

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 106	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2016 - * 87	Amendment No. (req. for Amendments *)
Filing by NASDAQ 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"/>			
Description				
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).				
<input type="text" value="A proposal to update and correct Rule 1080, Phlx XL, and Phlx XL II."/>				
Contact Information				
Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.				
First Name *	<input type="text" value="Angela"/>	Last Name *	<input type="text" value="Dunn"/>	
Title *	<input type="text" value="Associate General Counsel"/>			
E-mail *	<input type="text" value="angela.dunn@nasdaq.com"/>			
Telephone *	<input type="text" value="(215) 496-5692"/>	Fax	<input type="text"/>	
Signature				
Pursuant to the requirements of the Securities Exchange Act of 1934,				
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.				
(Title *)				
Date	<input type="text" value="08/19/2016"/>	<input type="text" value="Executive Vice President and General Counsel"/>		
By	<input type="text" value="Edward S. Knight"/>	<input type="text"/>		
(Name *)		<input type="text" value="edward.knight@nasdaq.com"/>		
NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.				

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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

Exhibit 1 - Notice of Proposed Rule Change *

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

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

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

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

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Exhibit Sent As Paper Document

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

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

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

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

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

Partial Amendment

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

1. Text of the Proposed Rule Change

(a) NASDAQ PHLX LLC (“the Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² is filing with the Securities and Exchange Commission (“Commission”) a proposal to update and correct Rule 1080, Phlx XL, and Phlx XL II to provide a clearer and more detailed description of certain aspects of Phlx functionality.

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Directors of the Exchange on July 25, 2016. No other action is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to:

Angela Saccomandi Dunn
Associate General Counsel
Nasdaq, Inc.
215-496-5692

¹ 15 U.S.C. 78s(b)(1).

² 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 update and correct the Exchange's principal rule, Rule 1080, entitled "Phlx," related to the Phlx trading system in order to provide a clearer and more detailed description of certain aspects of its functionality. The Exchange proposes to retitle the rule "Trading Systems." The Exchange intends to model Rule 1080 on its affiliated exchanges.³

Rule 1080(a) - General

The Exchange proposes to delete paragraph (a), "General," which defines the Exchange's trading system using a prior system's names AUTOM and AUTO-X, which terms are obsolete, as are references to and the functions of each.⁴ Rule 1080(a) also refers to a successor system, Phlx XL, which is also obsolete.⁵ The actual definition of the trading system as an electronic order delivery and reporting system that provides for automatic entry and execution of options orders is accurate, and will be relocated and updated, as described below.

³ See NOM and BX Options Rules at Chapter VI.

⁴ Manual execution by a specialist could occur in AUTOM. This first paragraph also refers to AUTOM routing orders to the specialist unit, and this rule governing order messages, all of which is obsolete. AUTOM and AUTO-X were replaced by Phlx XL. See Securities Exchange Act Release No. 50100 (July 27, 2004), 69 FR 46612 (August 3, 2004) (SR-Phlx-2003-59).

⁵ Phlx XL was replaced by Phlx XL II, which was phased in over a period of time. See Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32).

The reference to Phlx XL II, the current system, is correct, but the Exchange proposes to refer to its trading system going forward simply as the “System,” to parallel the rules of its affiliated options exchanges⁶ and move away from that specific system name in the rules.⁷

The Exchange also proposes to delete cross-references to Rules 1014(b) and 1017, which are unnecessary.

The Exchange proposes to adopt as Rule 1080(a) a description of the System and definitions to parallel NOM and BX Options Rules at Chapter VI, Section 1. Specifically, Rule 1080(a) will state that the term “System” shall mean the automated system for order execution and trade reporting owned and operated by the Exchange which comprises: (A) an order execution service that enables Participants to automatically execute transactions in System Securities and provides Participants with sufficient monitoring and updating capability to participate in an automated execution environment; (B) a trade reporting service that submits “locked-in” trades⁸ for clearing to a registered clearing agency for clearance and settlement; transmits last-sale reports of transactions automatically to the Options Price Reporting Authority for dissemination to the public and industry; and provides participants with monitoring and risk management

⁶ See e.g., NOM Chapter VI, Section 1(a) defining “System” in general terms.

⁷ Separately, the Exchange intends to make this change throughout the rules.

⁸ This refers to the process of submitting both sides of a trade for reporting and clearing, rather than performing a comparison process.

capabilities to facilitate participation in a “locked-in” trading environment; and (C) the following data feeds:⁹

(i) Top of PHLX Options (TOPO) - A data feed that provides the Exchange’s Best Bid and Offer and last sale information for trades executed on the System.

(ii) PHLX Orders – A data feed that provides the real-time status of orders, including complex orders, on the order book.

(iii) PHLX Depth of Market – A data feed that provides the full depth of quotes and orders on the System.

This description tracks the language in NOM Rules, Chapter VI, Section 1, except it reflects the data feeds applicable to Phlx. These data feeds are available to subscribers, subject to the Exchange’s Pricing Schedule.¹⁰ In sum, the Exchange is proposing to replace references to the obsolete systems with the new term System throughout this rule.¹¹

New Rule 1080(a)(2) will provide that the term “System Securities” shall mean all options that are currently trading on the System. All other options shall be “Non

⁹ These data feeds have all been previously addressed in proposed rule changes and are now being codified in this rule to parallel NOM and BX Options rules. See Securities Exchange Act Release Nos. 60877 (October 26, 2009), 74 FR 56255 (October 30, 2009) (SR-Phlx-2009-92) and 66993 (May 15, 2012), 77 FR 30043 (May 21, 2012)(SR-Phlx-2012-63) (addressing TOPO Plus Orders/PHLX Orders). The Phlx data feeds differ in content from the NOM data feeds.

¹⁰ See Section IX of the NASDAQ PHLX LLC PRICING SCHEDULE.

¹¹ Ultimately, the Exchange may determine to define the System is Rule 1000, Definitions, to make it applicable to all of the options rules.

System Securities.” This also parallels the comparable NOM provision,¹² although the Exchange does not at this time use the term Non System Securities in its rules.

New Rule 1080(a)(3) establishes that the term “Participant” shall include Options Market Makers and Options Order Entry Firms that are registered to enter quotes and orders into the System. Options Market Makers includes Lead Market Makers or specialists,¹³ Registered Options Traders or “ROTS” (including Streaming Quote Traders (“SQTs”) and Remote Streaming Quote Traders (“RSQTs”) and Non-SQT ROTs.¹⁴ Options Order Entry Firms are member organizations that submit orders on behalf of their customers, including non-broker-dealer customers (including professionals), broker-dealers, and Options Market Makers. These are not new categories of Participants. The Exchange is defining the term to cover all potential types of Participants.

New Rule 1080(a)(4) defines an “Order” as a single order submitted to the System by a Participant that is eligible to submit such orders. This is the same as NOM Chapter VI, Section 1(d).

New Rule 1080(a)(5) defines an “Order Type” as the unique processing prescribed for designated orders that are eligible for entry into the System.¹⁵ This provision then lists each order type available on the System and describes it. Rule 1080(a)(5)(A) defines a cancel-replacement order as a single message for the immediate

¹² The NOM provision refers to options traded pursuant to Chapter IV, which contains listing-like provisions. The Exchange does not believe this language is necessary, as all options must be listed pursuant to applicable listing rules.

¹³ See Rule 1020.

¹⁴ See Rule 1014(a).

¹⁵ This is the same as NOM rules, Chapter VI, Section 1(e).

cancellation of a previously received order and the replacement of that order with a new order with new terms and conditions. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will not retain the priority of the cancelled order.¹⁶

Rule 1080(a)(5)(B) defines a “Limit Order” as an order to buy or sell an option at a specified price or better. A limit order is marketable when, for a limit order to buy, the order is priced at the current inside offer or higher, or for a limit order to sell, the order is priced at the inside bid or lower. This is a common definition of limit order and the same as NOM Rules, Chapter VI, Section 1(e)(2).

Rule 1080(a)(5)(C) defines a “Stop Order” as a contingency order to buy or sell when a trade or quote on the Exchange for a particular option contract reaches a specified price. A stop order to buy becomes a market order when the option contract trades or is bid on the Exchange at or above the stop price. A stop order to sell becomes a market order when the option contract trades or is offered on the Exchange at or below the stop price. A stop order shall not be elected by a trade that is reported late or out of sequence, because such trades do not reflect the current market and should not be relied upon to meet the contingency of the order. This is the same definition that appears in Rule 1066(c)(1), which applies to options floor trades (as opposed to electronic trades through the System, which this rule covers). Nor is a stop order elected by a complex order

¹⁶ See NOM rules, Chapter VI, Section 1(e)(1). Pursuant to the NOM provision, the replacement order will retain the priority of the cancelled order when the replacement order reduces the size of the order and all other terms and conditions are retained. The Exchange’s trading system does not do this and thus the Exchange is not adopting this aspect of the definition.

trading with a complex order, because such trade reflects the execution of an order at a price reflecting a specific contingency, which the stop order does not have.¹⁷

Rule 1080(a)(5)(D) defines a “Stop-limit Order” as a contingency order to buy or sell at a limit price when a trade or quote on the Exchange for a particular option contract reaches a specified price. A stop-limit order to buy becomes a limit order executable at the limit price or better when the option contract trades or is bid on the Exchange at or above the stop-limit price. A stop-limit order to sell becomes a limit order executable at the limit price or better when the option contract trades or is offered on the Exchange at or below the stop-limit price. For the same reasons as a stop order, a stop-limit order shall not be elected by a trade that is reported late or out of sequence. This is also the same definition that appears in Rule 1066(c)(1), which applies to options floor trades (as opposed to electronic trades through the trading system). However, a stop limit order, like a stop order, is not elected by a complex order trading with a complex order, because such trade reflects the execution of an order at a price reflecting a specific contingency, which the stop limit order does not have.

New Rule 1080(a)(5)(E) defines a “Market Order” as an order to buy or sell at the best price available at the time of execution, which is the same as NOM Rules, Chapter VI, Section 1(e)(5). However, on NOM, participants can designate that their market orders not executed after a pre-established period of time will be cancelled back to the participant; the Exchange’s trading system does not do this.

The Exchange is adding a new Rule 1080(a)(5)(F) and reserving the rule.

¹⁷ Rule 1066(c)(1) does not refer to complex orders as not electing a stop order, but proposed Rule 1080(a)(5)(C) does because the System prevents the election of such orders by complex orders.

New Rule 1080(a)(5)(G) defines an “On the Open Order” as a market or limit order with a designated time-in-force of “OPG.” An On the Open Order will be executable only during the opening and cannot be marked as an ISO. If such order is not executed in its entirety during the opening pursuant to Rule 1017, the order, or any unexecuted portion of such order, will be cancelled back to the entering participant. OPG orders submitted after the opening process is complete shall be rejected. This reflects that the order was intended for execution only on the opening and thus is a blend of an order type with a time in force designation; time-in-force designations are discussed below. This definition is similar to NOM Rules, Chapter VI, Section 1(e)(7), except that NOM conducts an opening cross that is different from the Exchange’s opening process; also, the Exchange is adding the detail that OPG orders submitted after the opening process is complete are rejected.

New Rule 1080(a)(5)(H) defines an “Intermarket Sweep Order” or “ISO” as a limit order that is designated as an ISO in the manner prescribed by the Exchange and is executed within the System at multiple price levels without respect to Protected Quotations of other Eligible Exchanges as defined in Rule 1083. ISOs may have any Time in Force designation but are treated as IOC (as defined below), are handled within the System pursuant to Exchange rules, and shall not be eligible for routing. Simultaneously with the routing of an ISO to the System, one or more additional limit orders, as necessary, are routed by the entering party to execute against the full displayed size of any protected bid or offer (as defined in Rule 1083(n)) in the case of a limit order to sell or buy with a price that is superior to the limit price of the limit order identified as

an ISO. These additional routed orders must be identified as ISOs.¹⁸ This is being relocated from Rule 1080 at Commentary .03.¹⁹ The Exchange is adding that ISOs may have any Time in Force designation but are always treated as IOC, which is consistent with the statement in Commentary .03 that ISOs are immediately executable. Also, the proposed rule will state that ISOs are handled within the System pursuant to Exchange rules, which is an added detail; this language is intended to replace the current language that states that ISOs are immediately executable within the System or cancelled.

New Rule 1080(a)(5)(I) defines an “All-or-none” order as a contingency order that is market or limit order which is to be executed in its entirety or not at all. This is the same as current Rule 1066(c)(4).²⁰

New Rule 1080(a)(6) provides that the term “Order Size” shall mean the number of contracts up to 999,999 or the maximum number set by the entering participant associated with the Order. This number reflects the largest size order that the System will accept. However, a Participant may determine to establish a different maximum for its order submission.

¹⁸ See NOM rules, Chapter VI, Section 1(e)(8).

¹⁹ The Exchange is adding that may have any Time in Force designation but are treated as IOC, which is consistent with the statement in Rule 1080 at Commentary .03 that ISOs are immediately executable; also, ISOs are handled within the System pursuant to Exchange rules, which is an added detail.

²⁰ The Exchange has previously updated its complex orders provision, Rule 1098, to define all-or-none orders as well as how they are handled. Securities Exchange Act Release Nos. 72351 (June 9, 2014), 79 FR 33977 (June 13, 2014)(SR-Phlx-2014-39); and 76742 (December 22, 2015), 80 FR 81393 (December 29, 2015) (SR-Phlx-2015-49).

New Rule 1080(a)(7) provides that “Time in Force” shall mean the period of time that the System will hold an order for potential execution, which shall include Immediate or Cancel, DAY or Good Til Cancelled designations. Although these terms are used throughout the rules today, they are not explicitly defined. Each will now be defined, as described below.

Pursuant to new Rule 1080(a)(7)(A), Immediate Or Cancel or IOC shall mean, for orders so designated, that if after entry into the System a marketable order (or unexecuted portion thereof) becomes non-marketable, the order (or unexecuted portion thereof) shall be canceled and returned to the entering participant. IOC orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close. This is similar to NOM rules, Chapter VI, Section 1(g)(2)²¹ and provides detail about the handling of IOC orders on the System. However, IOC orders entered between the time specified by the Exchange on its website and 9:30 a.m. Eastern Time (“ET”), will be cancelled.

New Rule 1080(a)(7)(B) provides that, if after entry into the System, a DAY order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution until market close, unless canceled by the entering party, after which it shall be returned to the entering party. DAY orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m., ET, until market

²¹ Whether IOC orders on NOM are rejected depends on how they are entered, but Phlx only has one method of entering IOC orders such that this distinction is not relevant.

close. This is the same as NOM rules, Chapter VI, Section 1(g)(3) and provides detail about the handling of DAY orders on the System.

New Rule 1080(a)(7)(C) provides that Good Til Cancelled or GTC shall mean for orders so designated, that if after entry into System, the order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. (ET) until market close. This is the same as NOM rules, Chapter VI, Section 1(g)(4) and provides detail about the handling of GTC orders on the System.

New Rule 1080(a)(8) defines “System Book Feed” as a data feed for System securities. This is the same as NOM Rules, Chapter VI, Section 1(h), and refers to the general process of gathering the Exchange’s best bid and offer for dissemination to the Options Price Reporting Authority (“OPRA”).

Eligible Orders - Rule 1080(b)

Rule 1080(b) is being updated to provide a more accurate list of accepted order types by participant type. It is also proposed to be retitled as “Eligible Orders and Interest by Participant Type.” Rule 1080(b) is currently organized by participant type and will continue to be.²² First, Rule 1080(b)(i) lists the order types available for agency orders. Agency orders are currently defined as orders entered on behalf of a public customer, and does not include any order entered for the account of a broker-dealer, or any account in which a broker-dealer or an associated person of a broker-dealer has any

²² The Exchange is generally renumbering paragraph (b) as described.

direct or indirect interest. This definition is not changing and covers the participant type commonly known as a “customer.” This provision is being updated to add the following detail: that this includes an order entered on behalf of a professional;²³ that the routing designations appear in Rule 1080(m);²⁴ and that cancel leaves and cancel to change price are not separate order types but rather different types of cancel or cancel replacement orders.²⁵

The reference to “or better” orders is being deleted because these are not accepted; orders are executed at the best price possible under this rule regardless of the use of any such designation that may have been used in the past.

Rule 1080(b)(ii) currently covers orders for the proprietary account(s) of SQTs, RSQTs and non-SQT ROTs, and specialists. The Exchange proposes to delete reference to an “electronic interface with AUTOM” because, as discussed above, AUTOM is an obsolete system. The Exchange also proposes to delete the language in Commentary .04 of Rule 1080 and add the restrictions from that provision into Rule 1080(b)(ii) for ease of reading. This language will continue to require that orders for the proprietary account(s) of non-SQT ROTs and specialists with a size of less than 10 contracts shall be submitted as IOC only.²⁶ Just like Rule 1080(b)(i) pertaining to agency orders, the routing

²³ This is not a change to the treatment of professional orders, which are defined in Rule 1000(b)(14).

²⁴ The Exchange proposes this change throughout new Rule 1080(b).

²⁵ The Exchange is deleting reference in various places in new Rule 1080(b) to “simple” cancel orders because that term is not used.

²⁶ The language regarding a minimum size of one contract is not necessary, as there can obviously not be an order for less than one contract.

designations will appear in Rule 1080(m) only. Also, cancel orders are being added to this provision respecting SQTs and RSQTs only;²⁷ the Exchange considers this an additional detail, as it is logical that orders can be cancelled and such behavior is expected.

Rule 1080(b)(iii) addresses broker-dealer orders. The Exchange proposes to delete stop orders from the list of broker-dealer orders that can be submitted, because stop orders are market orders and broker-dealer orders cannot be market orders; this is a correction. Similar to current Rule 1080(b)(i)(A) and (B), the list of routing designations available for broker-dealer orders is being deleted and replaced with a reference to Rule 1080(m), as is reference to cancel leaves. The restrictions applicable to broker-dealer orders that are currently in Rule 1080.05, which is being deleted, will now be moved to Rule 1080(b)(iii) to keep the provisions applicable to broker-dealer orders together in one place.²⁸

The Exchange is proposing to delete current Rule 1080(b)(ii) regarding additional order types, because relying upon it would result in the need for filing a proposed rule change anyway and it thereby serves no purpose. Specifically, it provides that the Exchange may determine to accept additional types of orders as well as to discontinue accepting certain types of orders. NOM and BX Options do not have this language.

Current Rule 1080(c) refers to the “NBBO Feature,” which is an obsolete feature that executed orders at the NBBO even if the Exchange’s best price was not at the NBBO. It was eliminated and this reference inadvertently remained.

²⁷ The rule already permits specialists and non-SQT ROTs to submit cancels.

²⁸ All of the concepts in Commentary .05 are now covered in this provision.

Exchange rules clearly state that executions occur at the Exchange's best price (commonly known as the PBBO) and executions cannot occur at a price worse than the NBBO pursuant to Rule 1084. Current Rule 1080(c) further provides that executions may occur manually; this is no longer the case. Specialists used to be responsible for manual executions. Phlx XL, a predecessor trading system, eliminated manual executions of System orders; all orders entered into the System can only be executed automatically by the System.²⁹

Current Rule 1080(c)(i), NBBO Calculation, is being updated in several ways. The Exchange is deleting reference to its own quotes from the rule because this would not be an issue of self-help. References to Options Exchange Officials is being deleted, because the Exchange may determine to remove a non-firm exchange quote from its NBBO calculation in a particular series automatically based on the System reading the non-firm designation.

The Exchange is also deleting references to AUTOM messages, which have been replaced with a process of issuing Options Trader Alerts that state when the Exchange employs self-help to remove another exchange's quote pursuant to Rule 1084. The rule is also being updated to eliminate the details of the recordkeeping provision, now that the process is automated, which creates an automatic record.³⁰ Similar changes are proposed to Rule 1080(c)(i)(B), which deals with an exchange ending its non-firm quotation state.

²⁹ Accordingly, the Exchange is deleting references to AUTO-X and related obsolete functionality known as Book Match and Book Sweep.

³⁰ The Exchange notes the Commission's record retention requirements under the Act apply regardless of whether this rule refers to such requirements.

The Exchange proposes to amend Rule 1080(c)(ii)(B) to eliminate the requirement that Order Entry Firms³¹ provide written notice to all Users³² regarding the proper use of AUTO-X. AUTO-X is obsolete.

The Exchange proposes to delete Rule 1080(c)(iii), Quotations Interacting with Limit Orders on the Book. Specifically, because Phlx XL no longer operates, the functionality described in subparagraph (iii)(A) no longer exists, including Auto-Quote and the Book Sweep feature. Phlx XL was replaced by Phlx XL II in 2009 and is now being referred to as the System.³³

Rule 1080(c)(iv) is being deleted because it refers to the possibility of executions being manually handled by the specialist, which cannot occur anymore, as described above. In each case, the provisions are qualified by which system they are referring to. Subparagraph (c)(iv)(G), which provides that no orders will be executed manually, is accurate, but not necessary in light of the first sentence of paragraph (c). Similarly, Rule 1080(c)(v) is also being deleted because it refers to manual executions, Phlx XL and the AUTOM System.

Rule 1080(e), Extraordinary Circumstances, is proposed to be deleted, because it refers to the obsolete functionality of Phlx XL and AUTO-X, as described above. This also involves the deletion of subparagraph (i), because the Emergency Committee no

³¹ See Rule 1080(c)(ii)(A)(1).

³² See Rule 1080(c)(ii)(A)(2).

³³ See Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32).

longer exists pursuant to Rule 98; emergencies related to the System or trading floor are handled pursuant to various other provisions.³⁴

Rule 1080(f), Specialist Obligations, is proposed to be deleted because it refers to obligations that were once applicable to trading on Phlx XL and AUTOM, both of which are obsolete, as discussed above. Similarly, Rule 1080(g), Contra-Party Participation, is being deleted, as Book Match and Phlx XL II are obsolete. The concept of what interest can interact automatically with an order is addressed in various rules, including Rule 1082. Furthermore, Rule 1080(h), Responsibility for AUTOM Orders, is proposed to be deleted because Phlx XL and AUTOM are obsolete, as discussed above.

In addition, the specialist no longer handles or submits orders on behalf of others, such that references to the receipt of order messages are also obsolete. The Exchange is also deleting reference to its AUTOM Service Desk; various operations personnel work in support of the trading floor but the Exchange does not believe their functions need to be described in a rule. By-Law Article VI, Section 6-3 applies to limit liability regardless of whether it is listed in this rule.

The Exchange proposes to update current Rule 1080(i), Zero-bid option series, by deleting references to a bid/ask differential less than or equal to \$0.25, which is not applied. Specifically, this provision covers series where the Exchange's disseminated bid price is zero or the national best bid is zero, in which case the Exchange will convert a market order to sell into a limit order to sell with a limit price of the minimum trading increment applicable to such series. Contrary to the current rule text, this is not limited to

³⁴ See By-Law Article VII, Section 7-5, Authority to Take Action Under Emergency or Extraordinary Market Conditions.

situations where the differential is less than or equal to \$0.25 so the Exchange is correcting the rule. The Exchange believes it is appropriate to convert market orders pursuant to this provision regardless of the bid/ask differential in order to protect as many orders as possible.

The Exchange proposes to add some detail to current Rule 1080(m). Specifically, the Exchange proposes to amend subparagraph (iv)(A) respecting DNR (Do Not Route) orders³⁵ to provide that the Exchange shall expose the order at the NBBO during open trading, not immediately upon receipt, because it may be received when the Exchange is not open for trading. This is merely an additional detail reflecting what a user would expect. The Exchange is also proposing to delete a reference to “moving” to an inferior price level because the existing language that the best away market can change its price to an inferior price level necessarily involves moving such price. This change is just for clarity.

Respecting FIND orders,³⁶ the Exchange proposes to clarify that once evaluated for routing, such orders are not eligible for routing until the next time the option series is subject to a new Opening Process, which does not include a re-opening. If a re-opening occurs, such order does not again become eligible for routing. The Exchange believes that this is appropriate because participants submit orders with routing instructions which they expect to have applied for the life of the order. An unexpected halt and subsequent re-opening of an option during the same trading day should not affect how the order is handled once it has been entered onto the Exchange order book.

³⁵ A DNR order is never routed outside of the Exchange.

³⁶ See Rule 1080(m)(iv)(B).

The Exchange also proposes to state throughout Rule 1080(m)(iv)(B) and (C) that an order may trade at a price better than the PBBO, which is an additional detail. The Exchange always trades at the best price available which may not always be a price that is displayable as part of the PBBO.

The Exchange proposes to add an additional detail to what may occur after a FIND order exhausts the PBBO; currently the rule provides that such order may: (1) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to and including the ABBO price, or (2) be entered into the book at its limit price, or one MPV away from the ABBO if locking or crossing the ABBO. In actuality, the order would always be entered onto the book at its limit price but if it is locking or crossing the ABBO it would be displayed one MPV away from the ABBO. The Exchange believes that this is merely a clarification between the booked price and the displayed price.

The Exchange is also proposing to clarify that during the Route Timer, both a FIND as well as a SRCH order is included in the PBBO not just one MPV away from the ABBO but possibly at the PBBO, whichever is better. This is missing from the current rule text, but the Exchange believes it is beneficial to the order to be displayed at the better price. The same is true after routing such that any remaining size will trade at the next PBBO price or better, subject to the order's limit price.

The Exchange proposes to amend Rule 1080(o), Qualified Contingent Cross Order, to clarify that it must be an electronic order,³⁷ that a Customer contingency order such as an all-or-none order would not be protected, and that the price of the QCC order

³⁷ Non-electronic QCC orders are addressed by Rule 1064(e).

must be at or between not just the NBBO, but the better of the internal PBBO³⁸ or the NBBO. These changes provide additional detail as to when a QCC trade can occur. At the time the QCC order was adopted, the handling of all-or-none orders was not specifically addressed in Exchange rules. A QCC order is part of a qualified contingent trade and must meet the specific definitions.

By way of clarity, the Exchange proposes to narrow the definition of one of the components of a qualified contingent trade (“QCT”)³⁹ to reflect that only certain stock components can be used. Specifically, the Exchange proposes to amend Rule 1080(o)(3)(e) to delete reference to different classes of shares of the same issue and the securities of companies intending to merge; the System will only accept the same underlying security to meet the requirement that the components of a QCC order bear a derivative relationship to one another.

The Exchange proposes to delete the portion of Commentary .01 that states that specialists, SQTs, and RSQTs individually determine which model to select per option and may change models during the trading day. It further provides that each pricing model requires the specialist, SQTs, and RSQTs to input various parameters, such as interest rates, volatilities (delta, vega, theta, gamma, etc.) and dividends. The Exchange is no longer involved in the pricing models that its users choose such that this language is

³⁸ The internal BBO may be better than the PBBO, the disseminated market, because the Exchange may have a quote or order that cannot be displayed at its actual better price. For example, an order limit price may lock an away market, in which case the order is displayed one minimum increment away from the away market price but remains part of the Exchange’s internal BBO at the locking price.

³⁹ The QCT exemption pursuant to Rule 611(d) of Regulation NMS permits the stock component to trade outside of the NBBO.

obsolete. Specialists, SQTs, and RSQTs provide their quotations to the Exchange using their own proprietary models; the Exchange does not offer any.

The Exchange is also proposing to delete Commentary .01(b) which references the throttling of Exchange systems. The Exchange does not perform this sort of detailed throttling as part of its capacity management; this provision was needed during a time period when OPRA experienced capacity issues respecting the number of quotes it received from its participant options exchanges; this is no longer the case and is therefore no longer needed.

The Exchange proposes to delete Commentary .02, which describes the limit order book and what the System displays. This is based on the functionality of legacy systems and is being replaced by Rule 1085, as described below.

The Exchange proposes to delete Commentary .03, which defines an ISO. ISOs are now defined in subparagraph (a)(5)(H) described above. The Exchange proposes to delete Commentary .04 because its provisions will now appear in Rule 1080(b)(ii), as described above. Similarly, the Exchange proposes to delete Commentary.05 because its provisions will now appear in Rule 1080(b)(iii) above.

The Exchange proposes to adopt new Rule 1085, Acceptance of Quotes and Orders, to generally track NOM Rules, Chapter VI, Sections 6 and 7. First, new Rule 1085(a) will provide that a System order is an order that is entered into the System for display and/or execution as appropriate. Such orders are executable against marketable contra-side orders and quotes⁴⁰ in the System. All System Orders shall indicate whether they are a call or put and buy or sell and a price, if any. Systems Orders can be

⁴⁰ The NOM rules generally refer to orders, but orders may include quotes on NOM.

designated as a specified Order Type with a specific Time in Force pursuant to Rule 1080. This is merely adding detail to Exchange rules.

Further, Rule 1085(b) will provide that Options Market Makers may bid and/or offer on either or both side(s) of the market by submitting one or more bids or offers in the form of a two-sided quote or in the form of a sweep. A sweep is a one-sided electronic quotation submitted for execution against other trading interest.⁴¹ Quotes and sweeps are executable against marketable contra-side orders and quotes in the System. Sweeps are processed on an IOC basis, may not be routed, may be entered only at a single price and may not trade through away markets. Although Sweeps are not currently described at this level of detail in Phlx rules, they are referenced in multiple places, including Rule 1082(a)(ii)(C)(3)(a) and for purposes of complex orders in Rule 1098(d)(ii)(B) as well.

New Rule 1085(c), Entry and Display of Orders, will generally track NOM Rules, Chapter VI, Section 7. Specifically, subparagraph (i), Entry of Orders, will provide that Participants can enter orders into the System, subject to the following requirements and conditions: (a) Participants shall be permitted to transmit to the System multiple orders at a single as well as multiple price levels;⁴² (b) the System shall time-stamp an order which shall determine the time ranking of the order for purposes of processing the order; (c) orders can be entered into the System (or previously entered orders cancelled) from the

⁴¹ Sweeps were formerly referred to as Market Sweeps in Rule 1080(c)(iii)(B). Auction Sweeps are sweeps specific to a particular auction. See e.g., Rule 1098(d)(ii)(B).

⁴² NOM rules refer to Reserve Size, which the System does not have.

time prior to market open specified by the Exchange on its website until market close. These provisions further spell out the operations of the System.

New Rule 1085(c)(ii), Display of Orders, provides that the System will display orders submitted to the System as follows: (a) System Book Feed—displayed orders resident in the System available for execution will be displayed via the System Book Feed; and (b) Best Priced Order Display - For each System Security, the aggregate size of all Orders at the best price to buy and sell resident in the System will be transmitted for display to the appropriate network processor.⁴³ This replaces some of the outdated language in Commentary .02 related to display of orders and generally reflects that all orders are displayed. For instance, customers can no longer request that an order not be displayed.⁴⁴

New Rule 1085(c)(iii), Trade-Through Compliance and Locked or Crossed Markets, provides that an order will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. An order that is designated by the member as routable will be routed in compliance with applicable Trade-Through and Locked and Crossed Markets restrictions.⁴⁵ An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions.

⁴³ NOM rules contain an exception for Price Improving Orders, which the System does not accept.

⁴⁴ See Rule 1080.02(a)(ii)(B).

⁴⁵ See Rules 1083-1086.

If, at the time of entry, an order that the entering party has elected not to make eligible for routing would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price. This tracks NOM Rules, Chapter VI, Section 7. These proposed changes reflect the addition of additional detail.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁴⁶ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁴⁷ in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest by updating Rule 1080 to better describe the Exchange's trading system, including to adopt detailed definitions and order types.

The proposal also updates Rule 1080 by deleting obsolete provisions that refer to legacy systems; on their face, these provisions cannot and do not apply today and this is apparent from the rule text referencing the legacy systems. For instance, Rule 1080(c)(iii)(A) clearly states that it only applies to options traded on the Phlx XL system. Although these provisions, described above, are not incorrect as they applied to prior systems, they are potentially confusing today. The same is true for the deletion of provisions related to the NBBO Feature, Responsibility for AUTOM Orders, Contra-Part Participation, Specialist Obligations, and Extraordinary Market Conditions. The

⁴⁶ 15 U.S.C. 78f(b).

⁴⁷ 15 U.S.C. 78f(b)(5).

Exchange believes this proposal is consistent with the Act because these deletions should promote just and equitable principles of trade.

Most of the changes to Rule 1080(a) pertain to updating it to contain a detailed definition of the trading system and its components as well as the available order types. The System is defined with respect to its component parts – order execution, trade reporting and data feeds. Each order type and its attributes are listed, as is each time in force designation. Together, the Exchange believes that new Rule 1080(a) should promote just and equitable principles of trade by enumerating in detail how the System works in terms of the interest that is accepted. None of the order types and time-in-force designations are new. Most of the functionality described in the proposed rule change has already been described in previous proposed rule changes. The Exchange is also moving some Commentary language into the body of the rule, as described above, for easier reading. For these reasons, the Exchange believes this proposal is consistent with the Act.

The Exchange believes that new Rule 1080(b) regarding eligible orders based on participant type is consistent with the Act because it should promote just and equitable principles of trade and protect investors and the public interest because it is being updated to make minor corrections to the availability of certain order types.

With respect to the cancellation of orders, the Exchange believes that deleting references to the “cancel leaves” and “cancel to change price” order types in Rules 1080(b)(i) and (iii) does not impact participants because a straight cancel order remains available as does a cancel replacement order, which could involve changing the price of the order. Similarly, deleting reference to the “or better” order type should also not

impact users, as the Exchange believes that it has long not been in use and that the System is designed to provide the best price possible, regardless of any limit price, thus rendering the “or better” order type unnecessary. Deleting stop orders from subparagraphs (b)(i)(B) and (C) (now proposed subparagraphs (b)(ii) and (iii)) should not be impactful because they are a type of market order that cannot be submitted under this rule by this participant type. Adding cancels for RSQTs and SQTs merely corrects an omission; as stated above, these orders can be cancelled even though the rule did not specifically list these order types, as users would expect. Accordingly, these changes are consistent with the Act because they should promote just and equitable principles of trade and as indicated herein are not impactful.

The Exchange believes that deleting current Rule 1080(b)(ii) regarding additional order types should promote just and equitable principles of trade because any such action would be subject to the filing of a proposed rule change while the existing language implies otherwise.

The Exchange believes that the changes to Rule 1080(c)(i) is consistent with the Act and should promote just and equitable principles of trade by making clear when the Exchange will remove a non-firm exchange quote from its NBBO calculation in a particular series as well as how that will be communicated. Specifically, the Exchange is deleting reference to its own quotes from the rule because this would not be an issue of self-help. References to Options Exchange Officials is being deleted, because the Exchange may determine to remove a non-firm exchange quote from its NBBO calculation in a particular series automatically based on the System reading the non-firm designation. The Exchange is also deleting references to AUTOM messages, which have

been replaced with a process of issuing Options Trader Alerts that state when the Exchange employs self-help to remove another exchange's quote pursuant to Rule 1084. The rule is also being updated to eliminate the details of the recordkeeping provision, now that the process is automated, which creates an automatic record.

The proposed change to Rule 1080(c)(ii) is consistent with the Act and should promote just and equitable principles of trade by deleting a requirement that pertains to an obsolete system, AUTO-X.

The proposed deletion of Rule 1080(c)(iii) is consistent with the Act and should promote just and equitable principles of trade by eliminating outdated references to Phlx XL and Market Sweep, which should prevent confusion. The proposed deletion of Rule 1080(c)(iv) is consistent with the Act and should promote just and equitable principles of trade by eliminating outdated references to manual executions on Phlx XL, which should prevent confusion. Rule 1080(c)(iv) is being deleted because it refers to the possibility of executions being manually handled by the specialist, which cannot occur anymore.

Similarly, the proposed change to Rule 1080(c)(v) is consistent with the Act and should also promote just and equitable principles of trade by eliminating outdated references to manual executions and obsolete systems. This provision refers to manual executions, Phlx XL and the AUTOM System.

Deleting Rule 1080(e) regarding extraordinary circumstances is consistent with the Act and should promote just and equitable principles of trade by eliminating outdated references to obsolete functionality and an obsolete emergency process, which should prevent confusion.

Deleting Rule 1080(f) should promote just and equitable principles of trade by eliminating outdated references obligations related to obsolete functionality.

Deleting Rule 1080(g) should is consistent with the Act and promote just and equitable principles of trade by eliminating outdated references to an obsolete system, which should prevent confusion.

Deleting Rule 1080(h) is consistent with the Act and should promote just and equitable principles of trade by eliminating outdated references to specialist obligations, operations functions and liability provisions, all of which help prevent confusion.

The proposed change to Rule 1080(i) regarding zero bid options is a correction to reflect that all market orders to sell will be converted into limit orders priced at the minimum trading increment regardless of the bid/ask differential. The Exchange believes that this correction should is consistent with the Act and promote just and equitable principles of trade as well as protect investors and the public interest by making it clear what happens to all market orders, not just those for which there is a certain bid/ask differential.

The Exchange believes that the clarifying changes to the DNR order regarding exposure of the order during open trading and changing its price to an inferior price level is consistent with the Act and should promote just and equitable principles of trade by adding additional detail to Rule 1080(m)(iv)(A). The detail would provide participants with additional information as to the manner in which the System operates.

The Exchange believes that the changes to Rule 1080(m)(iv)(B) and (C) regarding the re-opening, trading at a better price, booking the order at its actual price and including orders at the PBBO all help an order get executed is consistent with the Act and should

protect investors and the public interest for the reasons which follow. Regarding the re-opening, the Exchange believes that by adhering to the instructions provided by the order sender it will have the expected result that was anticipated by the order sender. With respect to FIND orders, once evaluated for routing, such orders are not eligible for routing until the next time the option series is subject to a new Opening Process, which does not include a re-opening. If a re-opening occurs, such order does not again become eligible for routing. The Exchange believes that this is appropriate because participants submit orders with routing instructions which they expect to have applied for the life of the order. An unexpected halt and subsequent re-opening of an option during the same trading day should not affect how the order is handled once it has been entered onto the Exchange order book. With respect to trading at a price better than the PBBO, the Exchange always trades at the best price available which may not always be a price that is displayable as part of the PBBO. With respect to booking the order at its actual price after a FIND order exhausts the PBBO; the order would be entered onto the book at its limit price but if it is locking or crossing the ABBO the order would be booked at the ABBO price and displayed one MPV away from the ABBO. The Exchange believes that this is merely a clarification between the booked price and the displayed price. Finally, with respect to including orders at the PBBO, during the Route Timer, both a FIND as well as a SRCH order are included in the PBBO not just one MPV away from the ABBO but possibly at the PBBO, whichever is better. This is missing from the current rule text, but the Exchange believes it is beneficial to the order to be displayed at the better price. The same is true after routing such that any remaining size will trade at the next PBBO price or better, subject to the order's limit price.

The Exchange believes that the changes to Rule 1080(o) that add additional detail about how QCC orders are handled is consistent with the Act and should promote just and equitable principles of trade by allowing executions when there is a customer all-or-none order; although this potentially impacts such all-or-none orders, it is not uncommon for all-or-none orders to be treated differently because of the complexity of addressing their size contingency.⁴⁸

By requiring that a QCC order be priced at or better than the Exchange's internal market, not just the NBBO, is consistent with the Act and should promote just and equitable principles of trade by preserving the priority of the Exchange's own market, as the Exchange currently does, but the rule text does not address. It is also consistent with the Act and should also promote just and equitable principles of trade to delete the reference to different classes of shares of the same issue and the securities of companies intending to merge from Rule 1080(o)(3)(e) because it makes clear that the System will only accept the same underlying security to meet the requirement that the components of a QCC order bear a derivative relationship to one another. The detail would provide participants with additional information as to the manner in which the System operates.

The Exchange believes that the updates to Rule 1080, Commentary .01 are consistent with the Act and should promote just and equitable of trade by deleting obsolete text pertaining to pricing models and throttling quotations, which would leave Commentary .01 only referencing SQF, which remains the principal method for entering quotes into the System. Updating these provisions should protect investors and the public

⁴⁸ See e.g., Rule 1098(e)(vi)(A)(1) and Options Floor Procedure Advice A-9.

interest by making the Exchange's rule easier to understand and providing participants with additional information as to the manner in which the System operates.

The Exchange believes that new Rule 1085, entitled "Acceptance of Quotes and Orders," is consistent with the Act should promote just and equitable principles of trade as well as protect investors and the public interest by spelling out in detail how the System handles quotes and orders. Specifically this rule generally tracks NOM Rules at Chapter VI, Sections 6 and 7. New Rule 1085(a) adds detail to provide market participants with specificity with respect to System orders. The rule will add detail which provides that a System order is an order that is entered into the System for display and/or execution as appropriate. Also, these orders are executable against marketable contra-side orders and quotes in the System. All System Orders shall indicate whether they are a call or put and buy or sell and a price, if any. Systems Orders can be designated as a specified Order Type with a specific Time in Force pursuant to Rule 1080. These requirements would be applied to all market participants. New Rule 1085(b) will provide that Options Market Makers may bid and/or offer on either or both side(s) of the market by submitting one or more bids or offers in the form of a two-sided quote or in the form of a sweep. A sweep is a one-sided electronic quotation submitted for execution against other trading interest.⁴⁹ Quotes and sweeps are executable against marketable contra-side orders and quotes in the System. Sweeps are processed on an IOC basis, may not be routed, may be entered only at a single price and may not trade through away markets. Although Sweeps are not currently described at this level of detail in Phlx rules, they are

⁴⁹ Sweeps were formerly referred to as Market Sweeps in Rule 1080(c)(iii)(B). Auction Sweeps are sweeps specific to a particular auction. See e.g., Rule 1098(d)(ii)(B).

referenced in multiple places, including Rule 1082(a)(ii)(C)(3)(a) and for purposes of complex orders in Rule 1098(d)(ii)(B) as well. New Rule 1085(c) generally tracks NOM Rules, Chapter VI, Section 7. This rule provides details to Participants as to the requirements and conditions for entering orders into the System. Multiple orders may be transmitted to the System at a single as well as multiple price levels, orders will be time-stamped to determine the time ranking of the order for purposes of processing the order and orders can be entered into the System (or previously entered orders cancelled) from the time prior to market open specified by the Exchange on its website until market close. These provisions provide participants with additional information as to the manner in which the System operates.

With respect to new Rule 1085(c)(ii), provide market participants with information related to display of orders. The additional detail in this rule provides that orders residing in the System available for execution will be displayed via the System Book Feed. For each System Security, the aggregate size of all Orders at the best price to buy and sell resident in the System will be transmitted for display to the appropriate network processor. The Exchange's current rules are outdated at Rule 1080, Commentary .02, this new rule text provides greater detail and accurate information about the manner in which orders shall be displayed by the System. It is important to note that customers can no longer request that an order not be displayed. The Exchange believes that this change is consistent with the Act because the proposed rule provides an automated, uniform manner in which the System will display all orders thereby ensuring consistency and uniformity in the treatment of all orders.

With respect to new Rule 1085(c)(iii) the rule text provides that an order will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. An order that is designated by the member as routable will be routed in compliance with applicable Trade-Through and Locked and Crossed Markets restrictions.⁵⁰ An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions. If, at the time of entry, an order that the entering party has elected not to make eligible for routing would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price. This tracks NOM Rules, Chapter VI, Section 7. These proposed changes adds this detail to this rule and reflects current practices. This amendment is consistent with the Act because it provides detail regarding trade-throughs to market participants which permits a market participant to definitely determine the manner in which the System will handle an order.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule changes serve to add detail to provide market participants with the anticipated expectations when entering orders into the System. Many of the rule changes do not cause an impact on competition because they will not change the manner in which the Exchange operates. Many of the changes are intended to remove obsolete

⁵⁰ See Rules 1083-1086.

language, and deleting obsolete provisions does not impact competition because the language is not in operation. The proposal is not designed to address competitive issues, but rather to provide additional specificity and transparency to the marketplace regarding the Exchange's options trading system, its functionality and order types. The proposed rule change does not change the actual operation of any those aspects of the system.

Deleting obsolete provisions that refer to legacy systems does not impose an undue burden on competition because these provisions cannot and do not apply today. This is true for the deletion of provisions related to the NBBO Feature, Responsibility for AUTOM Orders, Contra-Part Participation, Specialist Obligations, and Extraordinary Market Conditions.

New Rule 1080(a) proposes a detailed definition of the trading system and its components as well as the available order types. The System is defined with respect to its component parts – order execution, trade reporting and data feeds. Each order type and its attributes are listed, as is each time in force designation. These provisions do not impose an undue burden on competition, rather they provide market participants with valuable information as to the operation of the System. Also, none of the order types and time-in-force designations are new. Most of the functionality described in the proposed rule change has already been described in previous proposed rule changes. The Exchange is relocating current rule text from the Commentary to provide all the information in a central location in the rules.

New Rule 1080(b) regarding eligible orders based on participant type does not impose an undue burden on competition because this rule will be applied uniformly to all

market participants. The Exchange proposed minor corrections regarding the availability of certain order types.

Deleting references to the “cancel leaves” and “cancel to change price” order types, deleting reference to the “or better” order type and deleting the stop order does not impose an undue burden on competition because a straight cancel order remains available as does a cancel replacement order. These rule changes will be applied uniformly to all Participants.

Adding cancels for RSQTs and SQTs merely corrects an omission; as stated above, these orders can be cancelled even though the rule did not specifically list these order types, as users would expect, so no undue burden on competition because this is the practice today and is applied to all market participants with this addition.

Deleting current Rule 1080(b)(ii) regarding additional order types does not impose an undue burden on competition because it requires the Exchange to file proposed changes.

The amendments to Rule 1080(c)(i) do not impose an undue burden on competition is consistent with the Act because the Exchange will uniformly remove a non-firm exchange quote from its NBBO calculation in a particular series. Deletions to its own quotes, Options Exchange Officials and AUTOM messages bring clarity to the rules and will be uniformly applied among Participants.

Eliminating outdated references to old system and manual executions on Phlx XL do not impose an undue burden on competition because these terms do not apply today and there is no possibility executions could be manually handled by the specialist.

Deleting obsolete language in Rules 1080(e) – (h) does not impose an undue burden on competition because the functionality is not available.

The proposed change to Rule 1080(i) regarding zero bid options is a correction to reflect that all market orders to sell will be converted into limit orders priced at the minimum trading increment regardless of the bid/ask differential. This rule change does not impose an undue burden on competition because it makes clear what happens to all market orders, not just those for which there is a certain bid/ask differential and will be applied uniformly to all Participants.

The Exchange believes that the clarifying changes to the DNR order regarding exposure of the order during open trading and changing its price to an inferior price level does not impose an undue burden on competition because it will be applied uniformly to all Participants.

The Exchange believes that the changes to Rule 1080(m)(iv)(B) and (C) regarding the re-opening, trading at a better price, booking the order at its actual price and including orders at the PBBO all help an order get executed do not impose an undue burden on competition because the rules will be applied uniformly to all Participants. Also, participants who submit orders with routing instructions which expect to have the instructions applied for the life of the order. An unexpected halt and subsequent re-opening of an option during the same trading day should not affect how the order is handled once it has been entered onto the Exchange order book.

With respect to trading at a price better than the PBBO this amendment does not impose an undue burden on competition because the Exchange always trades at the best price available which may not always be a price that is displayable as part of the PBBO.

With respect to booking the order at its actual price after a FIND order exhausts the PBBO; the order would always be entered onto the book at its limit price but if it is locking or crossing the ABBO it would be displayed one MPV away from the ABBO. The Exchange believes this clarification between the booked price and the displayed price does not impose an undue burden on competition because it clarifies current behavior which is consistent with the function of the System as a whole.

With respect to including orders at the PBBO, during the Route Timer, both a FIND as well as a SRCH order is included in the PBBO not just one MPV away from the ABBO but possibly at the PBBO, whichever is better. This rule change does not impose an undue burden on competition because it is beneficial to the order to be displayed at the better price. The same is true after routing such that any remaining size will trade at the next PBBO price or better, subject to the order's limit price.

The Exchange believes that the changes to Rule 1080(o) that add additional detail about how QCC orders are handled does not impose an undue burden on competition because it allows executions when there is a customer all-or-none order; although this potentially impacts such all-or-none orders, it is not uncommon for all-or-none orders to be treated differently because of the complexity of addressing their size contingency.⁵¹

By requiring that a QCC order be priced at or better than the Exchange's internal market, not just the NBBO, does not impose an undue burden on competition because the priority of the Exchange's own market is preserved.

It does not impose an undue burden on competition to delete the reference to different classes of shares of the same issue and the securities of companies because it

⁵¹ See e.g., Rule 1098(e)(vi)(A)(1) and Options Floor Procedure Advice A-9.

makes clear that the System will only accept the same underlying security to meet the requirement that the components of a QCC order bear a derivative relationship to one another.

The Exchange believes the adoption of new Rule 1085, entitled Acceptance of Quotes and Orders,” does not impose an undue burden on competition because this rule which spells out in detail how the System handles quotes and orders would be applied uniformly to all Participants. Additionally, this rule generally tracks NOM Rules at Chapter VI, Sections 6 and 7.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

The Exchange does not consent to an extension of the time period for Commission action.

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

Not applicable.

11. Exhibits

1. Notice of Proposed Rule Change for publication in the Federal Register.
5. Text of the proposed rule change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. _____ ; File No. SR-Phlx-2016-87)

August __, 2016

Self-Regulatory Organizations; NASDAQ PHLX LLC; Notice of Filing of Proposed Rule Change to Update and Correct Rule 1080, Phlx XL, and Phlx XL II

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹, and Rule 19b-4 thereunder,² notice is hereby given that on August 19, 2016, NASDAQ PHLX LLC (“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 update and correct Rule 1080, Phlx XL, and Phlx XL II to provide a clearer and more detailed description of certain aspects of Phlx functionality.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

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

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

1. Purpose

The purpose of the proposal is to update and correct the Exchange's principal rule, Rule 1080, entitled "Phlx," related to the Phlx trading system in order to provide a clearer and more detailed description of certain aspects of its functionality. The Exchange proposes to retitle the rule "Trading Systems." The Exchange intends to model Rule 1080 on its affiliated exchanges.³

Rule 1080(a) - General

The Exchange proposes to delete paragraph (a), "General," which defines the Exchange's trading system using a prior system's names AUTOM and AUTO-X, which terms are obsolete, as are references to and the functions of each.⁴ Rule 1080(a) also

³ See NOM and BX Options Rules at Chapter VI.

⁴ Manual execution by a specialist could occur in AUTOM. This first paragraph also refers to AUTOM routing orders to the specialist unit, and this rule governing order messages, all of which is obsolete. AUTOM and AUTO-X were replaced by Phlx XL. See Securities Exchange Act Release No. 50100 (July 27, 2004), [69 FR 46612](#) (August 3, 2004) (**SR-Phlx-2003-59**).

refers to a successor system, Phlx XL, which is also obsolete.⁵ The actual definition of the trading system as an electronic order delivery and reporting system that provides for automatic entry and execution of options orders is accurate, and will be relocated and updated, as described below.

The reference to Phlx XL II, the current system, is correct, but the Exchange proposes to refer to its trading system going forward simply as the “System,” to parallel the rules of its affiliated options exchanges⁶ and move away from that specific system name in the rules.⁷

The Exchange also proposes to delete cross-references to Rules 1014(b) and 1017, which are unnecessary.

The Exchange proposes to adopt as Rule 1080(a) a description of the System and definitions to parallel NOM and BX Options Rules at Chapter VI, Section 1. Specifically, Rule 1080(a) will state that the term “System” shall mean the automated system for order execution and trade reporting owned and operated by the Exchange which comprises: (A) an order execution service that enables Participants to automatically execute transactions in System Securities and provides Participants with sufficient monitoring and updating capability to participate in an automated execution environment; (B) a trade reporting service that submits “locked-in” trades⁸ for clearing to

⁵ Phlx XL was replaced by Phlx XL II, which was phased in over a period of time. See Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32).

⁶ See e.g., NOM Chapter VI, Section 1(a) defining “System” in general terms.

⁷ Separately, the Exchange intends to make this change throughout the rules.

⁸ This refers to the process of submitting both sides of a trade for reporting and clearing, rather than performing a comparison process.

a registered clearing agency for clearance and settlement; transmits last-sale reports of transactions automatically to the Options Price Reporting Authority for dissemination to the public and industry; and provides participants with monitoring and risk management capabilities to facilitate participation in a “locked-in” trading environment; and (C) the following data feeds:⁹

(i) Top of PHLX Options (TOPO) - A data feed that provides the Exchange’s Best Bid and Offer and last sale information for trades executed on the System.

(ii) PHLX Orders – A data feed that provides the real-time status of orders, including complex orders, on the order book.

(iii) PHLX Depth of Market – A data feed that provides the full depth of quotes and orders on the System.

This description tracks the language in NOM Rules, Chapter VI, Section 1, except it reflects the data feeds applicable to Phlx. These data feeds are available to subscribers, subject to the Exchange’s Pricing Schedule.¹⁰ In sum, the Exchange is proposing to replace references to the obsolete systems with the new term System throughout this rule.¹¹

⁹ These data feeds have all been previously addressed in proposed rule changes and are now being codified in this rule to parallel NOM and BX Options rules. See Securities Exchange Act Release Nos. 60877 (October 26, 2009), 74 FR 56255 (October 30, 2009) (SR-Phlx-2009-92) and 66993 (May 15, 2012), 77 FR 30043 (May 21, 2012)(SR-Phlx-2012-63) (addressing TOPO Plus Orders/PHLX Orders). The Phlx data feeds differ in content from the NOM data feeds.

¹⁰ See Section IX of the NASDAQ PHLX LLC PRICING SCHEDULE.

¹¹ Ultimately, the Exchange may determine to define the System in Rule 1000, Definitions, to make it applicable to all of the options rules.

New Rule 1080(a)(2) will provide that the term “System Securities” shall mean all options that are currently trading on the System. All other options shall be “Non System Securities.” This also parallels the comparable NOM provision,¹² although the Exchange does not at this time use the term Non System Securities in its rules.

New Rule 1080(a)(3) establishes that the term “Participant” shall include Options Market Makers and Options Order Entry Firms that are registered to enter quotes and orders into the System. Options Market Makers includes Lead Market Makers or specialists,¹³ Registered Options Traders or “ROTS” (including Streaming Quote Traders (“SQTs”) and Remote Streaming Quote Traders (“RSQTs”) and Non-SQT ROTs.¹⁴ Options Order Entry Firms are member organizations that submit orders on behalf of their customers, including non-broker-dealer customers (including professionals), broker-dealers, and Options Market Makers. These are not new categories of Participants. The Exchange is defining the term to cover all potential types of Participants.

New Rule 1080(a)(4) defines an “Order” as a single order submitted to the System by a Participant that is eligible to submit such orders. This is the same as NOM Chapter VI, Section 1(d).

New Rule 1080(a)(5) defines an “Order Type” as the unique processing prescribed for designated orders that are eligible for entry into the System.¹⁵ This

¹² The NOM provision refers to options traded pursuant to Chapter IV, which contains listing-like provisions. The Exchange does not believe this language is necessary, as all options must be listed pursuant to applicable listing rules.

¹³ See Rule 1020.

¹⁴ See Rule 1014(a).

¹⁵ This is the same as NOM rules, Chapter VI, Section 1(e).

provision then lists each order type available on the System and describes it. Rule 1080(a)(5)(A) defines a cancel-replacement order as a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order with new terms and conditions. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will not retain the priority of the cancelled order.¹⁶

Rule 1080(a)(5)(B) defines a “Limit Order” as an order to buy or sell an option at a specified price or better. A limit order is marketable when, for a limit order to buy, the order is priced at the current inside offer or higher, or for a limit order to sell, the order is priced at the inside bid or lower. This is a common definition of limit order and the same as NOM Rules, Chapter VI, Section 1(e)(2).

Rule 1080(a)(5)(C) defines a “Stop Order” as a contingency order to buy or sell when a trade or quote on the Exchange for a particular option contract reaches a specified price. A stop order to buy becomes a market order when the option contract trades or is bid on the Exchange at or above the stop price. A stop order to sell becomes a market order when the option contract trades or is offered on the Exchange at or below the stop price. A stop order shall not be elected by a trade that is reported late or out of sequence, because such trades do not reflect the current market and should not be relied upon to meet the contingency of the order. This is the same definition that appears in Rule

¹⁶ See NOM rules, Chapter VI, Section 1(e)(1). Pursuant to the NOM provision, the replacement order will retain the priority of the cancelled order when the replacement order reduces the size of the order and all other terms and conditions are retained. The Exchange’s trading system does not do this and thus the Exchange is not adopting this aspect of the definition.

1066(c)(1), which applies to options floor trades (as opposed to electronic trades through the System, which this rule covers). Nor is a stop order elected by a complex order trading with a complex order, because such trade reflects the execution of an order at a price reflecting a specific contingency, which the stop order does not have.¹⁷

Rule 1080(a)(5)(D) defines a “Stop-limit Order” as a contingency order to buy or sell at a limit price when a trade or quote on the Exchange for a particular option contract reaches a specified price. A stop-limit order to buy becomes a limit order executable at the limit price or better when the option contract trades or is bid on the Exchange at or above the stop-limit price. A stop-limit order to sell becomes a limit order executable at the limit price or better when the option contract trades or is offered on the Exchange at or below the stop-limit price. For the same reasons as a stop order, a stop-limit order shall not be elected by a trade that is reported late or out of sequence. This is also the same definition that appears in Rule 1066(c)(1), which applies to options floor trades (as opposed to electronic trades through the trading system). However, a stop limit order, like a stop order, is not elected by a complex order trading with a complex order, because such trade reflects the execution of an order at a price reflecting a specific contingency, which the stop limit order does not have.

New Rule 1080(a)(5)(E) defines a “Market Order” as an order to buy or sell at the best price available at the time of execution, which is the same as NOM Rules, Chapter VI, Section 1(e)(5). However, on NOM, participants can designate that their market

¹⁷ Rule 1066(c)(1) does not refer to complex orders as not electing a stop order, but proposed Rule 1080(a)(5)(C) does because the System prevents the election of such orders by complex orders.

orders not executed after a pre-established period of time will be cancelled back to the participant; the Exchange's trading system does not do this.

The Exchange is adding a new Rule 1080(a)(5)(F) and reserving the rule.

New Rule 1080(a)(5)(G) defines an "On the Open Order" as a market or limit order with a designated time-in-force of "OPG." An On the Open Order will be executable only during the opening and cannot be marked as an ISO. If such order is not executed in its entirety during the opening pursuant to Rule 1017, the order, or any unexecuted portion of such order, will be cancelled back to the entering participant. OPG orders submitted after the opening process is complete shall be rejected. This reflects that the order was intended for execution only on the opening and thus is a blend of an order type with a time in force designation; time-in-force designations are discussed below. This definition is similar to NOM Rules, Chapter VI, Section 1(e)(7), except that NOM conducts an opening cross that is different from the Exchange's opening process; also, the Exchange is adding the detail that OPG orders submitted after the opening process is complete are rejected.

New Rule 1080(a)(5)(H) defines an "Intermarket Sweep Order" or "ISO" as a limit order that is designated as an ISO in the manner prescribed by the Exchange and is executed within the System at multiple price levels without respect to Protected Quotations of other Eligible Exchanges as defined in Rule 1083. ISOs may have any Time in Force designation but are treated as IOC (as defined below), are handled within the System pursuant to Exchange rules, and shall not be eligible for routing. Simultaneously with the routing of an ISO to the System, one or more additional limit orders, as necessary, are routed by the entering party to execute against the full displayed

size of any protected bid or offer (as defined in Rule 1083(n)) in the case of a limit order to sell or buy with a price that is superior to the limit price of the limit order identified as an ISO. These additional routed orders must be identified as ISOs.¹⁸ This is being relocated from Rule 1080 at Commentary .03.¹⁹ The Exchange is adding that ISOs may have any Time in Force designation but are always treated as IOC, which is consistent with the statement in Commentary .03 that ISOs are immediately executable. Also, the proposed rule will state that ISOs are handled within the System pursuant to Exchange rules, which is an added detail; this language is intended to replace the current language that states that ISOs are immediately executable within the System or cancelled.

New Rule 1080(a)(5)(I) defines an “All-or-none” order as a contingency order that is market or limit order which is to be executed in its entirety or not at all. This is the same as current Rule 1066(c)(4).²⁰

New Rule 1080(a)(6) provides that the term “Order Size” shall mean the number of contracts up to 999,999 or the maximum number set by the entering participant associated with the Order. This number reflects the largest size order that the System will accept. However, a Participant may determine to establish a different maximum for its order submission.

¹⁸ See NOM rules, Chapter VI, Section 1(e)(8).

¹⁹ The Exchange is adding that may have any Time in Force designation but are treated as IOC, which is consistent with the statement in Rule 1080 at Commentary .03 that ISOs are immediately executable; also, ISOs are handled within the System pursuant to Exchange rules, which is an added detail.

²⁰ The Exchange has previously updated its complex orders provision, Rule 1098, to define all-or-none orders as well as how they are handled. Securities Exchange Act Release Nos. 72351 (June 9, 2014), 79 FR 33977 (June 13, 2014)(SR-Phlx-2014-39); and 76742 (December 22, 2015), 80 FR 81393 (December 29, 2015) (SR-Phlx-2015-49).

New Rule 1080(a)(7) provides that “Time in Force” shall mean the period of time that the System will hold an order for potential execution, which shall include Immediate or Cancel, DAY or Good Til Cancelled designations. Although these terms are used throughout the rules today, they are not explicitly defined. Each will now be defined, as described below.

Pursuant to new Rule 1080(a)(7)(A), Immediate Or Cancel or IOC shall mean, for orders so designated, that if after entry into the System a marketable order (or unexecuted portion thereof) becomes non-marketable, the order (or unexecuted portion thereof) shall be canceled and returned to the entering participant. IOC orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close. This is similar to NOM rules, Chapter VI, Section 1(g)(2)²¹ and provides detail about the handling of IOC orders on the System. However, IOC orders entered between the time specified by the Exchange on its website and 9:30 a.m. Eastern Time (“ET”), will be cancelled.

New Rule 1080(a)(7)(B) provides that, if after entry into the System, a DAY order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution until market close, unless canceled by the entering party, after which it shall be returned to the entering party. DAY orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m., ET, until market

²¹ Whether IOC orders on NOM are rejected depends on how they are entered, but Phlx only has one method of entering IOC orders such that this distinction is not relevant.

close. This is the same as NOM rules, Chapter VI, Section 1(g)(3) and provides detail about the handling of DAY orders on the System.

New Rule 1080(a)(7)(C) provides that Good Til Cancelled or GTC shall mean for orders so designated, that if after entry into System, the order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. (ET) until market close. This is the same as NOM rules, Chapter VI, Section 1(g)(4) and provides detail about the handling of GTC orders on the System.

New Rule 1080(a)(8) defines “System Book Feed” as a data feed for System securities. This is the same as NOM Rules, Chapter VI, Section 1(h), and refers to the general process of gathering the Exchange’s best bid and offer for dissemination to the Options Price Reporting Authority (“OPRA”).

Eligible Orders - Rule 1080(b)

Rule 1080(b) is being updated to provide a more accurate list of accepted order types by participant type. It is also proposed to be retitled as “Eligible Orders and Interest by Participant Type.” Rule 1080(b) is currently organized by participant type and will continue to be.²² First, Rule 1080(b)(i) lists the order types available for agency orders. Agency orders are currently defined as orders entered on behalf of a public customer, and does not include any order entered for the account of a broker-dealer, or any account in which a broker-dealer or an associated person of a broker-dealer has any

²² The Exchange is generally renumbering paragraph (b) as described.

direct or indirect interest. This definition is not changing and covers the participant type commonly known as a “customer.” This provision is being updated to add the following detail: that this includes an order entered on behalf of a professional;²³ that the routing designations appear in Rule 1080(m);²⁴ and that cancel leaves and cancel to change price are not separate order types but rather different types of cancel or cancel replacement orders.²⁵

The reference to “or better” orders is being deleted because these are not accepted; orders are executed at the best price possible under this rule regardless of the use of any such designation that may have been used in the past.

Rule 1080(b)(ii) currently covers orders for the proprietary account(s) of SQTs, RSQTs and non-SQT ROTs, and specialists. The Exchange proposes to delete reference to an “electronic interface with AUTOM” because, as discussed above, AUTOM is an obsolete system. The Exchange also proposes to delete the language in Commentary .04 of Rule 1080 and add the restrictions from that provision into Rule 1080(b)(ii) for ease of reading. This language will continue to require that orders for the proprietary account(s) of non-SQT ROTs and specialists with a size of less than 10 contracts shall be submitted as IOC only.²⁶ Just like Rule 1080(b)(i) pertaining to agency orders, the routing designations will appear in Rule 1080(m) only. Also, cancel orders are being added to

²³ This is not a change to the treatment of professional orders, which are defined in Rule 1000(b)(14).

²⁴ The Exchange proposes this change throughout new Rule 1080(b).

²⁵ The Exchange is deleting reference in various places in new Rule 1080(b) to “simple” cancel orders because that term is not used.

²⁶ The language regarding a minimum size of one contract is not necessary, as there can obviously not be an order for less than one contract.

this provision respecting SQTs and RSQTs only;²⁷ the Exchange considers this an additional detail, as it is logical that orders can be cancelled and such behavior is expected.

Rule 1080(b)(iii) addresses broker-dealer orders. The Exchange proposes to delete stop orders from the list of broker-dealer orders that can be submitted, because stop orders are market orders and broker-dealer orders cannot be market orders; this is a correction. Similar to current Rule 1080(b)(i)(A) and (B), the list of routing designations available for broker-dealer orders is being deleted and replaced with a reference to Rule 1080(m), as is reference to cancel leaves. The restrictions applicable to broker-dealer orders that are currently in Rule 1080.05, which is being deleted, will now be moved to Rule 1080(b)(iii) to keep the provisions applicable to broker-dealer orders together in one place.²⁸

The Exchange is proposing to delete current Rule 1080(b)(ii) regarding additional order types, because relying upon it would result in the need for filing a proposed rule change anyway and it thereby serves no purpose. Specifically, it provides that the Exchange may determine to accept additional types of orders as well as to discontinue accepting certain types of orders. NOM and BX Options do not have this language.

Current Rule 1080(c) refers to the “NBBO Feature,” which is an obsolete feature that executed orders at the NBBO even if the Exchange’s best price was not at the NBBO. It was eliminated and this reference inadvertently remained.

²⁷ The rule already permits specialists and non-SQT ROTs to submit cancels.

²⁸ All of the concepts in Commentary .05 are now covered in this provision.

Exchange rules clearly state that executions occur at the Exchange's best price (commonly known as the PBBO) and executions cannot occur at a price worse than the NBBO pursuant to Rule 1084. Current Rule 1080(c) further provides that executions may occur manually; this is no longer the case. Specialists used to be responsible for manual executions. Phlx XL, a predecessor trading system, eliminated manual executions of System orders; all orders entered into the System can only be executed automatically by the System.²⁹

Current Rule 1080(c)(i), NBBO Calculation, is being updated in several ways. The Exchange is deleting reference to its own quotes from the rule because this would not be an issue of self-help. References to Options Exchange Officials is being deleted, because the Exchange may determine to remove a non-firm exchange quote from its NBBO calculation in a particular series automatically based on the System reading the non-firm designation.

The Exchange is also deleting references to AUTOM messages, which have been replaced with a process of issuing Options Trader Alerts that state when the Exchange employs self-help to remove another exchange's quote pursuant to Rule 1084. The rule is also being updated to eliminate the details of the recordkeeping provision, now that the process is automated, which creates an automatic record.³⁰ Similar changes are proposed to Rule 1080(c)(i)(B), which deals with an exchange ending its non-firm quotation state.

²⁹ Accordingly, the Exchange is deleting references to AUTO-X and related obsolete functionality known as Book Match and Book Sweep.

³⁰ The Exchange notes the Commission's record retention requirements under the Act apply regardless of whether this rule refers to such requirements.

The Exchange proposes to amend Rule 1080(c)(ii)(B) to eliminate the requirement that Order Entry Firms³¹ provide written notice to all Users³² regarding the proper use of AUTO-X. AUTO-X is obsolete.

The Exchange proposes to delete Rule 1080(c)(iii), Quotations Interacting with Limit Orders on the Book. Specifically, because Phlx XL no longer operates, the functionality described in subparagraph (iii)(A) no longer exists, including Auto-Quote and the Book Sweep feature. Phlx XL was replaced by Phlx XL II in 2009 and is now being referred to as the System.³³

Rule 1080(c)(iv) is being deleted because it refers to the possibility of executions being manually handled by the specialist, which cannot occur anymore, as described above. In each case, the provisions are qualified by which system they are referring to. Subparagraph (c)(iv)(G), which provides that no orders will be executed manually, is accurate, but not necessary in light of the first sentence of paragraph (c). Similarly, Rule 1080(c)(v) is also being deleted because it refers to manual executions, Phlx XL and the AUTOM System.

Rule 1080(e), Extraordinary Circumstances, is proposed to be deleted, because it refers to the obsolete functionality of Phlx XL and AUTO-X, as described above. This also involves the deletion of subparagraph (i), because the Emergency Committee no

³¹ See Rule 1080(c)(ii)(A)(1).

³² See Rule 1080(c)(ii)(A)(2).

³³ See Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32).

longer exists pursuant to Rule 98; emergencies related to the System or trading floor are handled pursuant to various other provisions.³⁴

Rule 1080(f), Specialist Obligations, is proposed to be deleted because it refers to obligations that were once applicable to trading on Phlx XL and AUTOM, both of which are obsolete, as discussed above. Similarly, Rule 1080(g), Contra-Party Participation, is being deleted, as Book Match and Phlx XL II are obsolete. The concept of what interest can interact automatically with an order is addressed in various rules, including Rule 1082. Furthermore, Rule 1080(h), Responsibility for AUTOM Orders, is proposed to be deleted because Phlx XL and AUTOM are obsolete, as discussed above.

In addition, the specialist no longer handles or submits orders on behalf of others, such that references to the receipt of order messages are also obsolete. The Exchange is also deleting reference to its AUTOM Service Desk; various operations personnel work in support of the trading floor but the Exchange does not believe their functions need to be described in a rule. By-Law Article VI, Section 6-3 applies to limit liability regardless of whether it is listed in this rule.

The Exchange proposes to update current Rule 1080(i), Zero-bid option series, by deleting references to a bid/ask differential less than or equal to \$0.25, which is not applied. Specifically, this provision covers series where the Exchange's disseminated bid price is zero or the national best bid is zero, in which case the Exchange will convert a market order to sell into a limit order to sell with a limit price of the minimum trading increment applicable to such series. Contrary to the current rule text, this is not limited to situations where the differential is less than or equal to \$0.25 so the Exchange is

³⁴ See By-Law Article VII, Section 7-5, Authority to Take Action Under Emergency or Extraordinary Market Conditions.

correcting the rule. The Exchange believes it is appropriate to convert market orders pursuant to this provision regardless of the bid/ask differential in order to protect as many orders as possible.

The Exchange proposes to add some detail to current Rule 1080(m). Specifically, the Exchange proposes to amend subparagraph (iv)(A) respecting DNR (Do Not Route) orders³⁵ to provide that the Exchange shall expose the order at the NBBO during open trading, not immediately upon receipt, because it may be received when the Exchange is not open for trading. This is merely an additional detail reflecting what a user would expect. The Exchange is also proposing to delete a reference to “moving” to an inferior price level because the existing language that the best away market can change its price to an inferior price level necessarily involves moving such price. This change is just for clarity.

Respecting FIND orders,³⁶ the Exchange proposes to clarify that once evaluated for routing, such orders are not eligible for routing until the next time the option series is subject to a new Opening Process, which does not include a re-opening. If a re-opening occurs, such order does not again become eligible for routing. The Exchange believes that this is appropriate because participants submit orders with routing instructions which they expect to have applied for the life of the order. An unexpected halt and subsequent re-opening of an option during the same trading day should not affect how the order is handled once it has been entered onto the Exchange order book.

³⁵ A DNR order is never routed outside of the Exchange.

³⁶ See Rule 1080(m)(iv)(B).

The Exchange also proposes to state throughout Rule 1080(m)(iv)(B) and (C) that an order may trade at a price better than the PBBO, which is an additional detail. The Exchange always trades at the best price available which may not always be a price that is displayable as part of the PBBO.

The Exchange proposes to add an additional detail to what may occur after a FIND order exhausts the PBBO; currently the rule provides that such order may: (1) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to and including the ABBO price, or (2) be entered into the book at its limit price, or one MPV away from the ABBO if locking or crossing the ABBO. In actuality, the order would always be entered onto the book at its limit price but if it is locking or crossing the ABBO it would be displayed one MPV away from the ABBO. The Exchange believes that this is merely a clarification between the booked price and the displayed price.

The Exchange is also proposing to clarify that during the Route Timer, both a FIND as well as a SRCH order is included in the PBBO not just one MPV away from the ABBO but possibly at the PBBO, whichever is better. This is missing from the current rule text, but the Exchange believes it is beneficial to the order to be displayed at the better price. The same is true after routing such that any remaining size will trade at the next PBBO price or better, subject to the order's limit price.

The Exchange proposes to amend Rule 1080(o), Qualified Contingent Cross Order, to clarify that it must be an electronic order,³⁷ that a Customer contingency order such as an all-or-none order would not be protected, and that the price of the QCC order

³⁷ Non-electronic QCC orders are addressed by Rule 1064(e).

must be at or between not just the NBBO, but the better of the internal PBBO³⁸ or the NBBO. These changes provide additional detail as to when a QCC trade can occur. At the time the QCC order was adopted, the handling of all-or-none orders was not specifically addressed in Exchange rules. A QCC order is part of a qualified contingent trade and must meet the specific definitions.

By way of clarity, the Exchange proposes to narrow the definition of one of the components of a qualified contingent trade (“QCT”)³⁹ to reflect that only certain stock components can be used. Specifically, the Exchange proposes to amend Rule 1080(o)(3)(e) to delete reference to different classes of shares of the same issue and the securities of companies intending to merge; the System will only accept the same underlying security to meet the requirement that the components of a QCC order bear a derivative relationship to one another.

The Exchange proposes to delete the portion of Commentary .01 that states that specialists, SQTs, and RSQTs individually determine which model to select per option and may change models during the trading day. It further provides that each pricing model requires the specialist, SQTs, and RSQTs to input various parameters, such as interest rates, volatilities (delta, vega, theta, gamma, etc.) and dividends. The Exchange is no longer involved in the pricing models that its users choose such that this language is

³⁸ The internal BBO may be better than the PBBO, the disseminated market, because the Exchange may have a quote or order that cannot be displayed at its actual better price. For example, an order limit price may lock an away market, in which case the order is displayed one minimum increment away from the away market price but remains part of the Exchange’s internal BBO at the locking price.

³⁹ The QCT exemption pursuant to Rule 611(d) of Regulation NMS permits the stock component to trade outside of the NBBO.

obsolete. Specialists, SQTs, and RSQTs provide their quotations to the Exchange using their own proprietary models; the Exchange does not offer any.

The Exchange is also proposing to delete Commentary .01(b) which references the throttling of Exchange systems. The Exchange does not perform this sort of detailed throttling as part of its capacity management; this provision was needed during a time period when OPRA experienced capacity issues respecting the number of quotes it received from its participant options exchanges; this is no longer the case and is therefore no longer needed.

The Exchange proposes to delete Commentary .02, which describes the limit order book and what the System displays. This is based on the functionality of legacy systems and is being replaced by Rule 1085, as described below.

The Exchange proposes to delete Commentary .03, which defines an ISO. ISOs are now defined in subparagraph (a)(5)(H) described above. The Exchange proposes to delete Commentary .04 because its provisions will now appear in Rule 1080(b)(ii), as described above. Similarly, the Exchange proposes to delete Commentary.05 because its provisions will now appear in Rule 1080(b)(iii) above.

The Exchange proposes to adopt new Rule 1085, Acceptance of Quotes and Orders, to generally track NOM Rules, Chapter VI, Sections 6 and 7. First, new Rule 1085(a) will provide that a System order is an order that is entered into the System for display and/or execution as appropriate. Such orders are executable against marketable contra-side orders and quotes⁴⁰ in the System. All System Orders shall indicate whether they are a call or put and buy or sell and a price, if any. Systems Orders can be

⁴⁰ The NOM rules generally refer to orders, but orders may include quotes on NOM.

designated as a specified Order Type with a specific Time in Force pursuant to Rule 1080. This is merely adding detail to Exchange rules.

Further, Rule 1085(b) will provide that Options Market Makers may bid and/or offer on either or both side(s) of the market by submitting one or more bids or offers in the form of a two-sided quote or in the form of a sweep. A sweep is a one-sided electronic quotation submitted for execution against other trading interest.⁴¹ Quotes and sweeps are executable against marketable contra-side orders and quotes in the System. Sweeps are processed on an IOC basis, may not be routed, may be entered only at a single price and may not trade through away markets. Although Sweeps are not currently described at this level of detail in Phlx rules, they are referenced in multiple places, including Rule 1082(a)(ii)(C)(3)(a) and for purposes of complex orders in Rule 1098(d)(ii)(B) as well.

New Rule 1085(c), Entry and Display of Orders, will generally track NOM Rules, Chapter VI, Section 7. Specifically, subparagraph (i), Entry of Orders, will provide that Participants can enter orders into the System, subject to the following requirements and conditions: (a) Participants shall be permitted to transmit to the System multiple orders at a single as well as multiple price levels;⁴² (b) the System shall time-stamp an order which shall determine the time ranking of the order for purposes of processing the order; (c) orders can be entered into the System (or previously entered orders cancelled) from the

⁴¹ Sweeps were formerly referred to as Market Sweeps in Rule 1080(c)(iii)(B). Auction Sweeps are sweeps specific to a particular auction. See e.g., Rule 1098(d)(ii)(B).

⁴² NOM rules refer to Reserve Size, which the System does not have.

time prior to market open specified by the Exchange on its website until market close. These provisions further spell out the operations of the System.

New Rule 1085(c)(ii), Display of Orders, provides that the System will display orders submitted to the System as follows: (a) System Book Feed—displayed orders resident in the System available for execution will be displayed via the System Book Feed; and (b) Best Priced Order Display - For each System Security, the aggregate size of all Orders at the best price to buy and sell resident in the System will be transmitted for display to the appropriate network processor.⁴³ This replaces some of the outdated language in Commentary .02 related to display of orders and generally reflects that all orders are displayed. For instance, customers can no longer request that an order not be displayed.⁴⁴

New Rule 1085(c)(iii), Trade-Through Compliance and Locked or Crossed Markets, provides that an order will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. An order that is designated by the member as routable will be routed in compliance with applicable Trade-Through and Locked and Crossed Markets restrictions.⁴⁵ An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions.

If, at the time of entry, an order that the entering party has elected not to make eligible for routing would cause a locked or crossed market violation or would cause a

⁴³ NOM rules contain an exception for Price Improving Orders, which the System does not accept.

⁴⁴ See Rule 1080.02(a)(ii)(B).

⁴⁵ See Rules 1083-1086.

trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price. This tracks NOM Rules, Chapter VI, Section 7. These proposed changes reflect the addition of additional detail.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁴⁶ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁴⁷ in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest by updating Rule 1080 to better describe the Exchange's trading system, including to adopt detailed definitions and order types.

The proposal also updates Rule 1080 by deleting obsolete provisions that refer to legacy systems; on their face, these provisions cannot and do not apply today and this is apparent from the rule text referencing the legacy systems. For instance, Rule 1080(c)(iii)(A) clearly states that it only applies to options traded on the Phlx XL system. Although these provisions, described above, are not incorrect as they applied to prior systems, they are potentially confusing today. The same is true for the deletion of provisions related to the NBBO Feature, Responsibility for AUTOM Orders, Contra-Part Participation, Specialist Obligations, and Extraordinary Market Conditions. The Exchange believes this proposal is consistent with the Act because these deletions should promote just and equitable principles of trade.

⁴⁶ 15 U.S.C. 78f(b).

⁴⁷ 15 U.S.C. 78f(b)(5).

Most of the changes to Rule 1080(a) pertain to updating it to contain a detailed definition of the trading system and its components as well as the available order types. The System is defined with respect to its component parts – order execution, trade reporting and data feeds. Each order type and its attributes are listed, as is each time in force designation. Together, the Exchange believes that new Rule 1080(a) should promote just and equitable principles of trade by enumerating in detail how the System works in terms of the interest that is accepted. None of the order types and time-in-force designations are new. Most of the functionality described in the proposed rule change has already been described in previous proposed rule changes. The Exchange is also moving some Commentary language into the body of the rule, as described above, for easier reading. For these reasons, the Exchange believes this proposal is consistent with the Act.

The Exchange believes that new Rule 1080(b) regarding eligible orders based on participant type is consistent with the Act because it should promote just and equitable principles of trade and protect investors and the public interest because it is being updated to make minor corrections to the availability of certain order types.

With respect to the cancellation of orders, the Exchange believes that deleting references to the “cancel leaves” and “cancel to change price” order types in Rules 1080(b)(i) and (iii) does not impact participants because a straight cancel order remains available as does a cancel replacement order, which could involve changing the price of the order. Similarly, deleting reference to the “or better” order type should also not impact users, as the Exchange believes that it has long not been in use and that the System is designed to provide the best price possible, regardless of any limit price, thus

rendering the “or better” order type unnecessary. Deleting stop orders from subparagraphs (b)(i)(B) and (C) (now proposed subparagraphs (b)(ii) and (iii)) should not be impactful because they are a type of market order that cannot be submitted under this rule by this participant type. Adding cancels for RSQTs and SQTs merely corrects an omission; as stated above, these orders can be cancelled even though the rule did not specifically list these order types, as users would expect. Accordingly, these changes are consistent with the Act because they should promote just and equitable principles of trade and as indicated herein are not impactful.

The Exchange believes that deleting current Rule 1080(b)(ii) regarding additional order types should promote just and equitable principles of trade because any such action would be subject to the filing of a proposed rule change while the existing language implies otherwise.

The Exchange believes that the changes to Rule 1080(c)(i) is consistent with the Act and should promote just and equitable principles of trade by making clear when the Exchange will remove a non-firm exchange quote from its NBBO calculation in a particular series as well as how that will be communicated. Specifically, the Exchange is deleting reference to its own quotes from the rule because this would not be an issue of self-help. References to Options Exchange Officials is being deleted, because the Exchange may determine to remove a non-firm exchange quote from its NBBO calculation in a particular series automatically based on the System reading the non-firm designation. The Exchange is also deleting references to AUTOM messages, which have been replaced with a process of issuing Options Trader Alerts that state when the Exchange employs self-help to remove another exchange’s quote pursuant to Rule 1084.

The rule is also being updated to eliminate the details of the recordkeeping provision, now that the process is automated, which creates an automatic record.

The proposed change to Rule 1080(c)(ii) is consistent with the Act and should promote just and equitable principles of trade by deleting a requirement that pertains to an obsolete system, AUTO-X.

The proposed deletion of Rule 1080(c)(iii) is consistent with the Act and should promote just and equitable principles of trade by eliminating outdated references to Phlx XL and Market Sweep, which should prevent confusion. The proposed deletion of Rule 1080(c)(iv) is consistent with the Act and should promote just and equitable principles of trade by eliminating outdated references to manual executions on Phlx XL, which should prevent confusion. Rule 1080(c)(iv) is being deleted because it refers to the possibility of executions being manually handled by the specialist, which cannot occur anymore. Similarly, the proposed change to Rule 1080(c)(v) is consistent with the Act and should also promote just and equitable principles of trade by eliminating outdated references to manual executions and obsolete systems. This provision refers to manual executions, Phlx XL and the AUTOM System.

Deleting Rule 1080(e) regarding extraordinary circumstances is consistent with the Act and should promote just and equitable principles of trade by eliminating outdated references to obsolete functionality and an obsolete emergency process, which should prevent confusion.

Deleting Rule 1080(f) should promote just and equitable principles of trade by eliminating outdated references obligations related to obsolete functionality.

Deleting Rule 1080(g) should be consistent with the Act and promote just and equitable principles of trade by eliminating outdated references to an obsolete system, which should prevent confusion.

Deleting Rule 1080(h) is consistent with the Act and should promote just and equitable principles of trade by eliminating outdated references to specialist obligations, operations functions and liability provisions, all of which help prevent confusion.

The proposed change to Rule 1080(i) regarding zero bid options is a correction to reflect that all market orders to sell will be converted into limit orders priced at the minimum trading increment regardless of the bid/ask differential. The Exchange believes that this correction should be consistent with the Act and promote just and equitable principles of trade as well as protect investors and the public interest by making it clear what happens to all market orders, not just those for which there is a certain bid/ask differential.

The Exchange believes that the clarifying changes to the DNR order regarding exposure of the order during open trading and changing its price to an inferior price level is consistent with the Act and should promote just and equitable principles of trade by adding additional detail to Rule 1080(m)(iv)(A). The detail would provide participants with additional information as to the manner in which the System operates.

The Exchange believes that the changes to Rule 1080(m)(iv)(B) and (C) regarding the re-opening, trading at a better price, booking the order at its actual price and including orders at the PBBO all help an order get executed is consistent with the Act and should protect investors and the public interest for the reasons which follow. Regarding the re-opening, the Exchange believes that by adhering to the instructions provided by the order

sender it will have the expected result that was anticipated by the order sender. With respect to FIND orders, once evaluated for routing, such orders are not eligible for routing until the next time the option series is subject to a new Opening Process, which does not include a re-opening. If a re-opening occurs, such order does not again become eligible for routing. The Exchange believes that this is appropriate because participants submit orders with routing instructions which they expect to have applied for the life of the order. An unexpected halt and subsequent re-opening of an option during the same trading day should not affect how the order is handled once it has been entered onto the Exchange order book. With respect to trading at a price better than the PBBO, the Exchange always trades at the best price available which may not always be a price that is displayable as part of the PBBO. With respect to booking the order at its actual price after a FIND order exhausts the PBBO; the order would be entered onto the book at its limit price but if it is locking or crossing the ABBO the order would be booked at the ABBO price and displayed one MPV away from the ABBO. The Exchange believes that this is merely a clarification between the booked price and the displayed price. Finally, with respect to including orders at the PBBO, during the Route Timer, both a FIND as well as a SRCH order are included in the PBBO not just one MPV away from the ABBO but possibly at the PBBO, whichever is better. This is missing from the current rule text, but the Exchange believes it is beneficial to the order to be displayed at the better price. The same is true after routing such that any remaining size will trade at the next PBBO price or better, subject to the order's limit price.

The Exchange believes that the changes to Rule 1080(o) that add additional detail about how QCC orders are handled is consistent with the Act and should promote just

and equitable principles of trade by allowing executions when there is a customer all-or-none order; although this potentially impacts such all-or-none orders, it is not uncommon for all-or-none orders to be treated differently because of the complexity of addressing their size contingency.⁴⁸

By requiring that a QCC order be priced at or better than the Exchange's internal market, not just the NBBO, is consistent with the Act and should promote just and equitable principles of trade by preserving the priority of the Exchange's own market, as the Exchange currently does, but the rule text does not address. It is also consistent with the Act and should also promote just and equitable principles of trade to delete the reference to different classes of shares of the same issue and the securities of companies intending to merge from Rule 1080(o)(3)(e) because it makes clear that the System will only accept the same underlying security to meet the requirement that the components of a QCC order bear a derivative relationship to one another. The detail would provide participants with additional information as to the manner in which the System operates.

The Exchange believes that the updates to Rule 1080, Commentary .01 are consistent with the Act and should promote just and equitable of trade by deleting obsolete text pertaining to pricing models and throttling quotations, which would leave Commentary .01 only referencing SQF, which remains the principal method for entering quotes into the System. Updating these provisions should protect investors and the public interest by making the Exchange's rule easier to understand and providing participants with additional information as to the manner in which the System operates.

⁴⁸ See e.g., Rule 1098(e)(vi)(A)(1) and Options Floor Procedure Advice A-9.

The Exchange believes that new Rule 1085, entitled Acceptance of Quotes and Orders,” is consistent with the Act should promote just and equitable principles of trade as well as protect investors and the public interest by spelling out in detail how the System handles quotes and orders. Specifically this rule generally tracks NOM Rules at Chapter VI, Sections 6 and 7. New Rule 1085(a) adds detail to provide market participants with specificity with respect to System orders. The rule will add detail which provides that a System order is an order that is entered into the System for display and/or execution as appropriate. Also, these orders are executable against marketable contra-side orders and quotes in the System. All System Orders shall indicate whether they are a call or put and buy or sell and a price, if any. Systems Orders can be designated as a specified Order Type with a specific Time in Force pursuant to Rule 1080. These requirements would be applied to all market participants. New Rule 1085(b) will provide that Options Market Makers may bid and/or offer on either or both side(s) of the market by submitting one or more bids or offers in the form of a two-sided quote or in the form of a sweep. A sweep is a one-sided electronic quotation submitted for execution against other trading interest.⁴⁹ Quotes and sweeps are executable against marketable contra-side orders and quotes in the System. Sweeps are processed on an IOC basis, may not be routed, may be entered only at a single price and may not trade through away markets. Although Sweeps are not currently described at this level of detail in Phlx rules, they are referenced in multiple places, including Rule 1082(a)(ii)(C)(3)(a) and for purposes of complex orders in Rule 1098(d)(ii)(B) as well. New Rule 1085(c) generally tracks NOM

⁴⁹ Sweeps were formerly referred to as Market Sweeps in Rule 1080(c)(iii)(B). Auction Sweeps are sweeps specific to a particular auction. See e.g., Rule 1098(d)(ii)(B).

Rules, Chapter VI, Section 7. This rule provides details to Participants as to the requirements and conditions for entering orders into the System. Multiple orders may be transmitted to the System at a single as well as multiple price levels, orders will be time-stamped to determine the time ranking of the order for purposes of processing the order and orders can be entered into the System (or previously entered orders cancelled) from the time prior to market open specified by the Exchange on its website until market close. These provisions provide participants with additional information as to the manner in which the System operates.

With respect to new Rule 1085(c)(ii), provide market participants with information related to display of orders. The additional detail in this rule provides that orders residing in the System available for execution will be displayed via the System Book Feed. For each System Security, the aggregate size of all Orders at the best price to buy and sell resident in the System will be transmitted for display to the appropriate network processor. The Exchange's current rules are outdated at Rule 1080, Commentary .02, this new rule text provides greater detail and accurate information about the manner in which orders shall be displayed by the System. It is important to note that customers can no longer request that an order not be displayed. The Exchange believes that this change is consistent with the Act because the proposed rule provides an automated, uniform manner in which the System will display all orders thereby ensuring consistency and uniformity in the treatment of all orders.

With respect to new Rule 1085(c)(iii) the rule text provides that an order will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. An order that is designated by the member as

routable will be routed in compliance with applicable Trade-Through and Locked and Crossed Markets restrictions.⁵⁰ An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions. If, at the time of entry, an order that the entering party has elected not to make eligible for routing would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price. This tracks NOM Rules, Chapter VI, Section 7. These proposed changes adds this detail to this rule and reflects current practices. This amendment is consistent with the Act because it provides detail regarding trade-throughs to market participants which permits a market participant to definitely determine the manner in which the System will handle an order.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule changes serve to add detail to provide market participants with the anticipated expectations when entering orders into the System. Many of the rule changes do not cause an impact on competition because they will not change the manner in which the Exchange operates. Many of the changes are intended to remove obsolete language, and deleting obsolete provisions does not impact competition because the language is not in operation. The proposal is not designed to address competitive issues, but rather to provide additional specificity and transparency to the marketplace regarding

⁵⁰ See Rules 1083-1086.

the Exchange's options trading system, its functionality and order types. The proposed rule change does not change the actual operation of any those aspects of the system.

Deleting obsolete provisions that refer to legacy systems does not impose an undue burden on competition because these provisions cannot and do not apply today. This is true for the deletion of provisions related to the NBBO Feature, Responsibility for AUTOM Orders, Contra-Part Participation, Specialist Obligations, and Extraordinary Market Conditions.

New Rule 1080(a) proposes a detailed definition of the trading system and its components as well as the available order types. The System is defined with respect to its component parts – order execution, trade reporting and data feeds. Each order type and its attributes are listed, as is each time in force designation. These provisions do not impose an undue burden on competition, rather they provide market participants with valuable information as to the operation of the System. Also, none of the order types and time-in-force designations are new. Most of the functionality described in the proposed rule change has already been described in previous proposed rule changes. The Exchange is relocating current rule text from the Commentary to provide all the information in a central location in the rules.

New Rule 1080(b) regarding eligible orders based on participant type does not impose an undue burden on competition because this rule will be applied uniformly to all market participants. The Exchange proposed minor corrections regarding the availability of certain order types.

Deleting references to the “cancel leaves” and “cancel to change price” order types, deleting reference to the “or better” order type and deleting the stop order does not

impose an undue burden on competition because a straight cancel order remains available as does a cancel replacement order. These rule changes will be applied uniformly to all Participants.

Adding cancels for RSQs and SQs merely corrects an omission; as stated above, these orders can be cancelled even though the rule did not specifically list these order types, as users would expect, so no undue burden on competition because this is the practice today and is applied to all market participants with this addition.

Deleting current Rule 1080(b)(ii) regarding additional order types does not impose an undue burden on competition because it requires the Exchange to file proposed changes.

The amendments to Rule 1080(c)(i) do not impose an undue burden on competition is consistent with the Act because the Exchange will uniformly remove a non-firm exchange quote from its NBBO calculation in a particular series. Deletions to its own quotes, Options Exchange Officials and AUTOM messages bring clarity to the rules and will be uniformly applied among Participants.

Eliminating outdated references to old system and manual executions on Phlx XL do not impose an undue burden on competition because these terms do not apply today and there is no possibility executions could be manually handled by the specialist.

Deleting obsolete language in Rules 1080(e) – (h) does not impose an undue burden on competition because the functionality is not available.

The proposed change to Rule 1080(i) regarding zero bid options is a correction to reflect that all market orders to sell will be converted into limit orders priced at the minimum trading increment regardless of the bid/ask differential. This rule change does

not impose an undue burden on competition because it makes clear what happens to all market orders, not just those for which there is a certain bid/ask differential and will be applied uniformly to all Participants.

The Exchange believes that the clarifying changes to the DNR order regarding exposure of the order during open trading and changing its price to an inferior price level does not impose an undue burden on competition because it will be applied uniformly to all Participants.

The Exchange believes that the changes to Rule 1080(m)(iv)(B) and (C) regarding the re-opening, trading at a better price, booking the order at its actual price and including orders at the PBBO all help an order get executed do not impose an undue burden on competition because the rules will be applied uniformly to all Participants. Also, participants who submit orders with routing instructions which expect to have the instructions applied for the life of the order. An unexpected halt and subsequent re-opening of an option during the same trading day should not affect how the order is handled once it has been entered onto the Exchange order book.

With respect to trading at a price better than the PBBO this amendment does not impose an undue burden on competition because the Exchange always trades at the best price available which may not always be a price that is displayable as part of the PBBO. With respect to booking the order at its actual price after a FIND order exhausts the PBBO; the order would always be entered onto the book at its limit price but if it is locking or crossing the ABBO it would be displayed one MPV away from the ABBO. The Exchange believes this clarification between the booked price and the displayed

price does not impose an undue burden on competition because it clarifies current behavior which is consistent with the function of the System as a whole.

With respect to including orders at the PBBO, during the Route Timer, both a FIND as well as a SRCH order is included in the PBBO not just one MPV away from the ABBO but possibly at the PBBO, whichever is better. This rule change does not impose an undue burden on competition because it is beneficial to the order to be displayed at the better price. The same is true after routing such that any remaining size will trade at the next PBBO price or better, subject to the order's limit price.

The Exchange believes that the changes to Rule 1080(o) that add additional detail about how QCC orders are handled does not impose an undue burden on competition because it allows executions when there is a customer all-or-none order; although this potentially impacts such all-or-none orders, it is not uncommon for all-or-none orders to be treated differently because of the complexity of addressing their size contingency.⁵¹

By requiring that a QCC order be priced at or better than the Exchange's internal market, not just the NBBO, does not impose an undue burden on competition because the priority of the Exchange's own market is preserved.

It does not impose an undue burden on competition to delete the reference to different classes of shares of the same issue and the securities of companies because it makes clear that the System will only accept the same underlying security to meet the requirement that the components of a QCC order bear a derivative relationship to one another.

⁵¹ See e.g., Rule 1098(e)(vi)(A)(1) and Options Floor Procedure Advice A-9.

The Exchange believes the adoption of new Rule 1085, entitled Acceptance of Quotes and Orders,” does not impose an undue burden on competition because this rule which spells out in detail how the System handles quotes and orders would be applied uniformly to all Participants. Additionally, this rule generally tracks NOM Rules at Chapter VI, Sections 6 and 7.

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. Please include File Number SR-Phlx-2016-87 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-2016-87. 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-2016-87 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.⁵²

Robert W. Errett
Deputy Secretary

⁵² 17 CFR 200.30-3(a)(12).

EXHIBIT 5

New text is underlined and deleted text is in brackets.

NASDAQ PHLX Rules

* * * * *

Rule 1080. [Phlx]Trading Systems

(a) [General—AUTOM is the Exchange's electronic order delivery and reporting system, which provides for the automatic entry and routing of Exchange-listed equity options, index options and U.S. dollar-settled foreign currency options orders to the Exchange trading floor. Orders delivered through AUTOM may be executed manually, or certain orders are eligible for AUTOM's automatic execution feature, AUTO-X, in accordance with the provisions of this Rule. Equity option, index option and U.S. dollar-settled foreign currency option specialists are required by the Exchange to participate in AUTOM and its features and enhancements. Option orders entered by Exchange member organizations into AUTOM are routed to the appropriate specialist unit on the Exchange trading floor. AUTOM and AUTO-X were replaced by the Phlx XL System, such that references to both terms refer to Phlx XL.

Phlx XL II is the Exchange's new, enhanced options trading system.

This Rule shall govern the orders, execution reports and administrative messages ("order messages") transmitted between the offices of member organizations and the trading floors of the Exchange through AUTOM.

All references to "ROTs" in this Rule 1080 are the Phlx Registered Options Traders as defined in Exchange Rule 1014(b).

The opening of trading is governed by Rule 1017.]

Trading System Definitions. The following definitions apply to the trading of options on the System.

(1) The term "System" shall mean the automated system for order execution and trade reporting owned and operated by the Exchange which comprises:

(A) an order execution service that enables Participants to automatically execute transactions in System Securities; and provides Participants with sufficient monitoring and updating capability to participate in an automated execution environment;

(B) a trade reporting service that submits "locked-in" trades for clearing to a registered clearing agency for clearance and settlement; transmits last-sale reports

of transactions automatically to the Options Price Reporting Authority for dissemination to the public and industry; and provides participants with monitoring and risk management capabilities to facilitate participation in a "locked-in" trading environment;

(C) the following data feeds:

(i) Top of PHLX Options (TOPO) - A data feed that provides the Exchange's Best Bid and Offer and last sale information for trades executed on the System.

(ii) PHLX Orders – A data feed that provides the real-time status of orders, including complex orders, on the order book.

(iii) PHLX Depth of Market – A data feed that provides the full depth of quotes and orders on the System.

(2) The term "System Securities" shall mean all options that are currently trading on the System. All other options shall be "Non System Securities."

(3) The term "Participant" shall include Options Market Makers and Options Order Entry Firms that are registered to enter quotes and orders into the System.

(i) An "Options Market Maker" includes specialists and Registered Options Traders (including SQTs and RSQTs) and Non-SQT ROTs.

(ii) Options Order Entry Firms are member organizations that submit orders on behalf of their customers, including non-broker-dealer customers (including professionals), broker-dealers and Options Market Makers.

(4) The term "Order" shall mean a single order submitted to the System by a Participant that is eligible to submit such orders.

(5) The term "Order Type" shall mean the unique processing prescribed for designated orders that are eligible for entry into the System, and shall include:

(A) "Cancel-replacement order" shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order with new terms and conditions. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will not retain the priority of the cancelled order.

(B) “Limit Order” shall mean an order to buy or sell an option at a specified price or better. A limit order is marketable when, for a limit order to buy, the order is priced at the current inside offer or higher, or for a limit order to sell, the order is priced at the inside bid or lower.

(C) “Stop Order” shall mean a contingency order to buy or sell when a trade or quote on the Exchange for a particular option contract reaches a specified price. A stop order to buy becomes a market order when the option contract trades or is bid on the Exchange at or above the stop price. A stop order to sell becomes a market order when the option contract trades or is offered on the Exchange at or below the stop price. A stop order shall not be elected by a trade that is reported late or out of sequence or by a complex order trading with another complex order.

(D) A “Stop-limit Order” is a contingency order to buy or sell at a limit price when a trade or quote on the Exchange for a particular option contract reaches a specified price. A stop-limit order to buy becomes a limit order executable at the limit price or better when the option contract trades or is bid on the Exchange at or above the stop-limit price. A stop-limit order to sell becomes a limit order executable at the limit price or better when the option contract trades or is offered on the Exchange at or below the stop-limit price. A stop or stop-limit order shall not be elected by a trade that is reported late or out of sequence or by a complex order trading with another complex order.

(E) “Market Order” shall mean an order to buy or sell at the best price available at the time of execution.

(F) Reserved.

(G) The term “On the Open Order” shall mean a market or limit order with a designated time-in-force of "OPG." An On the Open Order will be executable only during the opening and cannot be marked as an ISO. If such order is not executed in its entirety during the opening, the order, or any unexecuted portion of such order, will be cancelled back to the entering participant. OPG orders submitted after the opening process is complete shall be rejected.

(H) “Intermarket Sweep Order” or “ISO” are limit orders that are designated as ISOs in the manner prescribed by the Exchange and are executed within the System at multiple price levels without respect to Protected Quotations of other Eligible Exchanges as defined in Rule 1083. ISOs may have any Time in Force designation but are treated as IOC, are handled within the System pursuant to Exchange rules, and shall not be eligible for routing.

Simultaneously with the routing of an ISO to the System, one or more additional limit orders, as necessary, are routed by the entering party to execute against the full displayed size of any protected bid or offer (as defined in Rule 1083(n)) in the case of a limit order to sell or buy with a price that is superior to the limit price of the limit order identified as an ISO. These additional routed orders must be identified as ISOs.

(I) “All-or-none” shall mean a contingency market or limit order which is to be executed in its entirety or not at all.

(6) The term “Order Size” shall mean the number of contracts up to 999,999 or the maximum number set by the entering participant associated with the Order.

(7) The term “Time in Force” shall mean the period of time that the System will hold an order for potential execution, and shall include:

(A) “Immediate Or Cancel” or “IOC” shall mean for orders so designated, that if after entry into the System a marketable order (or unexecuted portion thereof) becomes non-marketable, the order (or unexecuted portion thereof) shall be canceled and returned to the entering participant. IOC Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close. IOC Orders entered between the time specified by the Exchange on its website and 9:30 a.m. Eastern Time will be cancelled.

(B) “DAY” shall mean for orders so designated, that if after entry into the System, the order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution until market close, unless canceled by the entering party, after which it shall be returned to the entering party. DAY Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close.

(C) “Good Til Cancelled” or “GTC” shall mean for orders so designated, that if after entry into System, the order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close.

(8) The term “System Book Feed” shall mean a data feed for System securities.

(b) Eligible Orders and Interest by Participant Type

(i) [The following types of orders are eligible for entry into AUTOM:

(A) Agency orders may be entered.] The following types of agency orders and Time in Force designations are eligible for [AUTOM:]entry into the System: day, GTC, [Immediate or Cancel ("IOC")], [Intermarket Sweep Order ("ISO")], market, limit, stop, stop-limit, all-or-none, [or better, simple]cancel, [simple cancel to reduce size (cancel leaves), cancel to change price,]cancel with replacement order, opening-only-market order, and limit on opening [order, and possible duplicate]orders. For purposes of Exchange options trading, an agency order is any order entered on behalf of a public customer (which includes an order entered on behalf of a professional), and does not include any order entered for the account of a broker-dealer, or any account in which a broker-dealer or an associated person of a broker-dealer has any direct or indirect interest. [Respecting Phlx XL II,]Certain routing instructions are also permitted pursuant to [the following order types are also permitted: DNR order, SRCH order, and FIND order; see]Rule 1080(m).

([B]ii) Orders for the proprietary account(s) of SQTs, RSQTs and [n]Non-SQT ROTs and specialists via electronic interface with AUTOM]may be entered[, subject to the restrictions on order entry set forth in Commentary .04 of this Rule].

(1) The following types of orders for the proprietary account(s) of [n]Non-SQT ROTs and specialists with a size of 10 contracts or greater are eligible for entry[via electronic interface with AUTOM]: GTC, day limit, IOC, ISO, limit on opening and [simple]cancel. Orders for the proprietary account(s) of [n]Non-SQT ROTs and specialists with a size of less than 10 contracts shall be submitted as IOC only. Certain routing instructions are also permitted pursuant to Rule 1080(m).

(2) The following types of orders for the proprietary account(s) of SQTs and RSQTs are eligible for entry [via electronic interface with AUTOM]: limit on opening, IOC, ISO, cancel and day limit. [Respecting Phlx XL II, the following order types are also permitted: DNR order, SRCH order, and FIND order; see] Certain routing instructions are also permitted pursuant to Rule 1080(m). Orders for the proprietary account(s) of SQTs and RSQTs with a size of less than 10 contracts shall be submitted as IOC only.

([C]iii) Off-floor broker-dealer limit orders[, subject to the restrictions on order entry set forth in Commentary .05 of this Rule,] may be entered for a minimum size of one contract. The following types of broker-dealer limit orders are eligible[for AUTOM]: day, GTC, IOC, ISO, [stop,]stop-limit, [simple]cancel, [simple cancel to reduce size (cancel leaves), cancel to change price,]cancel with replacement order, limit on opening order. [Respecting Phlx XL II, the

following order types are also permitted: DNR order, SRCH order, and FIND order; see Certain routing instructions are also permitted pursuant to Rule 1080(m). For purposes of this Rule 1080, the term "off-floor broker-dealer order" means an order delivered from off the floor of the Exchange by or on behalf of a broker-dealer for the proprietary account(s) of such broker-dealer, including an order for a market maker located on an exchange or trading floor other than the Exchange's trading floor delivered [via AUTOM]electronically for the proprietary account(s) of such market maker.

Off-floor broker-dealer limit orders are subject to the following other provisions:

(A) The restrictions and prohibitions concerning off-floor market makers set forth in Rule 1080(j).

(B) Off-floor broker-dealer limit orders establishing a bid or offer may establish priority, and the specialist and crowd may match such a bid or offer and be at parity, except as provided in Exchange Rule 1014(g)(i)(A).

[(ii) The Exchange may determine to accept additional types of orders as well as to discontinue accepting certain types of orders.]

[(ii)iv) Orders may not be unbundled for the purposes of eligibility for the System [AUTOM and AUTO-X,]nor may a firm solicit a customer to unbundle an order for this purpose.

(c) [Phlx XL]The System automatically executes eligible orders using the Exchange best bid and offer ("PBBO").[disseminated quotation (except if executed pursuant to the NBBO Feature in sub-paragraph (i) below) and then automatically routes execution reports to the originating member organization. AUTOM orders not eligible for AUTO-X are executed manually in accordance with Exchange rules. Manual execution may also occur when AUTO-X is not engaged, such as pursuant to sub-paragraph (iv) below. An order may also be executed partially by AUTO-X and partially manually. The terms "Book Match" and "Book Sweep" are subsumed under the term "AUTO-X" for purposes of these rules.]

[In Phlx XL II, r]Respecting situations in which the Quote Exhaust feature is engaged, the [s]System will automatically execute transactions as set forth in Rule 1082.

[The Exchange may for any period restrict the use of AUTO-X on the Exchange in any option or series provided that the effectiveness of any such restriction shall be conditioned upon its having been approved by the Securities and Exchange Commission pursuant to Section 19(b) of the Securities Exchange Act of 1934 and the rules and regulations thereunder. Any such restriction on the use of AUTO-X approved by the Exchange will be clearly communicated to Exchange membership and AUTOM users on

the Exchange's web site. Such restriction would not take effect until after such communication has been made

The Exchange shall provide automatic executions for eligible customer and broker-dealer orders up to the Exchange's disseminated size as defined in Exchange Rule 1082 except with respect to orders eligible for "Book Match."]

(i) NBBO Calculation

(A) Where [an Options Exchange Official determines that]quotes in options on [the Exchange or]another market or markets are subject to relief from the firm quote requirement set forth in the SEC Quote Rule[, as defined in Exchange Rule 1082(a)(iii) (the "Quote Rule")], [customer market]orders will receive an automatic execution at or better than the NBBO based on the best bid or offer in markets whose quotes are not subject to such relief [from the firm quote requirement set forth in the Quote Rule]. Such determination may be made by way of notification from another market that its quotes are not firm or are unreliable; administrative message from the Option Price Reporting Authority ("OPRA"); quotes received from another market designated as "not firm" using the appropriate indicator; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are not firm. [AUTOM customers will be duly notified via electronic message from AUTOM that such quotes are excluded from the calculation of NBBO. The Exchange may determine to exclude quotes from its calculation of NBBO on a series-by-series basis or issue-by-issue basis, or may determine to exclude all options quotes from an exchange, where appropriate, under the conditions set forth above.]The Exchange shall maintain a record of each instance in which another exchange's quotes are excluded from the Exchange's calculation of NBBO, and shall notify such other exchange that its quotes have been so excluded. [Such documentation shall include: identification of the option(s) affected by such action; the date and time such action was taken and concluded; identification of the other exchange(s) whose quotes were excluded from the Exchange's calculation of NBBO; identification of the Options Exchange Official who approved such action; the reasons for which such action was taken; and identification of the specialist and the specialist unit. The Exchange will maintain these documents pursuant to the record retention requirements of the Securities Exchange Act of 1934 and the rule and regulations thereunder.]

(B) Where [an Options Exchange Official determines that]quotes in options [on the Exchange or]another market or markets previously subject to relief from the firm quote requirement set forth in the Quote Rule are no longer subject to such relief, such quotations will be included in the calculation of NBBO for such options. Such determination may be made by way of notification from another market that its quotes are firm; administrative message from [the Option Price Reporting Authority ("OPRA")]; and/or telephonic or electronic

inquiry to, and verification from, another market that its quotes are firm. [AUTOM customers will be duly notified via electronic message from AUTOM that such quotes are again included in the calculation of NBBO.]

(ii) **Order Entry Firms and Users**

(A) Definitions

- (1) The term “Order Entry Firm” means a member organization of the Exchange that is able to route orders to [AUTOM]the System.
- (2) The term “User” means any person or firm that obtains access to [AUTO-X] the System through an Order Entry Firm.

(B) Obligations of Order Entry Firms. Order Entry Firms shall[:

- (1) C]comply with all applicable Exchange options trading rules and procedures[;
- (2) Provide written notice to all Users regarding the proper use of AUTO-X; and].

(C) Order Entry Firms shall comply with the following requirements when interacting with orders on the limit order book which they represent as agent.

- (1) Principal Transactions: Order Entry Firms may not execute as principal against orders on the limit order book they represent as agent unless: (a) agency orders are first exposed on the limit order book for at least one (1) second, (b) the Order Entry Firm has been bidding or offering on the Exchange for at least one (1) second prior to receiving an agency order that is executable against such order, (c) the Order Entry Firm proceeds in accordance with the crossing rules contained in Rule 1064, (d) the orders are entered into Price Improvement XL or “PIXL” pursuant to Rule 1080 (n), (e) the orders are entered into the Complex Order Live Auction or “COLA” pursuant to Rule 1080, Commentary .02(c)(ii)(e), or (f) orders entered into the Qualified Contingent Cross or “QCC” mechanism pursuant to Rules 1080(o).
- (2) Solicitation Orders. Order Entry Firms must expose orders they represent as agent for at least one (1) second before such orders may be automatically executed, in whole or in part, against orders solicited from members and non-member broker-dealers to transact with such orders, except for: (a) orders entered into PIXL pursuant to Rule 1080 (n), (b) orders entered into COLA pursuant to Rule 1080, Commentary .02(c)(ii)(e), or (c) orders entered into the QCC mechanism pursuant to Rules 1080(o).

(3) It shall be a violation of Rule 1080(c)(ii)(C) for any Exchange member or member organization to be a party to any arrangement designed to circumvent Rule 1080(c)(ii)(C) by providing an opportunity for a customer, member, member organization, or non-member broker-dealer to execute immediately against agency orders delivered to the Exchange, whether such orders are delivered via [AUTOM]the System or represented in the trading crowd by a member or a member organization, except for: (a) orders entered into PIXL pursuant to Rule 1080 (n), (b) orders entered into COLA pursuant to Rule 1080, Commentary .02(c)(ii)(e), or (c) orders entered into the QCC mechanism pursuant to Rules 1080(o).

[(iii) Quotations Interacting With Limit Orders on the Book.

(A) Respecting options traded on the Phlx XL system, when the bid or offer generated by the Exchange's Auto-Quote system, SQF (as defined in Commentary .01(b)(i) of this Rule), or by an SQT or RSQT (as defined in Rule 1014(b)(ii)) matches or crosses the Exchange's best bid or offer in a particular series as established by an order on the limit order book, orders on the limit order book in that series will be automatically executed and automatically allocated in accordance with Exchange rules. If Book Sweep is not engaged at the time the Auto-Quote, SQF, RSQT or SQT bid or offer matches or crosses the Exchange's best bid or offer represented by a limit order on the book, the specialist, RSQT, or SQT may manually initiate the Book Sweep feature.

(B) Respecting options traded on the Phlx XL II system, Market Sweep will replace Book Sweep order processing. A Market Sweep is composed of one or more single-sided quotes submitted by a Phlx XL II participant to automatically execute at multiple order price levels and a single quote price level. A Market Sweep will execute against both quotes and orders, but when a quote level is exhausted, the system will cancel the balance of the Market Sweep back to the entering party to allow quotes to be updated. Market Sweeps are processed on an immediate-or-cancel basis, may not be routed, may be entered only at a single price, and may not trade through away markets.

(iv) Except as otherwise provided in this Rule, in the following circumstances, an order otherwise eligible for automatic execution will instead be manually handled by the specialist:

(A) RESERVED;

(B) Respecting options traded on Phlx XL, the AUTOM System is not open for trading when the order is received (which is known as a pre-market order);

(C) Respecting options traded on Phlx XL, the disseminated market is produced during an opening or other rotation;

(D) Respecting options traded on Phlx XL, when the Exchange's best bid or offer is represented by a limit order on the book (except with respect to orders eligible for "Book Sweep" as described in Rule 1080(c)(iii) above, and "Book Match" as described in Rule 1080(g)(ii) below);

(E) Respecting options traded on Phlx XL, if the Exchange's bid or offer is not the NBBO; and

(F) Reserved.

(G) Respecting options traded on the Phlx XL II system, no orders will be executed manually.

The Exchange's systems are designed and programmed to identify the conditions that cause inbound orders to be ineligible for automatic execution. Once it is established that inbound orders are ineligible for automatic execution, Exchange staff has the ability to determine which of the above conditions occurred.

(v) Respecting options traded on Phlx XL, in situations in which the Exchange receives a market order that is not eligible for automatic execution because of any of the conditions described in Rule 1080(c)(iv), such market order, if not already executed manually by the specialist, will nonetheless be executed automatically when: (A) a limit order resting on the limit order book or a quotation that was not priced at the NBBO at the time such market order was received, becomes priced at the NBBO; or (B) an inbound limit order or quotation priced at or better than the NBBO is received before the specialist has manually executed such market order. In each case, the AUTOM System will automatically execute the market order against such resting limit order or quotation, or against such inbound limit order or quotation, at or better than the NBBO price.

(vi) RESERVED]

(d) **Hours**—The [AUTOM]System accepts orders beginning at a time specified by the Exchange and communicated on the Exchange's web site. Orders received by the close of trading, as determined electronically by the [AUTOM]System, are eligible for execution. Orders received after such time will be rejected and returned to the order entry firm.

(e) [**Extraordinary Circumstances**—Respecting options traded on the Phlx XL system, in the event extraordinary circumstances with respect to a particular class of options exist, an Options Exchange Official may determine to disengage AUTO-X with respect to that option, in accordance with Exchange procedures. Five minutes subsequent to the disengagement of AUTO-X for extraordinary circumstances (and every 15 minutes thereafter as long as AUTO-X is disengaged), the requesting specialist or his/her designee, an Options Exchange Official, and a designated regulatory staff person, shall re-evaluate the circumstances to determine if the extraordinary circumstances still exist. AUTO-X will be re-engaged when either: (i) the specialist or his/her designee determines

that the conditions supporting the extraordinary circumstances no longer exist, at which time the specialist or his/her designee shall inform the regulatory staff that the extraordinary circumstances no longer exist and that the specialist is re-engaging AUTO-X; or (ii) when an Options Exchange Official and the designated regulatory staff person determine that the conditions supporting the extraordinary circumstances no longer exist. In the event extraordinary conditions exist floor-wide, an Options Exchange Official may determine to disengage the AUTO-X feature floor-wide. Five minutes subsequent to a floor-wide disengagement of AUTO-X for extraordinary circumstances (and every 15 minutes thereafter as long as AUTO-X is disengaged), an Options Exchange Official and a designated regulatory staff person shall re-evaluate the circumstances to determine if the extraordinary circumstances still exist. AUTO-X will be re-engaged when either: (1) the specialist determines that the conditions supporting the extraordinary circumstances no longer exist for their particular class of options at which time the specialist or his/her designee will inform regulatory staff that the extraordinary circumstances no longer exist for their particular class of options and that the specialist is re-engaging AUTO-X; or (2) when an Options Exchange Official and the designated regulatory staff person determine that the extraordinary circumstances no longer exist. The NBBO Feature is always disengaged when AUTO-X is disengaged.

Extraordinary circumstances include market occurrences and system malfunctions that impact a specialist's ability to accurately price and disseminate option quotations in a timely manner. Such occurrences include fast market conditions such as volatility, order imbalances, volume surges or significant price variances in the underlying security in the case of equity options or in the underlying currency in the case of U.S. dollar-settled foreign currency options; internal system malfunctions including the Exchange's Auto-Quote system; or malfunctions of external systems such as specialized quote feed, or delays in the dissemination of quotes from the Option Price Reporting Authority; or other similar occurrences.

The Exchange shall document any action taken to disengage AUTO-X pursuant to this Rule 1080(e), and shall notify all AUTOM Users of each instance in which AUTO-X is disengaged due to extraordinary circumstances. Such documentation shall include: identification of the option(s) affected by such action (except in a case of floor-wide disengagement); the date and time such action was taken and concluded; identification of the Options Exchange Official who approved such action, the reasons for which such action was taken; identification of the specialist and the specialist Unit (or in the case of floor-wide disengagement, identification of the Exchange designee); and identification of the regulatory staff person monitoring the situation. The Exchange will maintain these documents pursuant to the record retention requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder.

- (i) The Exchange's Emergency Committee, pursuant to Rule 98, may take other action respecting AUTOM in extraordinary circumstances.

(f) **Specialist Obligations**—Respecting options traded on Phlx XL, a specialist must accept eligible orders delivered through AUTOM. A specialist must comply with the

obligations of Rule 1014, as well as other Exchange rules, in the handling of AUTOM orders.

- (i) RESERVED.
- (ii) A specialist must respond promptly to all messages communicated through AUTOM, including order entry, execution and cancellation and replacement of orders as well as administrative messages.
- (iii) A specialist is responsible for the remainder of an AUTOM order where a partial execution occurred.
- (iv) A specialist is responsible for the visibility to the trading crowd of both the screens displaying incoming AUTO-X orders as well as bids/offers for the at-the-money strike prices in displayed options.
- (v) To ensure proper notification to AUTOM users, a specialist must promptly notify the Surveillance Post of any AUTOM-related Options Exchange Official approval in order for such approval to be valid.

(g) **Contra-Party Participation**—Respecting options traded on the Phlx XL system:

- (A) **Book Match**—For purposes of this sub-paragraph, the contra-side to automatically executed inbound marketable orders shall be a limit order on the book or specialist, RSQT and/or SQT electronic quotes ("electronic quotes") at the disseminated price where: (1) the Exchange's disseminated size includes limit orders on the book and/or electronic quotes at the disseminated price; and (2) the disseminated price is the National Best Bid or Offer. This feature is called Book Match. However, respecting options trading on the Phlx XL II system, the contra-side to automatically executed inbound marketable orders can also be a sweep, pursuant to Rule 1082.

(h) **Responsibility for AUTOM Orders**—Respecting options traded on Phlx XL, a member organization who initiates the transmission of an order message to the floor (the "initiating member") through AUTOM is responsible for that order message up to the point that a legible and properly formatted copy of the order message is received on the trading floor by the specialist unit. Thereafter, the specialist who is registered in the option specified in the order message is responsible for the contents of the order message received and is responsible for the order until one of the following occurs: (i) an execution report for the entire amount of the order is properly sent; (ii) a cancellation acknowledgement is properly sent; or (iii) an order properly expires.

For the convenience of members using AUTOM, the Exchange provides an AUTOM Service Desk to assist on the trading floor in the operation of AUTOM. In accordance with Exchange By-Law Article VI, Section 6-3, the Exchange shall not be liable for any loss, expenses or damage resulting from or claimed to have resulted from the acts, errors

or omissions of its agents, employees or members in connection with AUTOM, or the AUTOM System.

(i) **Zero-bid option series.** The [AUTOM]System will convert market orders to sell a particular option series to limit orders to sell with a limit price of the minimum trading increment applicable to such series that are received when:

(A) For options listed only on the Exchange[:], [(1)] the Exchange's disseminated bid price in such option series is zero[:; and].

[(2) the Exchange's disseminated quotation in the series has a bid/ask differential less than or equal to \$0.25; or]

(B) For options that are listed on multiple exchanges[:],[(1)] the disseminated NBBO includes a bid price of zero in the series[:; and

(2) the Exchange's disseminated quotation in the series has a bid/ask differential less than or equal to \$0.25].

Such orders will be automatically placed on the limit order book in price-time priority.

(j) **Limitations on Orders.** Members shall not enter, or facilitate entry into [Phlx XL]the System, as principal or agent, limit orders in the same options series from off the floor of the Exchange, for the account or accounts of the same or related beneficial owners, in such a manner that the off floor member or the beneficial owner(s) effectively is operating as a market maker by holding itself out as willing to buy and sell such options contract on a regular or continuous basis. In determining whether an off floor member or beneficial owner effectively is operating as a market maker, the Exchange will consider, among other things: the simultaneous or near-simultaneous entry of limit orders to buy and sell the same options contract; the multiple acquisition and liquidation of positions in the same options series during the same day; and the entry of multiple limit orders at different prices in the same options series.

The limitation set forth in this Rule 1080(j) does not apply to the accounts of off-floor broker dealers or Professionals as the term is defined in Rule 1000(b)(14). Notwithstanding the foregoing, the limitation in Rule 1080(j) above will continue to apply to all-or-none orders submitted by Professionals to the Exchange.

(k) **Electronic Streaming Quotations.** SQTs may generate and submit option quotations if such SQT is physically present on the Exchange floor, and RSQTs may generate and submit option quotations from off the floor of the Exchange, electronically.

[Respecting options trading on Phlx XL II,]specialists, SQTs and RSQTs who are quoting in an option may also submit Sweeps, which are defined in and governed by Rule 1082.

(l) **Directed Orders.** Specialists, RSQTs and SQTs may receive Directed Orders (as defined in this Rule) in accordance with the provisions of this Rule 1080(l).

(i) Definitions

(A) The term “Directed Order” means any order (other than a stop or stop-limit order as defined in Rule 1066) to buy or sell which has been directed to a particular specialist, RSQT, or SQT by an Order Flow Provider, as defined below. To qualify as a Directed Order, an order must be delivered to the Exchange via [AUTOM]the System.

(B) The term “Order Flow Provider” (“OFP”) means any member or member organization that submits, as agent, orders to the Exchange.

(C) The term “Directed Specialist, RSQT, or SQT” means a specialist, RSQT, or SQT that receives a Directed Order.

(ii) When the Exchange's disseminated price is the NBBO at the time of receipt of the Directed Order, and the Directed Specialist, SQT or RSQT is quoting at the Exchange's disseminated price, the Directed Order shall be automatically executed and allocated in accordance with Rule 1014(g)(viii).

(iii) When the Exchange's disseminated price is the NBBO, and the quotation disseminated by the Directed Specialist, RSQT, or SQT on the opposite side of the market from the Directed Order is inferior to the NBBO at the time of receipt of the Directed Order, the Directed Order shall be automatically executed and allocated to those quotations and orders at the NBBO in accordance with Exchange Rule 1014(g)(vii).

(iv) If the Exchange's disseminated price is not the NBBO at the time of receipt of the Directed Order, the Directed Order shall be handled [by the specialist] in accordance with Exchange rules.

(m) **Away Markets and Order Routing**

The [Phlx XL II s]System will route FIND and SRCH Orders (as defined below) with no other contingencies. IOC Orders will be cancelled immediately if not executed, and will not be routed. Eligible orders can be designated as either available for routing or not available for routing. Routable FIND and SRCH Orders (as defined in Rule 1080(m)(iv) below) designated as available for routing will first be checked by the [Phlx XL II s]System for available contracts for potential execution. After checking the [Phlx XL II s]System for available contracts, orders are sent to other available market centers for potential execution. When checking the book, the [Phlx XL II s]System will seek to execute at the price at which it would send the order to a destination market center. In situations where the Exchange's disseminated bid or offer is inferior to the NBBO price, the [Phlx XL II s]System will contemporaneously route an order marked as an ISO to

each away market disseminating prices better than the Exchange's price, for the lesser of: (a) the disseminated size of such away markets, or (b) the order size and, if order size remains after such routing, trade at the Exchange's disseminated bid or offer up to its disseminated size. If contracts still remain unexecuted after routing, they are posted on the book. Once on the book, should the order subsequently be locked or crossed by another market center, the [Phlx XL II s]System will not route the order to the locking or crossing market center, except as specified below.

- (i) Priority of Routed Orders. Orders sent to other markets do not retain time priority with respect to other orders in the [Phlx XL II s]System and the [Phlx XL II s]System shall continue to execute other orders while routed orders are away at another market center. Once routed by the [Phlx XL II s]System, an order becomes subject to the rules and procedures of the destination market including, but not limited to, order cancellation. As described above, a routed order can be for less than the original incoming order's size. If a routed order is subsequently returned, in whole or in part, that routed order, or its remainder, shall receive a new time stamp reflecting the time of its return to the [Phlx XL II s]System, unless any portion of the original order remains on the [Phlx XL II s]System, in which case the routed order shall retain its timestamp and its priority.
- (ii) Entering member organizations whose orders are routed to away markets shall be obligated to honor such trades that are executed on away markets to the same extent they would be obligated to honor a trade executed on the Exchange.
- (iii) (A) The Exchange shall route orders in options via Nasdaq Execution Services, LLC ("NES"), a broker-dealer that is a member of an unaffiliated SRO which is the designated examining authority for the broker-dealer. NES serves as the Routing Facility of the Exchange (the "Routing Facility"). The sole use of the Routing Facility by the [Phlx XL II s]System will be to route orders in options listed and open for trading on the [Phlx XL II s]System to away markets either directly or through one or more third-party unaffiliated routing broker-dealers pursuant to Exchange rules on behalf of the Exchange and, in addition, where one component of a Complex Order is the underlying security, to execute and report such component otherwise than on the Exchange, pursuant to Rule 1080.07(h). The Routing Facility is subject to regulation as a facility of the Exchange, including the requirement to file proposed rule changes under Section 19 of the Securities Exchange Act of 1934, as amended.
 - (B) Use of NES to route orders to other market centers is optional. Parties that do not desire to use NES must designate orders as not available for routing (a Do Not Route Order, as described in sub-paragraph (iv)(A) below).
 - (C) The Exchange shall establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and the Routing Facility, and any other entity, including any affiliate of the Routing Facility; or, where there

is a routing broker, the Exchange, the Routing Facility and any routing broker, and any other entity, including any affiliate of the routing broker (and if the routing broker or any of its affiliates engages in any other business activities other than providing routing services to the Exchange, between the segment of the routing broker or affiliate that provides the other business activities and the segment of the routing broker that provides the routing services).

- (D) The books, records, premises, officers, directors, agents, and employees of the Routing Facility, as a facility of the Exchange, shall be deemed to be the books, records, premises, officers, directors, agents, and employees of the Exchange for purposes of and subject to oversight pursuant to the Act. The books and records of the Routing Facility, as a facility of the Exchange, shall be subject at all times to inspection and copying by the Exchange and the Commission.
- (E) *Market Access*. In addition to the Exchange Rules regarding routing to away trading centers, NES as defined above, has, pursuant to Rule 15c3-5 under the Act, implemented certain tests designed to mitigate risks associated with providing the Exchange's Members with access to such away trading centers. Pursuant to the policies and procedures developed by NES to comply with Rule 15c3-5, if an order or series of orders are deemed to be violative of applicable pre-trade requirements of Rule 15c3-5, the order will be rejected prior to routing and/or NES will seek to cancel any orders that have been routed.
- (F) The Exchange and NES may not use a routing broker for which the Exchange or any affiliate of the Exchange is the designated examining authority.
- (G) The Exchange will determine the logic that provides when, how, and where orders are routed away to other exchanges. Except as provided in subparagraph (E) above, the routing broker(s) cannot change the terms of an order or the routing instructions, nor does the routing broker have any discretion about where to route an order.
- (iv) The following order types are available:
- (A) *DNR Order*. A DNR order will never be routed outside of Phlx regardless of the prices displayed by away markets. A DNR order may execute on the Exchange at a price equal to or better than, but not inferior to, the best away market price but, if that best away market remains, the DNR order will remain in the Phlx book and be displayed at a price one minimum price variation inferior to that away best bid/offer. The Exchange shall [immediately upon receipt of the DNR order] expose the order at the NBBO to [Phlx XL II participants and other market]participants during open trading. Any incoming order interacting with such a resting DNR order will receive the best away market price. Should the best away market change its price[, or move] to an

inferior price level, the DNR order will automatically re-price from its one minimum price variation inferior to the original away best bid/offer price to one minimum trading increment away from the new away best bid/offer price or its original limit price, and expose such orders at the NBBO to [Phlx XL II participants and other market]participants only if the re-priced order locks or crosses the ABBO. Once priced at its original limit price, it will remain at that price until executed or cancelled. Should the best away market improve its price such that it locks or crosses the DNR order limit price, the Exchange will execute the resulting incoming order that is routed from the away market that locked or crossed the DNR order limit price.

(B) *FIND Order*. A FIND order is an order that is routable upon receipt during open trading. Only a customer FIND order on the [Phlx XL II]book, whether it is received prior to the opening or it is a GTC FIND order from a prior day, may be routed as part of the Opening Process. Non-customer FIND orders are not eligible for routing during the Opening Process. Once the Opening Process is complete, any FIND order is either eligible to trade at the Phlx price or placed on the Phlx book either at its limit price or at a price that is one Minimum Price Variation (“MPV”) from the ABBO price if it would otherwise lock or cross the ABBO. Such FIND order will not be eligible for routing until the next time the option series is subject to a new Opening Process (other than a re-opening).

A FIND order received during open trading that is not marketable against the PBBO or the ABBO will be entered into the [Phlx XL II]book at its limit price. The FIND order will not be eligible for routing until the next time the option series is subject to a new Opening Process (other than a re-opening).

A FIND order received during open trading that is marketable against the PBBO when the ABBO is inferior to the PBBO will be traded at the Exchange at or better than the PBBO price. If the FIND order has size remaining after exhausting the PBBO, it may: (1) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to and including the ABBO price, [or](2) be entered into the [Phlx XL II]book at its limit price, or (3) be entered into the book at its limit price but displayed one MPV away from the ABBO if locking or crossing the ABBO. The FIND order will not be eligible for routing until the next time the option series is subject to a new Opening Process (other than a re-opening).

A FIND order received during open trading that is marketable against the PBBO when the ABBO is equal to the PBBO will be traded at the Exchange at or better than the PBBO. If the FIND order has size remaining after exhausting the PBBO, it will initiate a Route Timer, not to exceed one second, and expose the FIND order at the NBBO to allow [Phlx XL II participants and other]market participants an opportunity to interact with the remainder of the FIND order. During the Route Timer, the FIND order will be included in the PBBO

at a price one MPV away from the ABBO. If, during the Route Timer, any new interest arrives opposite the FIND order that is equal to or better than the ABBO price, the FIND order will trade against such new interest at the ABBO price.

In the circumstances described in the preceding paragraph, what happens to a FIND order after the timer expires depends on the ABBO price at that time. If, at the end of the Route Timer, the ABBO is still at the same or a better price, the FIND order will route to the away market up to a size equal to the lesser of either (a) the away market's size or (b) the remaining size of the FIND order. If the FIND order still has remaining size after routing, it will be entered into the [Phlx XL II]book and posted at the same price at which it was routed. The FIND order will not be eligible for routing until the next time the option series is subject to a new Opening Process (other than a re-opening).

A FIND order received during open trading that is marketable against the ABBO when the ABBO is better than the PBBO will initiate a Route Timer not to exceed one second, and expose the FIND order at the NBBO to allow [Phlx XL II]participants and other market participants an opportunity to interact with the FIND order. During the Route Timer, the FIND order will be included in the PBBO at a price that is the better of one MPV away from the ABBO or the PBBO. If, during the Route Timer, any new interest arrives opposite the FIND order that is equal to or better than the ABBO price, the FIND order will trade against such new interest at the ABBO price.

In the circumstances described in the preceding paragraph, what happens to a FIND order after the Route Timer expires depends on the ABBO price at that time. If, at the end of the Route Timer, the ABBO is still the best price, the FIND order will route to the away market(s) whose disseminated price is better than the PBBO, up to a size equal to the lesser of either: (a) the away markets' size, or (b) the remaining size of the FIND order. If the FIND order still has remaining size after such routing, it will (i) trade at the next PBBO price or better, subject to the order's limit price, and, if contracts still remain unexecuted, the remaining size will be routed to away markets disseminating the same price as the PBBO, or (ii) be entered into the [Phlx XL II]book and posted at its limit price. The Phlx XL II [s]System will route and execute contracts contemporaneously at the end of the Route Timer. The FIND order will not be eligible for routing until the next time the option series is subject to a new Opening Process (other than a re-opening). If a halt occurs, any remaining volume is cancelled.

A FIND Order that is routed to an away market will be marked as an IOC and ISO.

(C) *SRCH Order*. A SRCH order is a customer order that is routable at any time. A SRCH order on the [Phlx XL II]book during the Opening Process

(including a re-opening following a trading halt), whether it is received prior to the opening or it is a GTC SRCH order from a prior day, may be routed as part of the Opening Process. Once the Opening Process is complete, a SRCH order is eligible either to: (1) trade at the Phlx price if that price is equal to or better than the ABBO or, if the ABBO is better than the Phlx price, orders have been routed to better priced markets for their full size; or (2) be routed to better priced markets if the ABBO price is the best price, and/or (3) be placed on the [Phlx XL II]book at its limit price if not participating in the Phlx opening at the opening price and not locking or crossing the ABBO. Once on the book, the SRCH order is eligible for routing if it is locked or crossed by an away market (see below).

A SRCH order received during open trading that is not marketable against the PBBO or the ABBO will be entered into the [Phlx XLII]book. Once on the book, the SRCH order is eligible for routing if it is locked or crossed by an away market.

A SRCH order received during open trading that is marketable against the PBBO when the ABBO is inferior to the PBBO will be traded at the Exchange at or better than the PBBO price. If the SRCH order has size remaining after exhausting the PBBO, it may: (1) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to and including the price equal to the ABBO price, and/or (2) be routed, subject to a Route Timer not to exceed one second, to away markets if all Phlx interest at better or equal prices has been exhausted ,and/or (3) be entered into the [Phlx XL II]book at its limit price if not locking or crossing the Phlx price or the ABBO. Once on the book, the SRCH order is eligible for routing if it is locked or crossed by an away market.

A SRCH order received during open trading that is marketable against the PBBO when the ABBO is equal to the PBBO will be traded at the Exchange at or better than the PBBO price. If the SRCH order has size remaining after exhausting the PBBO, it will initiate a Route Timer not to exceed one second, and expose the SRCH order at the NBBO to allow [Phlx XL II]participants and other market participants an opportunity to interact with the SRCH order. During the timer, the SRCH order will be included in the PBBO at a price one MPV away from the ABBO. If, during the Route Timer, any new interest arrives opposite the SRCH order that is equal to or better than the ABBO price, the SRCH order will trade against such new interest at the ABBO price.

In the circumstances described in the preceding paragraph, what happens to a SRCH order after the Route Timer expires depends on the ABBO price at that time. If, at the end of the Route Timer, the ABBO is still the best price, the SRCH order will route to the away market(s) whose disseminated price is better than the PBBO, up to a size equal to the lesser of either: (a) the away markets' size, or (b) the remaining size of the SRCH order. If the SRCH order

still has remaining size after such routing, it may (1) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to the ABBO price, and/or (2) be entered into the Phlx XL II book at its limit price if not locking or crossing the Phlx price or the ABBO. The Phlx XL II [s]System will route and execute contracts contemporaneously at the end of the Route Timer. Once on the book, the SRCH order is eligible for routing if it is locked or crossed by an away market.

A SRCH order received during open trading that is marketable against the ABBO when the ABBO is better than the PBBO will initiate a Route Timer not to exceed one second, and expose the SRCH order at the NBBO to allow [Phlx XL II]participants and other market participants an opportunity to interact with the remainder of the SRCH order. During the Route Timer, the SRCH order will be included in the PBBO at a price that is the better of one MPV inferior to the ABBO or at the PBBO. If, during the Route Timer, any new interest arrives opposite the SRCH order that is equal to or better than the ABBO price, the SRCH order will trade against such new interest at the ABBO price.

In the circumstances described in the preceding paragraph, what happens to a SRCH order after the Route Timer expires depends on the ABBO price at that time. If, at the end of the Route Timer, the ABBO is still the best price, the SRCH order will route to the away market(s) whose disseminated price is better than the PBBO, up to a size equal to the lesser of either: (a) the away markets' size, or (b) the remaining size of the SRCH order. If the SRCH order still has remaining size after such routing, it may: (1) trade at the next PBBO price (or prices) if the order price is locking or crossing that price (or prices) up to the ABBO price, and/or (2) be entered into the Phlx XL II book at its limit price if not locking or crossing the Phlx price or the ABBO. Once on the book, the SRCH order is eligible for routing if it is locked or crossed by an away market.

A SRCH order on the [Phlx XL II]book may be routed to an away market if it is locked or crossed by an away market. If an ABBO locks or crosses the PBBO which includes a SRCH order, the [Phlx XL II][s]System will initiate a Route Timer not to exceed one second in order to allow Phlx users an opportunity to interact with the SRCH order. During the Route Timer, the SRCH order remains in the PBBO at its posted price. If, during the Route Timer, any new interest arrives opposite the SRCH order that is equal to or better than the ABBO price, the SRCH order will trade against such new interest at the ABBO price.

In the circumstances described in the preceding paragraph, what happens to a SRCH order after the Route Timer expires depends on the ABBO price at that time. If, at the end of the Route Timer, the ABBO is still the best price, the SRCH order will route to the away market(s) up to a size equal to the lesser of

either: (a) the away markets' size, or (b) the remaining size of the SRCH order. If the SRCH order still has remaining size, that size will remain on the book.

A SRCH Order that is routed to an away market will be marked as an ISO.

(v) No change.

(n) No change.

(o) Qualified Contingent Cross Order.

A Qualified Contingent Cross Order is comprised of an originating electronic order to buy or sell at least 1,000 contracts, or 10,000 contracts in the case of Mini Options, that is identified as being part of a qualified contingent trade, as that term is defined in subsection (3) below, coupled with a contra-side order or orders totaling an equal number of contracts.

- (1) Qualified Contingent Cross Orders are immediately executed upon entry into the System by an Order Entry Firm provided that (i) no non-contingency Customer Orders are at the same price on the Exchange's limit order book and (ii) the price is at or between the better of the PBBO or the NBBO.
 - (a) Qualified Contingent Cross Orders will be automatically rejected if they cannot be executed.
 - (b) Qualified Contingent Cross Orders may only be entered in the regular trading increments applicable to the options class under Rule 1034.
- (2) Qualified Contingent Cross Orders shall only be submitted electronically from off the Floor to the [PHLX]System. Order Entry Firms must maintain books and records demonstrating that each Qualified Contingent Cross Order was routed to the Exchange System from off of the Floor. Any Qualified Contingent Cross Order that does not have a corresponding record required by this subsection shall be deemed to have been entered from on the Floor in violation of this Rule.
- (3) A “qualified contingent trade” is a transaction consisting of two or more component orders, executed as agent or principal, where:
 - (a) At least one component is an NMS Stock, as defined in Rule 600 of Regulation NMS under the Exchange Act;
 - (b) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent;

- (c) the execution of one component is contingent upon the execution of all other components at or near the same time;
- (d) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed;
- (e) the component orders bear a derivative relationship to one another[, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled]; and
- (f) the transaction is fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade.

(p) Execution Protections

(1) Acceptable Trade Range.

- (A) After the opening, the System will calculate an Acceptable Trade Range to limit the range of prices at which an order or quote (except an All-or-none order) will be allowed to execute. The Acceptable Trade Range is calculated by taking the Reference Price, plus or minus a value to be determined by the Exchange. (i.e., the Reference Price - (x) for sell orders/quotes and the Reference Price + (x) for buy orders/quotes). Upon receipt of a new order/quote, the Reference Price is the National Best Bid ("NBB") for sell orders and the National Best Offer ("NBO") for buy orders/quotes or the last price at which the order/quote is posted whichever is higher for a buy order/quote or lower for a sell order/quote.
- (B) If an order/quote reaches the outer limit of the Acceptable Trade Range (the "Threshold Price") without being fully executed, it will be posted at the Threshold Price for a brief period, not to exceed one second ("Posting Period"), to allow more liquidity to be collected, unless a Quote Exhaust has occurred, in which case the Quote Exhaust process in Rule 1082(a)(ii)(B)(3) will ensue, triggering a new Reference Price. Upon posting, either the current Threshold Price of the order or an updated NBB for buy orders or the NBO for sell orders (whichever is higher for a buy order/lower for a sell order) then becomes the Reference Price for calculating a new Acceptable Trade Range. If the order/quote remains unexecuted, a New Acceptable Trade Range will be calculated and the order/quote will execute, route, or post up to the new Acceptable Trade Range Threshold Price, unless a member organization has requested that their orders be returned if posted at the outer limit of the Acceptable Trade Range (in which case, the order will be returned). This process will repeat until either i) the order/quote is executed, cancelled, or posted at its limit price or ii) the order has been subject to a configurable

number of instances of the Acceptable Trade Range as determined by the Exchange (in which case it will be returned).

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

(2) **Anti-Internalization** - Quotes and orders entered by Specialists and Registered Options Traders (as defined in Rule 1014) using the same [Phlx Exchange] badge will not be executed against quotes and orders entered on the opposite side of the market using the same badge. In such a case, the System will cancel the resting quote or order back to the entering party prior to execution. This functionality shall not apply in any auction or with respect to complex transactions.

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

(A) OPP is operational each trading day after the opening until the close of trading, except during trading halts.

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

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

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

is equal to \$1.00, the OPP limits provide protection such that all orders to sell with a limit less than \$0.00 would be rejected.

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

•• *Commentary:* -----

.01 [(a)]Specialized Quote Feed. A specialist, RSQT or SQT may establish an option pricing model via a specialized connection, which is known as a specialized quote feed (“SQF”).

[Specialists, SQTs and RSQTs individually determine which model to select per option and may change models during the trading day. Each pricing model requires the specialist, SQTs and RSQTs to input various parameters, such as interest rates, volatilities (delta, vega, theta, gamma, etc.) and dividends.

(b) If options trading systems throttle quotations for at least three minutes, the Chairperson of the Board of Directors or his designee may, for capacity management purposes, mandate that the specialized quote feed be set to update quotations based on a certain minimum movement in the underlying security or the underlying foreign currency for: (i) all options; (ii) index options only; or (iii) certain specified options, taking into account certain factors that may include, but are not limited to, the price of the underlying security, volatility in the underlying security or the underlying foreign currency, or whether there has been any trading volume over the last two trading days. Such mandated minimum setting may continue for a period of 15 minutes, and may be continued every 15 minutes thereafter, provided that the Exchange's options trading systems are throttling quotations at the end of each such 15-minute period.]

.02 Reserved.[The Electronic Order Book is the Exchange's automated limit order book, which automatically routes all unexecuted AUTOM orders to the book and displays orders real-time in order of price/time priority.

- (a) (i) Except as provided in sub-paragraph (a)(ii) below, the AUTOM System will immediately display the full price and size of any limit order that establishes the Exchange's disseminated price or increases the size of the Exchange's disseminated bid or offer.
- (ii) The AUTOM System will not display:

- (A) An order executed upon receipt;
 - (B) An order where the customer who placed it requests that it not be displayed, and upon representation of such order in the trading crowd the Floor Broker announces in public outcry the information concerning the order that would be displayed if the order were subject to being displayed;
 - (C) A customer limit order for which, immediately upon receipt, a related order for the principal account of the specialist, reflecting the terms of the customer order, is routed to another options exchange;
 - (D) Orders received before or during a trading rotation, however, such limit orders will be displayed immediately upon conclusion of the applicable rotation if they represent the Exchange's best bid or offer;
 - (E) The following order types as defined in Rule 1066: Contingency Orders; One-Cancels-the-Other Orders; Hedge Orders (e.g., spreads, straddles, combination orders); Synthetic Options;
 - (F) Immediate or Cancel (“IOC”) orders.
- (b) Limit orders may only be placed on the limit order book by: (i) An ROT via electronic interface with AUTOM pursuant to Rule 1014, Commentary .18; (ii) a Floor Broker using the Options Floor Broker Management System (as described in Commentary .06 below); or (iii) the AUTOM System for eligible customer and off-floor broker-dealer limit orders.
- (c) A limit order to be executed manually by the specialist pursuant to Rule 1080(c)(iv) will be displayed automatically by the AUTOM System until such limit order is executed or cancelled. If such limit order is partially executed, the AUTOM System will automatically display the actual number of contracts remaining in such limit order.]

.03 [“Intermarket Sweep Order” or “ISO” is a limit order that is designated as an ISO in the manner prescribed by the Exchange and is executed within the system by Participants at multiple price levels without respect to Protected Quotations of other Eligible Exchanges as defined in Rule 1083. ISOs are immediately executable within the Phlx XL II system or cancelled, and shall not be eligible for routing as set out in Rule 1080.

Simultaneously with the routing of an ISO to the [Phlx XL II] system, one or more additional limit orders, as necessary, are routed by the entering party to execute against the full displayed size of any Protected Bid or Offer (as defined in Rule 1083(n)) in the case of a limit order to sell or buy with a price that is superior to the limit price of the limit order identified as an ISO. These additional routed orders must be identified as ISOs. Reserved.

.04 [*ROT Limit Orders*. Orders for the proprietary accounts of SQTs, RSQTs and non-SQT ROTs may be entered for delivery through AUTOM, through the use of Exchange approved proprietary systems to interface with AUTOM ("interface"). Such orders shall be for a minimum of one (1) contract. Orders for the proprietary account(s) of SQTs, RSQTs, and non-SQT ROTs with a size of less than 10 contracts shall be submitted as IOC only.]Reserved.

.05 Reserved. [Off-floor broker-dealer orders delivered via AUTOM shall be for a minimum size of one (1) contract. Off-floor broker-dealer limit orders are subject to the following other provisions:

- (i) The restrictions and prohibitions concerning off-floor market makers set forth in Rule 1080(j).
- (ii) Off-floor broker-dealer limit orders entered via AUTOM establishing a bid or offer may establish priority, and the specialist and crowd may match such a bid or offer and be at parity, except as provided in Exchange Rule 1014(g)(i)(A).]

.06 - .09 No change.

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Rule 1085 Acceptance of Quotes and Orders[Reserved]

(a) The definitions in Rule 1080 shall apply to this Rule. A System order is an order that is entered into the System for display and/or execution as appropriate. Such orders are executable against marketable contra-side orders and quotes in the System. All System Orders shall indicate whether they are a call or put and buy or sell and a price, if any. Systems Orders can be designated as a specified Order Type with a specific Time in Force pursuant to Rule 1080.

(b) Options Market Makers may bid and/or offer on either or both side(s) of the market by submitting one or more bids or offers in the form of a two-sided quote or in the form of a sweep. A sweep is a one-sided electronic quotation submitted for execution against other trading interest. Quotes and sweeps are executable against marketable contra-side orders and quotes in the System. Sweeps are processed on an IOC basis, may not be routed, may be entered only at a single price and may not trade through away markets.

(c) Entry and Display of Orders

(i) Entry of Orders—Participants (as defined in Rule 1080(a)(3)) can enter orders into the System, subject to the following requirements and conditions:

(a) Participants shall be permitted to transmit to the System multiple orders at a single as well as multiple price levels.

(b) The System shall time-stamp an order which shall determine the time ranking of the order for purposes of processing the order.

(c) Orders can be entered into the System (or previously entered orders cancelled) from the time prior to market open specified by the Exchange on its website until market close.

(ii) Display of Orders— The System will display orders submitted to the System as follows:

(a) System Book Feed—displayed orders resident in the System available for execution will be displayed via the System Book Feed.

(b) Best Priced Order Display - For each System Security, the aggregate size of all orders at the best price to buy and sell resident in the System will be transmitted for display to the appropriate network processor.

(iii) Trade-Through Compliance and Locked or Crossed Markets- An order will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. An order that is designated by the member as routable will be routed in compliance with applicable Trade-Through and Locked and Crossed Markets restrictions. An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions.

If, at the time of entry, an order that the entering party has elected not to make eligible for routing would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

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