed during the opening process and ensures that residual contracts of partially executed orders or quotes are at a price equal to or inferior to the opening price, in other words, the logic ensures there is no remaining unexecuted interest available at a price which crosses the opening price. If multiple prices exist that ensure that there is no remaining unexecuted interest available through such price(s), the opening logic chooses the midpoint of such price points.

In determining the execution price and which interest will trade, the System affords priority to customers on the opening as well. Executable bids/offers include any interest which could be executed without trading *through* residual interest or the cPBBO, or without trading *at* the cPBBO where there is non-broker-dealer customer interest. This is consistent with Rule 1080.08(c)(iii).

To illustrate “*if such interest crosses and does not match in size, the execution price is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding)*” as referenced above, assume the following is present at the end the COOP Timer for a given Complex Order Strategy:

cPBBO = 3.50 (10) – 3.90 (10)

Complex Order #1: Buy 30 for \$3.79

Complex Order #2: Sell 20 at \$3.56

COOP Opening execution will be for 20 strategies at a price of \$3.79 because there were more contracts to buy than there were to sell. In this example, while there are multiple price points at which the System can open the same number of contracts, there is only one price point, \$3.79, at which there will be no residual contracts available after the opening process at a price which crosses the opening price. After the System executes 20 strategies at \$3.79, there will remain 10 unexecuted strategies to buy for \$3.79.

If the example were changed slightly such that Complex Order #1 was a market order instead of a limit order, the market order is limited by the cPBBO assuming no customer interest is present, and the COOP Opening execution price for 20 strategies would be \$3.90. The remaining 10 strategies of Complex Order #1 will then leg to the simple market at \$3.90.

To illustrate “*if there is more than one price at which the interest may execute, the execution price when the larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment*” as referenced above, assume the following is present at the end the COOP Timer for a given Complex Order Strategy:

$$cPBBO = 3.50 (10) - 3.90 (10)$$

Complex Order #1: Buy 20 for \$3.79

Complex Order #4: Sell 20 at \$3.60

Complex Order #2: Buy 20 for \$3.77

Complex Order #5: Sell 20 at \$3.62

Complex Order #3: Buy 20 at \$3.74

COOP Opening execution will be for 40 strategies at a price of \$3.76. The execution price of \$3.76 is derived from the midpoint of the lowest executable bid price of \$3.74 and the next available executable bid price of \$3.77, rounded up to the closest minimum trading increment. In this example, 40 strategies can be opened at multiple price points ranging from \$3.74 up to \$3.77. None of these potential opening prices will cause the unexecuted \$3.74 buy order to be available at a price which crosses the opening price, therefore, the System opens at the midpoint of such prices, \$3.76.

If the example were changed slightly such that Complex Order #1 and Complex Order #2 were market orders instead of a limit orders, the COOP Opening execution price for the 40 strategies would be \$3.82, which is the midpoint of the potential opening prices ranging from \$3.74 to \$3.90.

To illustrate “*if the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if*

*necessary, up to the closest minimum trading increment*” as referenced above, assume the following is present at the end the COOP Timer for a given Complex Order Strategy:

$$cPBBO = 3.50 (10) - 3.90 (10)$$

Complex Order #1: Buy 10 for \$3.78                      Complex Order #4: Sell 20 at \$3.64

Complex Order #2: Buy 20 for \$3.74                      Complex Order #5: Sell 20 at \$3.66

Complex Order #3: Buy 10 at \$3.71

COOP Opening execution will be for 40 strategies at a price of \$3.69. The execution price of \$3.69 is derived from the midpoint of the lowest executable bid price of \$3.71 and the highest executable offer price of \$3.66, rounded up to the closest minimum trading increment. If the example were changed slightly such that Complex Order #4 and Complex Order #5 were market orders rather than limit orders, the COOP Opening execution price for the 40 strategies would be \$3.61, which is derived from the midpoint of the lowest executable bid price of \$3.71 and the highest executable offer of \$3.50, rounded to the closest minimum trading increment.

To illustrate the application of the Acceptable Complex Execution (ACE) parameter as defined in Rule 1080.08(i), assume the following is present at the end the COOP Timer for a given Complex Order Strategy:

ACE Parameter of \$0.05

$$cPBBO = 3.50 (10) - 4.00 (10)$$

$$cNBBO = 3.70 (10) - 3.90 (10)$$

Complex Order #1: Buy 10 for \$3.78                      Complex Order #4: Sell 20 at market

Complex Order #2: Buy 20 for \$3.74                      Complex Order #5: Sell 20 at market

Complex Order #3: Buy 10 at \$3.71

The COOP Opening execution may not occur more than \$0.05 outside of the cNBBO, and thus cannot occur at a price of less than \$3.65 or more than \$3.95. In this case, Complex Order #4 and Complex Order #5 will both be considered in determining the COOP Opening execution price as orders to sell limited by the contra side cNBBO ACE limit of \$3.65. Therefore, the COOP Opening execution price for the 40 strategies would be \$3.68, which is derived from the midpoint of the lowest executable bid price of \$3.71 and the highest executable offer of \$3.65.

If there is any remaining interest after complex interest has traded against other complex interest and there is no component that consists of the underlying security,<sup>29</sup> such interest may “leg” whereby each options component may trade at the PBBO with existing quotes and/or limit orders on the limit order book for the individual components of the Complex Order; provided that remaining interest may execute against any eligible Complex Orders received before legging occurs.<sup>30</sup> If the remaining interest has a component that consists of the underlying security, such Complex Order will be placed on the CBOOK (as defined below). Although the current rule text does not provide for legging on the opening, the System is currently programmed to consider whether legging is possible in order to maximize the number of executions. Accordingly, the Exchange proposes to add rule text regarding legging to Rule 1080.08(d)(ii)(C)(3).

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<sup>29</sup> Complex Orders that are not executable at the opening price, including those that could not leg because there is a component that consists of the underlying security, will be placed on the CBOOK. See proposed Rule 1080.08(d)(ii)(C).

<sup>30</sup> Remaining interest includes Complex Orders that did not execute at the opening price and are therefore on the CBOOK and available to be traded before legging occurs.

The Exchange also proposes to add that the Complex Order Strategy will be open for trading after the COOP even if no executions occur. This is intended to attract additional interest to a Complex Order Strategy that had already been opened, indicating there was interest in it. If additional interest arrives, the Exchange does not believe another COOP is needed, because such interest will under the normal processes of the system either be subject to a COLA, be placed on the CBOOK (both of which are disseminated), or be cancelled.

#### Other Inconsistencies

Second, Rule 1080.08(e)(vi)(C) currently provides that when executing against the COLA-eligible order after a COLA, a participating specialist shall be entitled to receive, respecting an option in which he is the specialist, the greater of: (1) the proportion of the aggregate size at the cPBBO associated with such specialist's COLA Sweep, SQT and RSQT COLA Sweeps, and non-SQT ROT Complex Orders on the CBOOK;<sup>31</sup> (2) the Enhanced Specialist Participation as described in Rule 1014(g)(ii)<sup>32</sup> (60/40/30%); or (3) 40% of the remainder of the order.<sup>33</sup>

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<sup>31</sup> This is commonly known as size pro-rata allocation.

<sup>32</sup> Rule 1014(g)(ii) provides that when the registered specialist is on parity with a controlled account, in accordance with Exchange Rules 119 and 120 and the number of contracts to be bought or sold is greater than five, the specialist is entitled to receive an enhanced participation of 30% of the Remainder of the Order ("Enhanced Specialist Participation"), except in the following circumstances: (1) where there is one controlled account on parity, the specialist is entitled to receive 60% of the Remainder of the Order; or (2) where there are two controlled accounts on parity, in which case, the specialist is entitled to receive 40% of the Remainder of the Order. See also ISE Rule 722.05.

<sup>33</sup> A specialist is not entitled to this enhanced allocation in options in which he is not registered as the specialist.

In actuality, the System looks at all of a specialist's COLA Sweeps at a particular price, not just at the cPBBO and compares it to all other Phlx XL market maker interest.

In addition, the System does not provide for a minimum 40% allocation above the 60/40/30 specialist enhancement when trading a specialist's COLA Sweeps. When executing against COLA-eligible interest in a limited number of situations, the specialist may have received less of an allocation than expected, because the minimum 40% allocation did not operate. The Exchange believes that the 40% language being deleted may have been an error, because given the "greater of" language in this provision, the 30% guarantee would never have operated.

Thus, the Exchange proposes to change Rule 1080.08(e)(vi)(C) to address these three items. Specifically, the specialist would be entitled to receive the greater of: (1) the proportion of the aggregate size associated with such specialist's COLA Sweep, SQT and RSQT COLA Sweeps, and non-SQT ROT Complex Orders on the CBOOK; or (2) the 60/40/30% Enhanced Specialist Participation described in Rule 1014(g)(ii). The Exchange believes that the specialist guarantee of 60/40/30% is a sufficient incentive for participants to become specialists and make continuous markets in individual options. The Exchange notes that this is the same enhanced pro-rata specialist allocation that applies to non-Complex Orders.<sup>34</sup>

In addition, the limitation of aggregating size only at the cPBBO is being deleted; the size of the specialist's COLA Sweep, SQT and RSQT COLA Sweeps, and non-SQT ROT Complex Orders on the CBOOK are all aggregated, regardless of price.

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<sup>34</sup> Unlike regular, single component options listed and traded on the Exchange, Complex Orders do not have a specialist or required market maker providing continuous markets. Complex Orders operate as an order-driven process, with the prices derived from the prices of the individual components.



Third, pursuant to Rule 1080.08(e)(vi)(B), for allocation purposes, the rule states that the size of a COLA Sweep or responsive Complex Order received during the COLA Timer shall be limited to the size of the COLA-eligible order. In actuality, the Exchange will accept size in excess of the COLA-eligible order size and such size can be executed against remaining interest<sup>35</sup> after the COLA-eligible order has been executed to the fullest extent possible.<sup>36</sup> For example, where there is a COLA-eligible order bidding \$2.00 for 20 contracts, and the other interest consists of a \$2.10 bid for 10 contracts, a \$2.10 offer for 10 contracts and a \$2.00 offer for 10 contracts, even though only 10 contracts of the COLA-eligible order are executable, the buy and sell orders at \$2.10 can nevertheless execute against each other; thus, although the COLA-eligible order was not fully executed, it was executed to the fullest extent possible, which permitted additional executions of responsive interest at a different price, to the benefit of those orders.

As a result, participants would have had a greater opportunity for execution and may have received executions in excess of the COLA-eligible order volume, up to the full size of their order. If the System operated as stated in the current rule text, fewer contracts would have been executed, because fewer contracts would have been available for execution against the COLA-eligible order and other responsive interest.

The Exchange is proposing to amend the rule to permit the full size of responding interest to trade against non-COLA-eligible interest. This change is intended to have as

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<sup>35</sup> The remaining interest consists of any potential interest that has been received, including orders, quotes and COLA Sweeps, as well as the individual leg market.

<sup>36</sup> The Exchange notes that this is similar to NYSEArca Rule 6.91(c)(7), which permits executions above such size. The Exchange also notes that this reflects an internal inconsistency in this rule, because another sub-paragraph in the rule addresses the execution of remaining bids or offers from the incoming non-customer Complex Order(s). See Rule 1080.08(e)(viii)(2)(e).

many contracts trade as possible. The Exchange does not believe that the current size limitation in the rule is useful. The Exchange notes that the size of a COLA Sweep or responsive Complex Order is only relevant where the resulting allocation of a trade is conducted on a pro-rata basis, such as respecting market maker allocations and off-floor broker-dealer allocations, but not respecting non-broker-dealer customer allocations, which are based on time priority. The Exchange believes that permitting executions in excess of the COLA-eligible volume benefits market participants, because it helps ensure that as many contracts as possible are executed.

Fourth, Rule 1080.08(e)(viii)(C)(1)(d) currently provides that if multiple customer Complex Orders are received on the opposite side of the market from the COLA-eligible order, customer orders will be executed in the order in which they were received. In the context of allocating these orders, the Exchange uses the term “customer” to include both non-broker-dealer customer orders as well as non-market maker off-floor broker-dealer orders. The System executes non-broker-dealer customer orders in the order in which they were received and non-market maker off-floor broker-dealer orders on a pro-rata basis at each price level. Thus, non-market maker off-floor broker-dealer orders may have received a higher or lower allocation at a particular price than they would have received in time priority allocation, which is required under the current rule, depending on their particular time and size.

The Exchange proposes to change Rule 1080.08(e)(viii)(C)(1)(d) to reflect that off-floor broker- dealer orders at the same price are executed on a pro-rata basis,

consistent with the priority rules applicable in other aspects of the execution of Complex Orders<sup>37</sup> and simple orders.<sup>38</sup>

Fifth, pursuant to Rule 1080.08(e)(viii)(C)(2)(d), if multiple non-customer<sup>39</sup> Complex Orders are received on the opposite side of the market from the COLA-eligible order, such orders will be executed in the order in which they were received. Instead, the System executes non-customer orders on a pro-rata basis among Phlx market maker interest and then, again on a pro-rata basis, among remaining Phlx XL participants at each price level, as described in Rule 1080.08(e)(vi)(B). Non-customer orders may have received a higher or lower allocation at a particular price than they would have received in time priority allocation, depending on their particular time and size.

The Exchange proposes to amend the rule to reflect that non-customer orders are executed on a pro-rata basis, consistent with the priority rules applicable in other aspects of the execution of Complex Orders and simple orders.<sup>40</sup>

Sixth, pursuant to Rule 1080.08(f)(i)(F), when a Complex Order is received during the final 10 seconds of the trading session, the rule provides that it will go onto the CBOOK. At this time, the Exchange proposes to change the rule to reflect a configurable time period for all options so the System can maximize COLA responses and executions rather than a fixed time period of 10 seconds. The Exchange will notify participants on

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<sup>37</sup> See e.g., Rule 1080.08(e)(vi)(B).

<sup>38</sup> See Rule 1014(g)(vii).

<sup>39</sup> In the context of allocating these orders, the Exchange uses the term “non-customer” to include all interest other than non-broker-dealer customer interest and non-Phlx market maker off-floor broker-dealer interest.

<sup>40</sup> See supra notes 31 and 33.

its website in advance when the number of seconds will change. In addition, the Exchange is adding to this provision a reference to any marketable portion of the Complex Order being executed, because the System seeks to execute any portion that can be traded before placing a Complex Order on the CBOOK. The Exchange believes that this is a useful change, because the Exchange believes that 10 seconds may be too long and may prevent executions from occurring; a COLA can be triggered and completed in less than 3 seconds so the Exchange believes a smaller number than 10 seconds is appropriate to maximize executions.

Currently, the System operates such that when a Complex Order is received during the final 3 seconds of the trading session, it will go onto the CBOOK. More Complex Orders may have started a COLA and were perhaps executed rather than sitting on the CBOOK, which the Exchange believes may have been considered a benefit by those participants. The System was changed on March 7, 2014 to 10 seconds to align with the rule.

Seventh, after the COLA-eligible order has been executed in its entirety, Rule 1080.08(e)(viii)(C)(3) provides that the execution price of crossing interest is based on the price of the smaller sized interest. Crossing interest refers to any buy or sell interest that crosses in price such that a buyer order is at a higher price than the best sell price, for example. If such interest crosses and does not match in size, the execution price of the remaining interest is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding), provided, however, that if there is more than one price at which the interest may execute, the execution price when the larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid)

price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment. If the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment.

In determining the execution price and which interest will trade, the System affords priority to non-broker-dealer customers. Executable bids/offers include any interest which could be executed without trading *through* residual interest or the cPBBO, or without trading *at* the cPBBO where there is non-broker-dealer customer interest. This is consistent with Rule 1080.08(c)(iii).

While participants are “blind” to the determination of the execution price because they do not know the size of all eligible interest, the participants that were part of the smaller sized interest would likely have received a better execution price than the rule states.

The Exchange proposes to amend Rule 1080.08(e)(viii)(C)(3) will be amended to reflect the use of larger sized interest, because it is indicative of the price of remaining unexecuted interest. The Exchange believes that this correction and level of detail should help participants understand how their execution prices are determined, and this method is fair and orderly, based on both size and midpoint, which reflect the totality of the remaining interest. This is the same process used in the COOP as proposed in Rule 1080.08(d)(ii)(C)(2).

This provision is also proposed to state that if there is any remaining interest, which means any interest present in the System in that Complex Order Strategy at that

time, and there is no component that consists of the underlying security,<sup>41</sup> such interest may “leg” whereby each options component may trade at the PBBO with existing quotes and/or limit orders on the limit order book for the individual components of the Complex Order; provided that remaining interest may execute against any eligible Complex Orders received before legging occurs. This is intended to maximize the number of contracts that execute.

Eighth, Rule 1080.08(b)(i) governs the types of Complex Orders that different participants may submit to the Exchange. The rule does not currently specify a category of participant known as Firms. Because the current rule does not define a Firm, under the current language Firms are broker-dealers that fit the definition of non-market maker off-floor broker-dealer.

At this time, the Exchange is proposing to adopt a definition of Firm in Rule 1080.08(a)(x), based on the current definition in the Phlx fee schedule.<sup>42</sup> Specifically, the term “Firm” means a broker-dealer trading for its own (proprietary) account that is: (i) a member of The Options Clearing Corporation (“OCC”); or (ii) maintains a Joint Back Office (“JBO”)<sup>43</sup> arrangement with an OCC member. Firms are distinct from non-market

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<sup>41</sup> Complex Orders that are not executable at the opening price, including those that could not leg because there is a component that consists of the underlying security, will be placed on the CBOOK. See proposed Rule 1080.08(d)(ii)(C).

<sup>42</sup> See Securities Exchange Act Release No. 62140 (May 20, 2010), 75 FR 29788 (May 27, 2010)(SR-Phlx-2010-69).

<sup>43</sup> A member organization can establish and maintain a JBO arrangement with a clearing broker-dealer subject to the requirements of Regulation T Section 220.7 of the Federal Reserve System if each JBO participant is registered as a broker-dealer, maintains a minimum account equity requirement of \$1,000,000, and comply with certain ownership standards. See Rule 703(a)(vi).

maker off-floor broker-dealers because of their OCC membership, which implies that Firms are large, well-capitalized entities.

The pricing schedule currently provides that Firm means a non-customer broker-dealer for which orders are identified by a member or member organization as clearing in the firm range at OCC.<sup>44</sup> The term “clearing in the firm range at OCC” refers to what type of an account is held at OCC and is commonly used by exchanges.<sup>45</sup> The participants that clear in the firm range at OCC are Firms, including both broker-dealers trading for their own (proprietary) account who are OCC members as well as JBO participants. In contrast, broker-dealers trading for their own (proprietary) account who are *not* OCC members must have their trades cleared via an OCC member and do not clear in the firm range.<sup>46</sup> Accordingly, the proposed definition of Firm comports with the definition used in the pricing schedule, with respect to which dozens of proposed rule changes have taken effect based on such pricing differentiation being consistent with the Act, including not being unfairly discriminatory.<sup>47</sup>

In addition, the Exchange proposes to specify the two ways in which Firm orders are handled like Phlx XL market maker orders rather than non-market maker off-floor broker-dealer orders. Specifically, the Exchange proposes to amend Rule 1080.08(e)(i)(B)(1) to provide that Firm orders, like Phlx market maker orders, are not

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<sup>44</sup> See preface to Phlx Pricing Schedule.

<sup>45</sup> See e.g., <http://www.cboe.com/publish/RegCir/RG13-038.pdf>.

<sup>46</sup> These broker-dealer orders are ultimately cleared as customer orders at OCC.

<sup>47</sup> See e.g., Securities Exchange Act Release Nos. 68880 (February 8, 2013), 78 FR 10664 (February 14, 2013) (SR-Phlx-2013-10); and 67189 (June 12, 2012), 77 FR 36310 (June 18, 2012) (SR-Phlx-2012-77).

COLA-eligible orders and therefore cannot start a COLA; non-market maker off-floor broker-dealer orders can start a COLA. In addition, for purposes of Rule 1080.08(e)(viii)(C), Firms orders are proposed to be treated as “non-customer” orders. Specifically, when the System determines how Complex Orders on the opposite side of the market from a COLA-eligible order are executed, the System executes Firm orders on a pro-rata basis along with non-Phlx market maker orders. Non-market maker off-floor broker-dealer orders are executed along with non-broker-dealer customer orders. In these two ways, Firm orders are proposed to be treated the same way as non-Phlx market makers, rather than the same way as off-floor broker-dealers, because the Exchange believes that the trading style and needs of Firms are more like market makers. Firms are large, well-capitalized broker-dealers trading for their own account, generally submitting large orders, including orders that facilitate their clients’ orders or offset often large positions taken to accommodate their customers;<sup>48</sup> in order to do so, Firms must have the financial wherewithal that this role necessitates, which by OCC rule applicable to OCC clearing members, generally requires a certain amount of net capital, risk management procedures addressing certain risks and margin requirements, among other things.<sup>49</sup> Thus, in general, Firms are commonly viewed as providers of liquidity, much like market makers.

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<sup>48</sup> Of course, the clients/customers of a Firm could be other broker-dealers.

<sup>49</sup> See OCC Rules 301, 311 and 601.



## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>50</sup> in general, and with Section 6(b)(5) of the Act,<sup>51</sup> in particular, which requires, among other things, that the rules of an exchange be designed to promote just and equitable principles of trade as well as protect investors and the public interest. Specifically, the Exchange is proposing various changes that should promote just and equitable principles of trade, because Complex Orders will be handled in a fair and orderly manner by the System, as described above. The Exchange believes that the proposed changes are consistent with how participants could reasonably expect that their complex interest should be treated. The various corrections are, together, intended to improve the rule overall. The Exchange believes that this should promote just and equitable principles of trade as well as protect investors and the public interest by making more clear how specifically Complex Orders are handled on the Exchange.

More specifically, the opening changes are intended to promote just and equitable principles of trade by seeking to execute as much interest as possible at the best possible price(s). The opening process maximizes price discovery and liquidity while employing price priority, which the Exchange believes is a fairer process on the opening when dealing with potentially different sources of interest, versus a single Complex Order triggering a COLA during the day's trading. Although the COOP operates differently than the COLA, the Exchange notes that the COOP operates like a traditional opening

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<sup>50</sup> 15 U.S.C. 78f.

<sup>51</sup> 15 U.S.C. 78f(b)(5).

process, seeking to execute as much interest as possible, which is consistent with just and equitable principles of trade.

The opening delay timer promotes just and equitable principles of trade by allowing options prices to stabilize after the options opening, before permitting Complex Orders to become available for trading. If a particular Complex Order Strategy is already open, the COOP does not occur, which is consistent with just and equitable principles of trade, because there is no need for an opening process. The Complex Order Opening Auction Notification is intended to attract interest to the opening process and encourage the opening of a Complex Order Strategy, like the COLA message is intended to attract interest to the COLA. Accordingly, the Complex Order Opening Auction Notification, which contains the opening price, imbalance, if any, and volume, promotes just and equitable principles of trade.

The change to Rule 1080.08(d)(ii)(B)(3) enumerating that COOP responses are not visible promotes just and equitable principles of trade by making this clear to participants and because the temporary, quick nature of the COOP would not render this information useful. The Complex Order Opening Auction Notification is sufficient notification of the forthcoming opening of a particular Complex Order Strategy.

The Exchange noted above that Complex Orders marked IOC do not participate in an auction that such order may trigger if that order would be the first order in that Complex Order Strategy, thereby opening that Strategy for the day. The Exchange does not believe that this raises regulatory issues, such as the potential for manipulation or abuse relating to the opening auction. The Exchange similarly treats non-Complex Orders marked IOC, in that such orders, if received prior to the opening in an option, are

cancelled upon receipt. Thus, the fact that Complex Orders marked IOC do not participate in the opening auction does not raise new concerns for manipulation; today, if a participant enters a DAY or GTC order and then immediately cancels it, an auction will ensue without that order. Accordingly, the Exchange believes that its proposed handling of IOC orders should promote just and equitable principles of trade. Similarly, the proposal addresses how DNA orders are handled, which also promotes just and equitable principles of trade by providing an order type that involves immediate handling.

The Exchange believes that COOP Sweeps, as described above, promote just and equitable principles of trade by providing an opportunity for a single sided quote to be entered by Phlx XL market makers responding to a COOP, much like opening sweeps in Rule 1017 and regular sweeps in Rule 1080. The Exchange does not believe it is unfairly discriminatory for COOP Sweeps to be available only to Phlx XL market makers, because the ability to enter two-sided quotes is also available only to Phlx XL market makers, who use a particular protocol to submit quotes and sweeps to the Exchange. Other Phlx XL participants can submit orders over the protocol specific to orders, specifically IOC orders which behave in the same manner as a sweep.

With respect to the provision in Rule 1080.08(d)(ii)(C)(3) that provides that a Complex Order Strategy will be open after a COOP even if no executions occur, the Exchange believes that this proposed language should promote just and equitable of trade by opening a Complex Order Strategy based on the fact that interest was received, regardless of whether the responsive interest resulted in an execution. In addition, it promotes just and equitable principles of trade for the rule to reflect this.

With respect to any priority provisions addressed herein, the proposed treatment is similar to the Exchange's priority rule respecting orders other than Complex Orders, as well as the comparable rules of other options exchanges.<sup>52</sup> This includes allocating to the specialist based on all of his interest at a particular price pursuant to proposed Rule 1080.08(e)(vi)(C), off-floor broker-dealer customer orders on a pro-rata basis pursuant to proposed Rule 1080.08(e)(viii)(C)(1)(d), and to Phlx XL market makers and other non-customers each on a pro-rata basis pursuant to proposed Rule 1080.08(e)(viii)(C)(2)(d). The deletion of the 40% allocation promotes just and equitable principles of trade both by correcting the rule text as well as by rendering meaning to the reference to Rule 1014(g)(ii), which is otherwise pointless. The deletion of aggregating size only at the cPBBO for purposes of determining the pro rata allocation promotes just and equitable principles of trade by taking into account all expressed interest (the specialist's COLA Sweep, SQT and RSQT COLA Sweeps and non-SQT ROT Complex Orders on the CBOOK) regardless of price. This should maximize the number of contracts executed, to the benefit of those participating in that Complex Order Strategy. The deletion of aggregating the specialist's quotes/orders in individual components with such specialist's COLA Sweeps in Rule 1080.08(e)(vi)(C)(4) should promote just and equitable principles of trade by correcting the rule text and by only including the specialist's complex interest. Accordingly, the Exchange believes that these changes are consistent with the Act for the reasons stated above. The priority treatment of Firms is discussed below.

The change to Rule 1080.08(e)(vi)(B) permitting responses for a size greater than the size of the COLA-eligible orders is consistent with just and equitable principles of

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<sup>52</sup> See Phlx Rule 1014(g)(vii)(B)(1)(b). See also CBOE Rule 6.53C(c)(ii)(2).

trade, because it enables as many contracts as possible to trade, which is also consistent with protecting investors and the public interest. Restricting responses to the size of the COLA-eligible order serves no regulatory purpose and, instead, merely limits the number of contracts that can trade. Some responsive interest may not have been intentionally responsive but rather coincidental, for which there is even less reason to impose this size restriction; the size of the COLA-eligible order was irrelevant to the submission of the larger-sized order.

The Exchange believes a configurable end of day timer as proposed in Rule 1080.08(f)(i)(F) is consistent with just and equitable principles of trade, because it can be tailored to maximize the number of executions but is still limited to 600 seconds, as originally approved.

The Exchange also believes that the proposed execution process in proposed Rule 1080.08(d)(ii)(C)(2) and (e)(viii)(C)(3) for crossing interest is consistent with just and equitable principles of trade, because it is based on the price of the larger sized interest, which affects more options contracts and is likely to result in more executions than the current rule provides, because the current rule is based on the mid-point, regardless of size.

The reference to legging remaining interest in these same subparagraphs promotes just and equitable principles of trade by providing an opportunity for additional Complex Orders to trade. The additional executions would be expected by users who expressed an interest to trade by submitting their interest; their expression of interest is not limited to the COLA-eligible order but rather to the Complex Order Strategy as a whole.

In addition, this proposal is not unfairly discriminatory, including to the new category of Firm orders, because it proposes to deal with Complex Orders and responsive interest in a reasonable way. As explained above, it is not uncommon to have certain order types and time-in-force conditions available only to certain participant types, both on the Exchange<sup>53</sup> as well as other exchanges.<sup>54</sup> Indeed, the Exchange's pricing schedule has long distinguished Firms from other broker-dealers.<sup>55</sup> The Exchange believes that certain order types and time-in-force conditions, if made available, would likely not be used by certain market participants, because of the particular trading style of those participants. For example, Phlx XL market makers are not permitted to send in GTC orders; the Exchange does not believe that Phlx XL market makers would be interested in submitting GTC orders, as they generally participate in the marketplace using electronic quotations, which are updated and replaced frequently, unlike GTC orders.

Similarly, the Exchange believes that Firms do not expect or need their Complex Orders to trigger a COLA nor to submit GTC orders, because these are features commonly associated with customers rather than liquidity providers who functions to accommodate trading interest. Both of these features involve a temporal component; both a delay and long-lasting interest are inconsistent with the sort of accommodation that Firms provide. Accordingly, the Exchange believes that by tailoring its offerings to the needs and trading style of Firms, Firms are more likely to send orders to the Exchange, which should increase order interaction with other market participants, consistent with promoting just and equitable principles of trade.

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<sup>53</sup> See Phlx Rule 1080(b).

<sup>54</sup> See CBOE Rule 6.53C(d)(iii).

<sup>55</sup> See supra notes 43 and 46.

The Exchange believes that its proposal to accept all-or-none Complex Orders should promote just and equitable principles of trade by offering this order type, commonly available for non-Complex Orders as well as complex orders on other options exchanges, to market participants, who may want a certain minimum size. This contingency is particularly appropriate respecting Complex Orders, because of the complexity of the strategies employed by users; the size of the order may be relevant to such strategy.

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

The Exchange 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, the proposal does not impose an intra-market burden on competition, because these changes make the rule clearer and more complete for all participants. Nor will the proposal impose a burden on competition among the options exchanges, because of the vigorous competition for order flow among the options exchanges. To the extent that market participants disagree with the particular approach taken by the Exchange herein, market participants can easily and readily direct complex order flow to 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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or

(ii) as to which the Exchange consents, the Commission shall: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved.

#### IV. Solicitation of Comments

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

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2015-26 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-2015-26. 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-2015-26 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>56</sup>

Kevin M O'Neill  
Deputy Secretary

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<sup>56</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

**.07** Reserved.

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

(a) Definitions

(i) – (vi) No change.

(vii) Phlx XL participant, Phlx market maker and Phlx XL market maker. The term "Phlx XL participant" means SQTs, RSQTs, non-SQT ROTs, specialists and non-Phlx market makers on another exchange; non-broker-dealer customers, Firms and non-market-maker off-floor broker-dealers; and Floor Brokers using the Options Floor Broker Management System. The term "Phlx market maker" means SQTs, RSQTs, specialists and non-SQT ROTs. The term "Phlx XL market maker" means SQTs, RSQTs and specialists.

(viii) - (ix) No change.

(x) Firm – The term "Firm" means a broker-dealer trading for its own (proprietary) account that is: a member of The Options Clearing Corporation ("OCC") or maintains a Joint Back Office ("JBO") arrangement with an OCC member. Unless otherwise specified, Firms are included in the category of non-customer off-floor broker-dealer.

(b) Complex orders may be entered in increments of \$0.01 with certain "time in force" designations and as certain order types with certain contingencies as follows:

(i) – (ii) No change.

(iii) Floor Brokers using the Options Floor Broker Management System may enter the Complex Orders listed in paragraph (a) above as Day, GTC or IOC on behalf of non-broker-dealer customers and non-market-maker off-floor broker-dealers, and as IOC only on behalf of SQTs, RSQTs, non-SQT ROTs, specialists, non-Phlx market makers on another exchange and Firms [broker-dealers or affiliates of broker-dealers], except that DNA orders and orders with a stock/ETF component or more than two legs cannot be entered.

(iv) No change.

(c) No change.

(d) Complex Order Opening Process ("COOP").

(i) The Phlx XL system will accept pre-opening Complex Orders, and will accept Complex Orders prior to re-opening following a halt in trading on the Exchange. Complex Orders received prior to the opening or during a trading halt will reside on the CBOOK (as defined below). There will be one such COOP per Complex Order Strategy.

(ii) Once trading in each option component of a Complex Order Strategy has opened or re-opened following a trading halt for a certain configurable time not to exceed 60 seconds (and none of the conditions described in paragraph (c)(ii) above exist), the Phlx XL system will initiate the COOP for that Complex Order Strategy, provided that a COOP will only be conducted for any Complex Order Strategy that has a Complex Order [pending] received before [at] the opening [or re-opening following a trading halt] of that Complex Order Strategy, unless that Complex Order Strategy is already open as a result of another electronic auction process or another electronic auction involving the same Complex Order Strategy is in progress. Following a trading halt, a COOP will be conducted for any Complex Order Strategy that has a Complex Order present or had previously opened prior to the trading halt. The COOP will be conducted in two phases, the "COOP Timer" (as defined below) and the "COOP Evaluation" (as defined below).

(A) COOP Timer.

(1) [Except as provided in sub-paragraph (2) below, a] The Exchange will send a broadcast message indicating that a COOP has been initiated for that Complex Order Strategy. The broadcast message will identify the Complex Order Strategy, the opening price (based on the maximum number of contracts that can be executed at one particular price, except if there is no price at which any orders can be executed), and the imbalance side and volume, if any ("Complex Order Opening Auction Notification").

The Complex Order Opening Auction Notification starts a[A] COOP Timer ("COOP Timer"), which will begin counting a number of seconds during which the Complex Order, if any, may not be traded. The COOP Timer is configurable to a period ranging from 0 to 600 seconds as determined by the Exchange and communicated to Exchange membership on the Exchange's website. The COOP Timer will be configured for the same number of seconds for all options trading on the Exchange. Phlx XL Participants can submit responses to the Complex Order Opening Auction Notification pursuant to subparagraph (B) below.

- (2) [The Phlx XL system will not engage the COOP Timer upon re-opening Complex Order trading when either: (a) the Exchange's automated execution system was disengaged and subsequently re-engaged, or (b) the Phlx XL Risk Monitor Mechanism was engaged and subsequently disengaged. In either event, the Phlx XL system will immediately begin the COOP Evaluation (defined below) and will not initiate the COOP Timer.] Reserved.
- (3) Complex Orders in such Complex Order Strategy received during the COOP Timer and COOP Evaluation (as described below) will reside on the CBOOK (as defined below).
- (4) Complex Orders will be visible to Phlx XL participants during the COOP Timer and COOP Evaluation (as defined below).

(5) Complex Orders in a Complex Order Strategy marked as IOC received during a COOP will join the COOP and be treated like any other Complex Order, except such orders will be cancelled at the end of the COOP Timer if not executed. DNA Orders received during a COOP will be cancelled and will not participate in the COOP. Complex Orders marked as IOC and DNA Orders received before the initiation of the COOP in that Complex Order Strategy will be cancelled and will not participate in the COOP; however, a COOP will occur in that Complex Order Strategy.

(B) [COOP Evaluation.] Responses. Phlx XL participants may bid and/or offer on either or both side(s) of the market during the COOP Timer by submitting one or more Complex Orders. Phlx XL market makers may also bid and/or offer on either or both side(s) of the market during the COOP Timer by submitting one or more bids and/or offers known as COOP Sweeps. A COOP Sweep is a one-sided electronic submission similar to a one-sided quotation.

(1) A Phlx XL market maker may submit multiple COOP Sweeps at different prices (but not multiple COOP Sweeps at the same price, except as provided in sub-paragraph (2) below) in increments of \$0.01 in response to a Complex Order Opening Auction Notification, regardless of the minimum trading increment applicable to the specific series.

(2) Phlx XL market makers may change the size of a previously submitted COOP Sweep during the COOP Timer. The system will use the Phlx XL market maker's most recently submitted COOP Sweep at each price level as that market maker's response at that price level, unless the COOP Sweep has a size of zero. A COOP Sweep with a size of zero will remove a Phlx XL market maker's COOP Sweep from that COOP at that price level.

(3) COOP Sweeps and Complex Order Responses will not be visible to any participant and will not be disseminated by the Exchange. Any COOP Sweeps which remain unexecuted at the end of the COOP Timer once all executions are complete will expire.

[4](C) COOP Evaluation. Upon expiration of the COOP Timer, the system will conduct a COOP Evaluation to determine, for a Complex Order Strategy, the price at which the maximum number of contracts can trade, taking into account Complex Orders marked all-or-none unless the maximum number of contracts can only trade without including all-or-none orders. The Exchange will open the Complex Order Strategy at that price, executing marketable trading interest, in the following order: first, to non-broker-dealer customers in time priority; next to Phlx XL market makers on a pro rata basis; and then to all other participants on a pro rata basis. The imbalance of Complex Orders that are unexecutable at that price are placed on the CBOOK.

[which Complex Order, if any, on the CBOOK (as defined below) will be the "COLA-eligible order" (as defined below) subject to a COLA (as defined below). The COLA-eligible order, if any, will be identified by the Phlx XL system among the following

Complex Orders: market and marketable limit Complex Orders (including Complex Orders that cross the cPBBO), and Complex Orders that improve the cPBBO.]

(1) No trade possible. If at the end of the COOP Timer the Phlx XL system determines that no market or marketable limit Complex Orders or COOP Sweeps, Complex Orders or COOP Sweeps that are equal to or improve the cPBBO, and/or Complex Orders or COOP Sweeps that cross within the cPBBO exist in the system, all Complex Orders received during the COOP Timer will be placed on the CBOOK, as described in paragraph (f) below.

(2) Trade is possible. If at the end of the COOP Timer the Phlx XL system determines that there are market or marketable limit Complex Orders or COOP Sweeps, Complex Orders or COOP Sweeps that are equal to or improve the cPBBO, and/or Complex Orders or COOP Sweeps that cross within the cPBBO in the Phlx XL system, the Phlx XL system will [use the following criteria to determine which of those orders will be placed in a COLA as the "COLA-eligible order" (as defined below), for each particular Complex Order Strategy:] do the following: if such interest crosses and does not match in size, the execution price is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding), provided, however, that if there is more than one price at which the interest may execute, the execution price when the larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment. If the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment. Executable bids/offers include any interest which could be executed without trading through residual interest or the cPBBO or without trading at the cPBBO where there is non-broker-dealer customer interest, consistent with Rule 1080.08(c)(iii).

If there is any remaining interest and there is no component that consists of the underlying security, such interest may "leg" whereby each options component may trade at the PBBO with existing quotes and/or limit orders on the limit order book for the individual components of the Complex Order; provided that remaining interest may execute against any eligible Complex Orders received before legging occurs. If the remaining interest has a component that consists of the underlying security, such Complex Order will be placed on the CBOOK (as defined below).

(3) The Complex Order Strategy will be open after the COOP even if no executions occur.

[(a) If a single Complex Order exists in the Phlx XL system that improves the cPBBO on one side of the market, that order will be the COLA-eligible order.

- (b) If multiple Complex Orders exist in the Phlx XL system that improve the cPBBO on one side of the market, the Complex Order at the best price will be the COLA-eligible order. If there are multiple Complex Orders at the best price, the Phlx XL system will treat the aggregate size at that price as a single COLA-eligible order. Such orders will be executed in the order in which they were received.
  - (c) If market and/or marketable limit Complex Orders exist in the Phlx XL system on both sides of the market, the Complex Order on the side of the market with the larger marketable size will be the COLA-eligible order. If the market and/or marketable limit Complex Orders have the same size on both sides of the market, the market and/or marketable limit Complex Orders that include the larger size associated with market orders will be the COLA-eligible order. If the size associated with market Complex Orders is the same on both sides of the market, the side of the market with the first Complex Order establishing the best price will be the COLA-eligible order. The size associated with multiple market and marketable limit Complex Orders at the same price will be aggregated and treated as one COLA-eligible order at the best price by the system. Such orders will be executed in the order in which they were received.
  - (d) If Complex Orders on opposite sides of the market that cross through the mid-point of the cPBBO exist in the Phlx XL system, the side of the market that is priced at the greater amount through the mid-point of the cPBBO will be the COLA-eligible order. If both sides of the market are priced at an equal amount through the mid-point of the cPBBO, or are priced at the cPBBO, the side of the market with the greater size will be the COLA-eligible order. If both sides of the market have the same size, the side of the market that was first to submit the best price will be the COLA-eligible order.
  - (e) Orders that are not determined to be the COLA-eligible order may participate in the COLA pursuant to sub-paragraph (e)(viii) below.
  - (f) If Complex Orders on opposite sides of the market exist in the Phlx XL system that improve the cPBBO but do not cross the mid-point of the cPBBO, there will be no COLA-eligible order. In such a circumstance, such Complex Orders will reside on the CBOOK, subject to other instructions.]
- (e) Process for Complex Order Live Auction ("COLA"). Complex Orders on the Complex Order Book ("CBOOK," as defined below) may be subject to an automated auction process.
- (i) For purposes of paragraph (e):
    - (A) COLA is the automated Complex Order Live Auction process. A COLA may take place upon identification of the existence of a COLA-eligible order [either: (1) following a COOP, or (2)] during normal trading if the Phlx XL system receives a Complex Order that improves the cPBBO.

(B) (1) A "COLA-eligible order" means a Complex Order [(a) identified by way of a COOP, or (b) that, upon receipt, improves the cPBBO respecting the specific Complex Order Strategy] that [is the subject of the Complex Order and] is not for a market maker, as specified in Rule 1080.08(b)(ii) or for a Firm, as defined in Rule 1080.08(a)(x). If the Phlx XL system identifies the existence of a COLA-eligible order [following a COOP or by way of receipt during normal trading of a Complex Order that improves the cPBBO], such COLA-eligible order will initiate a COLA, during which Phlx XL participants may bid and offer against the COLA-eligible order pursuant to this rule. COLA-eligible orders will be executed without consideration of any prices that might be available on other exchanges trading the same options contracts.

(2) No change.

(ii) – (iii) No change.

(iv) Bidding and Offering in Response to a COLA. Phlx XL [participants] market makers may bid and/or offer on either or both side(s) of the market during the COLA Timer by submitting one or more bids or offers that improve the cPBBO, known as a "COLA Sweep."

(A) – (D) No change.

(v) No change.

(vi) Allocation and Priority. As stated above, COLA-eligible orders, COLA Sweeps, and responsive Complex Orders will trade first based on the best price or prices available at the end of the COLA Timer.

(A) No change.

(B) If multiple customer Complex Orders, COLA Sweeps and, Phlx XL participant Complex Orders and/or non-customer off-floor broker-dealer Complex Orders are eligible for execution against the COLA-eligible order at the same price, the trade will be allocated among participants submitting electronic Complex Orders and COLA Sweeps as set forth below. Executions in the COLA will comply with the requirements of Exchange Rule 1080.08(c)(iii) above. [For allocation purposes, the size of a COLA Sweep or responsive Complex Order received during the COLA Timer shall be limited to the size of the COLA-eligible order.]

(1) – (3) No change.

(C) Notwithstanding the foregoing, if the specialist submits a COLA Sweep during the COLA Timer and such COLA Sweep is for the same price as other COLA Sweeps that are eligible for execution against the COLA-eligible order, after customer marketable

Complex Orders have been executed against the COLA-eligible order, the specialist shall be entitled to receive the greater of:

- (1) the proportion of the aggregate size [at the cPBBO] associated with such specialist's COLA Sweep, SQT and RSQT COLA Sweeps, and non-SQT ROT Complex Orders on the CBOOK; or
- (2) the Enhanced Specialist Participation as described in Rule 1014(g)(ii); or
- (3) [40% of the remainder of the order.
- (4)] The specialist is not entitled to receive an allocation that would exceed the size of the specialist's COLA Sweep.

(D) No change.

(vii) Firm Quote Requirement for COLA-Eligible Orders. COLA Sweeps in response to a COLA broadcast represent non-firm interest that can be modified at any time prior to the end of the COLA Timer. At the end of the COLA Timer, COLA Sweeps shall be firm only with respect to the COLA-eligible order for which it is submitted, provided that COLA Sweeps that exceed the size of a COLA-eligible order are also eligible to trade with other incoming COLA-eligible orders, COLA Sweeps and any other interest received during the COLA Timer after the initial COLA-eligible order has been executed in its entirety. Remaining interest trades as described in subparagraph (viii)(C)(3). [at its entered price. If such interest crosses, the execution price is based on the price of the smaller sized interest. If the interest is equal in size, the execution price is the midpoint of the two prices, rounded, if necessary, up to the closest minimum trading increment.] Any COLA Sweeps not accepted in whole or in a permissible ratio will expire at the end of the COLA Timer once all executions are complete.

(viii) No change.

(A) - (B) No change.

(C) Incoming Complex Orders on the opposite side of the market from the COLA-eligible order.

(1) Incoming customer Complex Orders that are received during the COLA Timer on the opposite side of the market from the COLA-eligible order with a price equal to or better than the best priced Complex Order or COLA Sweep will be executed against the COLA eligible order (which will be executed in its entirety first as described in sub-paragraph (B) above) or other Complex Orders or COLA Sweeps as follows:

(a) – (c) No change.



- (d) If multiple customer Complex Orders are received on the opposite side of the market from the COLA-eligible order, [such] non-broker-dealer customer orders at the same price will be executed in the order in which they were received, whereas off-floor broker-dealer orders will be executed on a pro-rata basis at each price level.
- (e) If the COLA-eligible order is executed [in its entirety] to the fullest extent possible and there are remaining bids or offers from the incoming Complex Order(s), the Phlx XL system will execute such interest against other Complex Orders or COLA Sweeps in the COLA and subsequently place residual bids or offers, other than COLA Sweeps, onto the CBOOK, subject to other instructions.
- (2) Incoming non-customer Complex Orders that are received during the COLA Timer on the opposite side of the market from the COLA-eligible order with a price equal to or better than the best priced Complex Order or COLA Sweep will be executed against the COLA eligible order (which will be executed in its entirety first as described in subparagraph (B) above) or other Complex Orders or COLA Sweeps as follows:
- (a) If such incoming non-customer Complex Order is a limit order at the same price as the best priced Complex Order or COLA Sweep, the incoming non-customer Complex Order will be executed at such price, subject to the provisions set forth subparagraph (e) above.
- (b) If such incoming non-customer Complex Order is a limit order that improved the best priced Complex Order or COLA Sweep, the incoming non-customer Complex Order will be executed at the limit order price.
- (c) If such incoming non-customer Complex Order is a market order or a limit order that crosses the cPBBO, the incoming non-customer Complex Order will be executed at a price of \$0.01 better than the cPBBO on the same side of the market as the COLA-eligible order.
- (d) If multiple non-customer Complex Orders are received on the opposite side of the market from the COLA-eligible order, [such] Phlx market maker orders will be executed [in the order in which they were received] on a pro-rata basis and Firm and non-Phlx market maker orders will be executed on a pro-rata basis, at each price level.
- (e) If the COLA-eligible order is executed [in its entirety] to the fullest extent possible and there are remaining bids or offers from the incoming non-customer Complex Order(s), the Phlx XL system will execute such interest against other Complex Orders or COLA Sweeps in the COLA and subsequently place residual bids or offers, other than COLA Sweeps, onto the CBOOK, subject to other instructions.

(3) Incoming Complex Orders that were received during the COLA Timer on the opposite side of the market from the COLA-eligible order with a price inferior to any other COLA Sweep or Complex Order will be executed against the COLA-eligible order after all interest at the better price(s) has/have been executed. After the initial COLA-eligible order has been executed [in its entirety] to the fullest extent possible, incoming Complex Orders remaining unexecuted shall be eligible to trade with other Complex Orders and COLA Sweeps at their entered price. If, after the COLA-eligible order has been executed, there exist Complex Orders and/or COLA Sweeps on the opposite side of the market from the COLA-eligible order which cross the price of other Complex Orders or COLA Sweeps on the same side of the market from the COLA-eligible order, [the execution price of such crossing interest is based on the price of the smaller sized interest.] and if such interest crosses and does not match in size, the execution price is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding), provided, however, that if there is more than one price at which the interest may execute, the execution price when the larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment. If the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment. Executable bids/offers include any interest which could be executed without trading through residual interest or the cPBBO, or without trading at the cPBBO where there is non-broker-dealer customer interest.

If there is any remaining interest and there is no component that consists of the underlying security, such interest may “leg” whereby each options component may trade at the PBBO with existing quotes and/or limit orders on the limit order book for the individual components of the Complex Order; provided that remaining interest may execute against any eligible Complex Orders received before legging occurs. If the remaining interest has a component that consists of the underlying security, such Complex Order will be placed on the CBOOK.

[If the crossing interest is equal in size, the execution price is the midpoint of the two prices, rounded, if necessary, up to the closest minimum trading increment.] The system will treat any unexecuted remaining contracts in the incoming Complex Order as a new Complex Order, and will not initiate a new COLA. Such unexecuted remaining contracts, other than COLA Sweeps, will be placed on the CBOOK, subject to other instructions.

(ix) No change.

(f) Complex Limit Order Book ("CBOOK")

(i) Complex Orders must be entered onto the CBOOK in increments of \$0.01. The individual components of a Complex Order may be executed in minimum increments of

\$0.01, regardless of the minimum increments applicable to such components. Such orders will be placed on the CBOOK by the system when the following conditions exist:

(A) – (E) No change.

(F) When the Complex Order is received during the final [10] configurable number of seconds of the trading session after any marketable portion of the Complex Order is executed.

(ii) – (iii) No change.

(g) – (i) No change.