

Required fields are shown with yellow backgrounds and asterisks.

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

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
	Section 3C(b)(2) * <input type="checkbox"/>

Exhibit 2 Sent As Paper Document <input checked="" type="checkbox"/>	Exhibit 3 Sent As Paper Document <input checked="" type="checkbox"/>
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**Description**  
Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

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

First Name * Angela	Last Name * Dunn
Title * Principal Associate General Counsel	
E-mail * angela.dunn@nasdaq.com	
Telephone * (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 11/26/2019	EVP and Chief Legal Officer
By John Zecca (Name *)	<input type="text"/>

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 (“Phlx” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to amend order types and remove and relocate certain rule text currently located within Rule 1080, titled “Electronic Acceptance of Quotes and Orders.”

Further, the Exchange proposes to amend Phlx Rules 1000, titled “Applicability, Definitions and References” to add definitions for “Order Entry Firm” and “Away Best Bid or Offer or ABBO” and remove the defined term “Agency Order.” The Exchange proposes to amend Rule 1014, titled “Obligations of Market Makers,”<sup>3</sup> to permit Registered Options Traders (“ROTS”) and Specialists to enter orders. The Exchange proposes to update cross references within Rule 1017, titled “Opening in Options.” The rule text within Rule 1078, titled “All-or-None Orders” is being relocated to Rule 1080.

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

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

<sup>3</sup> ROTs include Streaming Quote Traders (“SQTs”) and Remote Streaming Quote Traders (“RSQTs”). A ROT is a regular member or a foreign currency options participant of the Exchange who has received permission from the Exchange to trade in options for his own account. An SQT is an ROT who has received permission from the Exchange to generate and submit option quotations electronically in options to which such SQT is assigned. An SQT may only submit such quotations while such SQT is physically present on the floor of the Exchange. An SQT may only trade in a market making capacity in classes of options in which the SQT is assigned. An RSQT is an ROT that is a member affiliated with an RSQT with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically in options to which such RSQT has been assigned. A qualified RSQT may function as a Remote Specialist upon Exchange approval. The Exchange notes that a Specialist, which is defined in Rule 1020, is a Registered Options Trader. For purposes of this rule the Exchange would note ROTs and Specialists, where applicable to be complete.

The order types within Rule 1098 titled “Complex Orders on the System,” and Options 8, Section 32, titled “Certain Types of Floor-Based (Non-System) Orders Defined” are being amended to correspond to changes within Rule 1080 order types. Finally, Options 8, Section 39, at A-3 titled “All-or-None Option Orders” is being amended to update the floor applicability of this order type.

A notice of the proposed rule change for publication in the Federal Register is attached 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  
Principal Associate General Counsel  
Nasdaq, Inc.  
215-496-5692

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

a. Purpose

The Exchange proposes to amend Rule 1080, entitled “Electronic Acceptance of Quotes and Orders” by: (1) removing and relocating certain rule text including obsolete rule text; and (2) amending order types. These amendments are detailed below.

With respect to the removal of obsolete rule text, the Exchange filed prior rule changes<sup>4</sup> which established Phlx's System as it exists today. As the new System was amended through a series of rule changes, certain older technology such as AUTOM, AUTO-X, specialist manual handling and other functionality noted within this rule change, became obsolete. During this timeframe, the Exchange's System was automated to prevent any manual intervention, such as specialist manual handling, and provide System-enforced functionalities. These System enhancements effectively replaced and made obsolete certain processes that Phlx proposes to delete within this rule change.

As an overview of the automation of Phlx and corresponding rule changes, in July 2004, the Exchange began trading options on Phlx XL, followed by index options in December 2004. Phlx XL was completely rolled out by February 2005.<sup>5</sup> In 2006, Phlx commenced deleting certain obsolete provisions from its rules to reflect the automation that came about with the inception of Phlx XL.<sup>6</sup> In 2007, the Exchange filed a proposal to modernize the Exchange's System to account for technological advances that have been made in the industry since the original adoption of the rule and to provide more efficient executions for customers with marketable limit orders on the Exchange's Order

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<sup>4</sup> See Securities Exchange Act Release Nos. 50100 (July 27, 2004), 69 FR 46612 (August 3, 2004) (SR-Phlx-2003-59); 55498 (March 20, 2007), 72 FR 14318 (March 27, 2007) (SR-Phlx-2007-15); 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32); and 72152 (May 12, 2014), 79 FR 28561 (May 16, 2014) (SR-Phlx-2014-32).

<sup>5</sup> See Securities Exchange Act Release No. 50100 (July 27, 2004), 69 FR 46612 (August 3, 2004) (SR-Phlx-2003-59).

<sup>6</sup> See Securities Exchange Act Release Nos. 54312 (August 14, 2006), 71 FR 47856 (August 18, 2004) (SR-Phlx-2006-28) and 55498 (March 20, 2007), 72 FR 14318 (March 27, 2007) (SR-Phlx-2007-15).

Book.<sup>7</sup> In 2008, Phlx filed to permit the electronic handling of Complex Orders on Phlx XL.<sup>8</sup> In 2009, the Exchange proposed to implement several enhancements to its electronic options trading system, Phlx XL. The enhanced system was called Phlx XL II and would reflect enhancements to the opening, linkage and routing, quoting, and order management processes. The enhancements were intended to improve execution quality for Phlx users by improving a number of processes, including those related to the opening, order handling and order execution.<sup>9</sup> The Exchange proposed its Price Improvement XL auction in 2010.<sup>10</sup> The Exchange established a Qualified Contingent Cross Order in 2011.<sup>11</sup> The Exchange eliminated the Market Exhaust functionality in 2012.<sup>12</sup> The Exchange notes that its current functionalities were all filed for in various rule changes, however in filing each new functionality, the entirety of the obsolete functionality was not removed from Phlx rules. At this time, the Exchange proposes to remove those obsolete functionalities which are explained in more detail within this proposal.

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<sup>7</sup> See Securities Exchange Act Release Nos. 55825 (May 29, 2007), 72 FR 30890 (June 4, 2007) (SR-Phlx-2007-38).

<sup>8</sup> See Securities Exchange Act Release Nos. 58361 (August 14, 2008), 73 FR 49529 (August 21, 2008) (SR-Phlx-2008-50).

<sup>9</sup> See Securities Exchange Act Release Nos. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32). At this time, the Exchange introduced a Do-Not-Route (“DNR”) order, a FIND order, and a SRCH order.

<sup>10</sup> See Securities Exchange Act Release Nos. 63027 (October 1, 2010), 75 FR 62160 (October 7, 2010) (SR-Phlx-2010-108).

<sup>11</sup> See Securities Exchange Act Release Nos. 64249 (April 7, 2011), 76 FR 20773 (April 13, 2011) (SR-Phlx-2011-47).

<sup>12</sup> See Securities Exchange Act Release Nos. 66087 (January 3, 2012), 77 FR 1095 (January 9, 2012) (SR-Phlx-2012-101).

Rule 1080(b) – (f) New Rule Text

The Exchange proposes to retitle Rule 1080(b) from “Eligible Orders” to “Order Types.” The current rule text provides,

**Eligible Orders** (i) The following types of orders are eligible for entry into AUTOM:

(A) Agency orders may be entered. The following types of agency orders are eligible for AUTOM: 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, 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, 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, the following order types are also permitted: DNR order, SRCH order, and FIND order; see Rule 1093.

(B) Orders for the proprietary account(s) of SQTs, RSQTs and 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 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 non-SQT ROTs and specialists with a size of less than 10 contracts shall be submitted as IOC only.

(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, and day limit. Respecting Phlx XL II, the following order types are also permitted: DNR order, SRCH order, and FIND order; see Rule 1093.

(C) Off-floor broker-dealer limit orders, subject to the restrictions on order entry set forth in Commentary .05 of this Rule, may be entered. 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 Rule 1093. 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 for the proprietary account(s) of such market maker.

The Exchange proposes to delete the current rule text within Rule 1080(b)(i)(A) and replace it with a list of current order types and descriptions. The Exchange proposes to refer to the trading system as the defined term "System"<sup>13</sup> instead of "AUTOM" or "Phlx XL II" in the proposed rule text. The terms "AUTOM" and "Phlx XL II" are outdated references. The Exchange proposes to delete the following sentence currently within Rule 1080(b)(ii), "The Exchange may determine to accept additional types of orders as well as to discontinue accepting certain types of orders." The Exchange further proposes to state within Rule 1080(b) new text, "The following order types may be submitted to the System."

Current Rule 1080(b)(i) defines the types of orders that may be submitted by categorization: (1) agency; (2) proprietary; and (3) Off-Floor Broker Dealer.

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<sup>13</sup> 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 members to automatically execute transactions in System Securities; and provides members 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 ("OPRA") 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 data feeds described at Rule 1070. See Phlx Rule 1000(b)(45).

*Agency Orders*

Currently, Phlx Rule 1080(b)(i)(A) defines agency. Current Rule 1080(b)(i)(A) states, “For purposes of Exchange options trading, an agency order is any order 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 direct or indirect interest.”<sup>14</sup> This rule also specifically provides order type requirements:

The following types of agency orders are eligible for AUTOM: 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, 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, 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, the following order types are also permitted: DNR order, SRCH order, and FIND order; see Rule 1093.

The Exchange notes that current Rule 1080 defines these categories as they existed some time ago. Today, the options industry has expanded capacity codes<sup>15</sup> that are utilized to determine the category of market participant for whom an order is being submitted. When members submit orders to Phlx, a capacity code is required. The Exchange notes that the definition of Agency Order within Rule 1080 is utilized to

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<sup>14</sup> The term “Agency Order” is described at Phlx Rule 1000(b)(49) as “The term “Agency Order” shall mean 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.

<sup>15</sup> Capacity codes correspond to categorizations developed by The Options Clearing Corporation for all options exchanges.

distinguish orders that are not entered for the proprietary account of a market participant. The Exchange notes that while that distinction may have been applicable at one point in time with respect to entering orders, it is not suitable to limit the entry of certain orders on that basis. The Exchange proposes to eliminate the categorization of “agency orders” and “proprietary orders” as these categorizations are unnecessary.

The current term “agency” is proposed to be deleted because the Exchange specifically identifies within the proposed rules which type of market participant may enter an order. The term “proprietary” as described within these rules refers to market participants conducting a market making business, such as ROTs (including SQTS and RSQTs) and Specialists.

The Exchange notes that today no other options market segregates the submission of order types by whether the order is an agency or proprietary order.<sup>16</sup> Rather, Phlx’s proposal as well as rules of other options exchanges impose limitations on the types of orders that may be entered by a market makers as described further herein, as well as other limitations related to ROTs and Specialists entering orders.<sup>17</sup> While the Exchange is eliminating the references to “agency” and proprietary” orders, the Exchange notes that there is no impact to market participants or systemic change that results from the elimination of these terms. The list of order types presented below reflects current practice. Also, the Exchange is not changing the manner in which orders are being

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<sup>16</sup> See Nasdaq ISE, LLC (“ISE”), Nasdaq GEMX, LLC (“GEMX”), Nasdaq MRX, LLC (“MRX”) Options 3, Section 7, Miami International Securities Exchange, LLC Rule 515 and Cboe Exchange, Inc. Rule 5.6.

<sup>17</sup> See ISE, GEMX and MRX Options 2, Section 6. The Nasdaq Options Market LLC (“NOM”) and Nasdaq BX, Inc. (“BX”) do not have a rule which limits Market Makers from entering orders on those markets. See NOM Rules at Chapter VII, Section 5(d) and BX Options 2, Section 4(d), respectively.

submitted to the Exchange. The Exchange believes that by defining the rules, similar to other options markets, it will bring greater transparency to the Exchange's Rules and permit an ease of reference when comparing rulebooks. The Exchange notes that this proposal will not amend the System except for the changes described below where the Exchange is noting a change is proposed. Other functionalities offered by Phlx remain unchanged with this proposal.

The current rule text refers to the following order types within Rule 1080(b)(i)(A), which were permitted to be entered as Agency Orders, are currently not supported by the System: "or better,"<sup>18</sup> "simple cancel to reduce size (cancel leaves),"<sup>19</sup> "cancel to change price" and "possible duplicate orders."<sup>20</sup> These order types have not been supported by the System since Phlx replatformed its technology to INET in 2009. The order types described herein have not been offered to Phlx participants since the Phlx XL replatform. These order types are not offered on other options markets today and have not been requested by any market participant. In 1997, Phlx filed to Rule 1080,

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<sup>18</sup> The designation "or better" indicates that the originator of the order is aware that the market is currently better than the limit price of the order; this order is not filled at a price outside of the "or better" price. The "or better" designation is used to verify the validity of the order and confirms that the order was entered on the correct side. See Securities Exchange Act Release No. 35601 (April 13, 1995), 75 FR 19616 (April 19, 1995) (SR-Phlx-95-18).

<sup>19</sup> The designation "simple cancel" indicates that an order is to be cancelled, while "cancel leaves" indicates that the size of a previous order is being reduced and "cancel to change price" cancels the price of a previous order. See Securities Exchange Act Release No. 35601 (April 13, 1995), 75 FR 19616 (April 19, 1995) (SR-Phlx-95-18).

<sup>20</sup> Possible duplicate" is a status which indicates that before an AUTOM order is executed manually by the specialist, the specialist should confirm that the order has not yet been executed. See Securities Exchange Act Release No. 35601 (April 13, 1995), 75 FR 19616 (April 19, 1995) (SR-Phlx-95-18).

Philadelphia Stock Exchange Automated Options Market (“AUTOM”) and Automatic Executive System (“AUTO-X”), codifying and amending the policies and procedures concerning AUTOM. The Exchange also requested permanent approval of the AUTOM pilot program.<sup>21</sup> The rule change provided

Proposed Rule 1080 describes the AUTOM System and its features, with paragraph (a) as the general introduction. AUTOM is the Exchange’s electronic order delivery and reporting system, which provides for the automatic entry and routing of Exchange-listed equity options and index options orders to the Exchange trading floor. Option orders entered by Exchange member organizations into AUTOM are routed to the appropriate specialist unit on 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 and index option specialists are required by the Exchange to participate in AUTOM and its features and enhancements. This paragraph also provides that Rule 1080 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.

The rule change further stated,

The following types of orders are eligible for AUTOM: day, good-till-cancelled (“GTC”), 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, market close, market on opening, limit on opening, limit close, and possible duplicate orders. The Exchange’s Options Committee may determine to accept additional types of orders as well as to discontinue accepting certain types of orders.

Phlx discontinued offering the following order types at a certain point in time before the transition to Phlx XL<sup>22</sup>: currently not supported by the System: “or better,”<sup>23</sup> “simple

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<sup>21</sup> See Securities Exchange Act Release No. 38683 (May 27, 1997), 62 FR 30366 (June 3, 1997) (SR-Phlx-97-24).

<sup>22</sup> The exact date the order types were no longer offered is unknown.

<sup>23</sup> The designation “or better” indicates that the originator of the order is aware that the market is currently better than the limit price of the order; this order is not filled at a price outside of the “or better” price. The “or better” designation is

cancel to reduce size (cancel leaves),”<sup>24</sup> “cancel to change price” and “possible duplicate orders.”<sup>25</sup> The Exchange notes that an automated system such as Phlx XL would not have supported order types that permitted manual handling such as “or better” or “possible duplicate.” The order types “simple cancel to reduce size (cancel leaves),” “cancel to change price” can be achieved today with the cancel-replacement order. Customer orders may continue to be entered on an agency basis today, however the use of certain manual order types are no longer permitted. The Exchange no longer permits market participants the ability to manually handle orders, the System automatically executes order types today and therefore the Exchange believes the elimination of these order types is consistent with the Act and serves to protect investors and the public interest by enforcing order type provisions automatically. The remainder of the order types noted in current Rule 1080(b)(i), such as day, GTC, IOC, ISO, market, limit, stop, stop-limit, all or none, simple cancel, cancel with replacement order, opening-only market order and limit on opening order are currently offered on Phlx.<sup>26</sup>

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used to verify the validity of the order and confirms that the order was entered on the correct side. See Securities Exchange Act Release No. 35601 (April 13, 1995), 75 FR 19616 (April 19, 1995) (SR-Phlx-95-18).

<sup>24</sup> The designation “simple cancel” indicates that an order is to be cancelled, while “cancel leaves” indicates that the size of a previous order is being reduced and “cancel to change price” cancels the price of a previous order. See Securities Exchange Act Release No. 35601 (April 13, 1995), 75 FR 19616 (April 19, 1995) (SR-Phlx-95-18).

<sup>25</sup> Possible duplicate” is a status which indicates that before an AUTOM order is executed manually by the specialist, the specialist should confirm that the order has not yet been executed. See Securities Exchange Act Release No. 35601 (April 13, 1995), 75 FR 19616 (April 19, 1995) (SR-Phlx-95-18).

<sup>26</sup> The Exchange notes that “simple cancel” is not offered as an order type on Phlx, but as a functionality to simply cancel an existing order. Therefore, the Exchange is not proposing to add it back into the amended Rule 1080 as an order type.

*Proprietary*

Current Rule 1080(b)(i)(B) refers to orders entered for proprietary accounts and specifically provides order type requirements for Specialists,<sup>27</sup> ROTs,<sup>28</sup> and non-SQT ROTs.<sup>29</sup> Current Rule 1080(b)(i)(B) provides,

Orders for the proprietary account(s) of SQTs, RSQTs and 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 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 non-SQT ROTs and specialists with a size of less than 10 contracts shall be submitted as IOC only.

(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, and day limit. Respecting Phlx XL II, the following order types are also permitted: DNR order, SRCH order, and FIND order; see Rule 1093.

Today, the Exchange limits its ROTs and Specialists from entering orders which may be entered on other markets such as Nasdaq ISE, LLC, Nasdaq GEMX, LLC and Nasdaq MRX, LLC.<sup>30</sup> Currently, Rule 1080(b)(i)(B) provides, “Orders for the proprietary account(s) of SQTs, RSQTs and non-SQT ROTs and specialists via electronic interface with AUTOM may be entered, subject to the restrictions on order entry set forth

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<sup>27</sup> A Specialist is an Exchange member who is registered as an options specialist. See Phlx Rule 1020(a).

<sup>28</sup> See note 3 above.

<sup>29</sup> A Floor Market Maker is known as a non-SQT ROT in Rule 1014(b)(ii)(C). A non-SQT ROT is an ROT who is neither an SQT nor an RSQT.

<sup>30</sup> See ISE, GEMX and MRX rules at Options 2, Section 6.

in Commentary .04 of this Rule.” Commentary .04 provides, “*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.” The Exchange notes that it will no longer refer to legacy names for the trading system such as AUTOM and will instead refer to “System” which is defined.<sup>31</sup> The Exchange proposes to continue to require orders for SQTs and RSQTs to be for a minimum of one (1) contract in Rule 1080(e). The Exchange proposes to delete the rule text at Commentary .04 to Rule 1080. The Exchange is proposing new rule text within current Rule 1014, entitled “Obligations of Market Makers” as described below.

Today, the Exchange distinguishes between contracts that non-SQT ROTs and Specialists can enter with a size of 10 contracts or greater and those that may be entered for any size. Further, for orders with a size of 10 contracts or less, non-SQT ROTs and specialists must enter those orders as IOC only. The Exchange proposes to remove the restriction 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.” Further, in deleting Commentary .04, the Exchange is removing any limitation as to the size of orders for IOC only purposes. The Exchange believes this limitation is no longer necessary given the evolution of the market place and further that it hinders non-SQT ROTs and

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<sup>31</sup> See Phlx Rule 1000(b)(45).

Specialists unnecessarily. No other options market has similar limitations today.<sup>32</sup> The 10 contract limitation was put in place to restrict participants, whose primary role was to provide liquidity, from using orders of small size to avoid providing liquidity using quotes which were historically required to be of a size of 10 contracts or more.

Current Rule 1080(b)(i)(B)(1) provides, “The following types of orders for the proprietary account(s) of 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 non-SQT ROTs and specialists with a size of less than 10 contracts shall be submitted as IOC only.” The Exchange is removing current Rule 1080(b)(i)(B)(1) in its entirety. As noted above, the Exchange proposes to no longer apply the 10 contract limitation. The rule text proposed within Rule 1014(e) and Rule 1080(e) do not contain a limitation on contract size. The Exchange notes that over the years the limitations that were placed on ROTs and Specialists entering orders has changed on all options markets. The Exchange does not propose to hinder these market participants in entering orders. With respect to non-SQT ROTs, those market participants may enter the orders noted with Options 8, Section 32. Amendments to Phlx Rules at Options 8, Section 32 are described below.

Current Rule 1080(b)(i)(B)(2) provides, “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, and day limit. Respecting Phlx XL II, the

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<sup>32</sup> ISE, GEMX, MRX, NOM and BX do not limit orders to IOC by size.

following order types are also permitted: DNR order, SRCH order,<sup>33</sup> and FIND order; see Rule 1093.” The Exchange is removing current Rule 1080(b)(i)(B)(2) in its entirety.

*ROTs and Specialists Entering Orders on Phlx*

The Exchange proposes to relocate the restrictions for ROTs and Specialists within Rule 1014 which sets forth obligations of ROTs and Specialists, as noted below.<sup>34</sup>

Today, SQTs and Specialists on Phlx may not enter orders in non-appointed option series.<sup>35</sup> Further, Commentary .01 to Rule 1014 provides a restriction on the amount of trading activity in classes of options to which an SQT or Specialist is assigned.

Commentary .01 to Rule 1014 states:

The Exchange has determined for purposes of paragraph (c) of this Rule that, except for unusual circumstances, at least 50% of the trading activity in any quarter (measured in terms of contract volume) of an ROT (other than an RSQT) shall ordinarily be in classes of options to which he is assigned. Temporarily undertaking the obligations of paragraph (c) at the request of a member of the Exchange in non assigned classes of options shall not be deemed trading in non assigned option contracts.

The Exchange may, in computing the percentage specified herein, assign a weighting factor based upon relative inactivity to one or more classes or series of option contracts.

These prohibitions exist to ensure that market making participants are focused on adding liquidity to Phlx. Today, the Exchange requires ROTs and Specialists to add liquidity to

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<sup>33</sup> The Exchange notes that “SRCH,” is not supported for proprietary account(s) of SQTs and RSQTs. A SRCH Order is a Public Customer order that is routable at any time. See Phlx Rule 1093(a)(iii)(C).

<sup>34</sup> Phlx Rule 1014(c) and (d) describes obligations for ROTs and Specialists in appointed and non-appointed options classes.

<sup>35</sup> Phlx Rule 1014(b)(ii), SQTs and RSQTs may only trade in a market making capacity in classes of options in which the SQT is assigned.

Phlx, for example Specialists must quote during the Opening Process<sup>36</sup> and Specialists and ROTs have intra-day quoting obligations.<sup>37</sup>

The Exchange proposes to amend its current restriction related to entering orders on Phlx to permit ROTs and Specialists to enter orders in classes of options to which they are assigned and classes of options in which they are not assigned, with certain limitations. The Exchange proposes within Rule 1014(e), which is currently reserved, to add rule text to permit ROTs and Specialists to enter Day orders, Opening Only Orders and Opening Sweeps and utilize the TIF of “GTC” when entering orders. This would be an amendment to current Rule 1080(b)(i)(B)(2), which does not currently permit these order types. As noted herein, the Exchange is proposing to remove the limit for contracts with a size of less than 10 contracts. The Exchange also proposes to permit ROTs (SQTs and RSQTs) and Specialists to enter orders in non-appointed option classes, however limit ROTs and Specialists to not exceed 25 percent<sup>38</sup> of the total number of all contracts executed by the ROT or Specialist in any calendar quarter. Proposed new Rule 1014(e) would provide:

**Market Maker Orders.** ROTs and Specialists may enter all order types defined in Rule 1080(b) in the options classes to which they are appointed and non-appointed, except for Market Orders as provided in Rule 1080(b)(1), Stop Orders as provided in Rule 1080(b)(4), All-or-None Orders as provided in Rule 1080(b)(5), Directed Orders as provided for in Rule 1068, and public customer-to-public customer cross orders subject to

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<sup>36</sup> See Phlx Rule 1017(d)

<sup>37</sup> See Phlx Rule 1081.

<sup>38</sup> The Exchange proposes to remove the limitation within Commentary .01 to Rule 1014 which applies to appointed options classes and instead adopt proposed Rule 1014(e) which describes the types of orders that ROTs and Specialists may enter in appointed and non-appointed options classes with the proposed 25% limitation on orders in appointed options classes.

Rule 1087(a) and (f). The total number of contracts executed during a quarter by a ROT or Specialist in options series to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts executed by the ROT or Specialist in options series.

The Exchange notes that its proposal is similar to other options markets.<sup>39</sup> The Exchange is permitting ROTs and Specialists to enter all order types defined in Rule 1080(b) in the options classes to which they are appointed and non-appointed, except for Market Orders as provided in Rule 1080(b)(1), Stop Orders as provided in Rule 1080(b)(4), All-or-None Orders as provided in Rule 1080(b)(5), and Directed Orders as provided for in Rule 1068, and public customer-to-public customer cross orders subject to Rule 1087(a) and (f), so as not to restrict the ability of a ROT or Specialist from entering orders they may enter today on other options markets. Although the Exchange is amending its rules to allow ROTs and Specialists to enter orders in non-appointed classes, the Exchange will limit ROTs and Specialists to not exceed 25%<sup>40</sup> of the total number of all contracts executed by the ROT or Specialist in any calendar quarter in those non-appointed options classes. The Exchange proposes to remove the provision within Commentary .01 to Rule 1014 and replace the prohibition with proposed Rule 1014(e).

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<sup>39</sup> See ISE, GEMX and MRX at Options at Options 2, Section 6. Further, NYSE Arca, Inc. (“NYSE Arca”) and NYSE American LLC (“NYSE American”) do not limit the types of orders that can be entered by market makers. See NYSE Arca Rule 6.37B-O and NYSE American Rule 925.2NY.

<sup>40</sup> This limitation is an amendment to the current limitation within Commentary .01 to Rule 1014 which as noted herein, the Exchange proposes to eliminate. The proposed limitation of 25% would be less restrictive than the current “50% of the trading activity in any quarter” requirement, not only because it is a smaller percentage but because the 25% limitation only would apply to classes of options in which the ROT or Specialist is not appointed and the 50% limitation applied to classes of options in which the ROT or Specialist is appointed, and are the only types of orders which can be submitted by these participants today.

The Exchange believes its proposal is consistent with the Act. Allowing ROTs and Specialists to enter orders in both assigned and unassigned classes of options will allow market making participants to enter more orders than they are permitted to enter today. The rule text at Commentary .01 of Rule 1014 which requires at least 50% of the trading activity in any quarter only applies to assigned options classes today and therefore is not very restrictive as ROTs and Specialists can only enter quotes or orders in assigned options series.

While the Exchange is permitting ROTS and Specialists to enter more orders, particularly in assigned options classes, ROTs and Specialists continue to have obligations to quote intra-day<sup>41</sup> and in order to meet those obligations they will need to stay focused on adding liquidity to Phlx. The Exchange believes that liquidity will not be impacted on Phlx because the Exchange is permitting ROTs and Specialists to enter more orders in appointed classes as the obligations to provide liquidity remain the same. Further, permitting ROTs and Specialists to enter orders in non-appointed classes provided they do not exceed 25% of the total number of contracts executed in any quarter is consistent with the Act because the proposed rule will allow ROTs and Specialists to continue to provide liquidity on Phlx, as is the case today, while not restricting their business activity in a manner that is no other market participants is restricted to transact. Phlx's proposal will allow market making participants the same flexibility as exists today on other options markets.

With respect to proposed Rule 1014(e), the Exchange proposes to permit ROTs and Specialists to enter Day orders, Opening Only Orders and Opening Sweeps and

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<sup>41</sup> See Phlx Rule 1081.

utilize the TIF of “GTC.” This would be an amendment as current Rule 1080(b)(i)(B)(2), which does not currently permit these order types. As noted herein, the Exchange is removing the limit for contracts with a size of less than 10 contracts. The Exchange is excluding order types that today may not be entered by a Specialist or ROT, as is the case today, such as All-or-None Orders,<sup>42</sup> Directed Orders,<sup>43</sup> and public customer-to-public customer cross orders subject to Rule 1087(a) and (f).<sup>44</sup> The Exchange proposes to prohibit SQTs and RSQTs from entering Market Orders and Stop Orders. Today, the Exchange requires SQTs and RSQTs to “maintain a two-sided market in those options in which the electronic ROT is registered to trade, in a manner that enhances the depth, liquidity and competitiveness of the market” pursuant to Phlx Rule 1081(a)(i). The Exchange believes that continuing the practice of prohibiting SQTs and RSQTs from entering Market Orders is consistent with the Act because Market Orders are designed to remove liquidity from the Order Book. Further, Stop Orders are non-displayed order types until they are triggered which does not benefit the role of an SQT or RSQT in displaying liquidity on the Order Book.

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<sup>42</sup> All-or-None Orders may only be entered by a Public Customer.

<sup>43</sup> Rule 1068(a)(i)(B) provides, “The term “Order Flow Provider” (“OFP”) means any member or member organization that submits, as agent, orders to the Exchange.” ROTs and Specialists do not submit orders on an agency basis and therefore are excluded from entering Directed Orders. See Securities Exchange Act Release No. 62320 (June 17, 2010), 75 FR 36132 (June 24, 2010)(SR-Phlx-2010-83). In this rule change, Phlx noted that Directed Orders can be broker-dealer orders as well as public customer orders. The term public customer included professionals.

<sup>44</sup> A PIXL Order is an order submitted for electronic execution into the PIXL Auction Mechanism pursuant to Rule 1087. Current PIXL Rule 1087(a) and (f) provides that a PIXL Order may be a public customer-to-public customer cross order, which is comprised of a Public Customer order to buy and a Public Customer to sell at the same price and for the same quantity.

*Off-Floor Broker-Dealer*

Current Phlx Rule 1080(b)(i)(C) provides that 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 for the proprietary account(s) of such market maker. This rule also provides, in part:

Off-floor broker-dealer limit orders, subject to the restrictions on order entry set forth in Commentary .05 of this Rule, may be entered. 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 Rule 1093.

Current Phlx Rule 1080(b)(i)(C) applies to Off-Floor Broker Dealers limit orders and provides that 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. Current Rule 1080(b)(i)(C) and Commentary .05 to Rule 1080<sup>45</sup> describe restrictions for Off-Floor Broker Dealers. The Exchange proposes to amend and relocate text from current Rule

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<sup>45</sup> Commentary .05 to Rule 1080 states, “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).”

1080(b)(i)(C) to proposed Rule 1080(e). The Exchange proposes to state, at new Rule 1080(e),

An off-floor broker-dealer order may be entered for a minimum size of one contract. Off-floor broker-dealers may enter all order types defined in Rule 1080(b) except for All-or-None Orders, Market Orders, Stop Market Orders, and public customer-to-public customer cross orders subject to Rule 1087(a) and (f).

The Exchange proposes that Off-Floor Broker Dealers may continue to enter day, GTC, IOC, ISO, stop, stop-limit, cancel with replacement order and limit on opening order as specified within current Rule 1080(b)(i)(C). The Exchange notes that stop market and market orders, SRCH Orders,<sup>46</sup> simple cancel to reduce size (cancel leaves) and cancel to change price are either no longer offered on the System or not offered to Off-Floor Broker Dealers. With this new proposed rule, the Exchange proposes to reflect the order types that an Off-Floor Broker Dealer may enter by noting that all order types within Rule 1080(b) may be entered, except as noted. The Off-Floor Broker Dealer order restrictions remain unchanged except that the types of orders that Off-Floor Broker Dealers may enter are being amended to exclude order types that are no longer offered such as simple cancel to reduce size (cancel leaves) and cancel to change price and to also exclude Stop Market Orders, which are not available to Off-Floor Broker Dealers today, so this is not changing. The Exchange notes that Stop Limit Orders are permitted to be entered today by Off-Floor Broker Dealers. The Exchange notes that only Market Orders and Stop Market Orders are restricted, as is the case today. The restrictions afforded to Off-Floor Broker Dealers remain the same. This amendment is not substantive.

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<sup>46</sup> SRCH Orders are only offered to Public Customers pursuant to Rule 1093(a)(iii)(C).

The Exchange notes that the term “Off-Floor Broker-Dealer Order” is currently defined within Rule 1000(b)(50) and therefore is not necessary to reiterate within Rule 1080(b). The Exchange proposes to delete Commentary .05 of Rule 1080, which references the outdated term “AUTOM.”<sup>47</sup> This provision is no longer necessary as the minimum size for Off-Floor Broker Dealer orders is noted in new proposed Rule 1080(e). The rule text in Commentary .05(i) is also being deleted as unnecessary as all members are subject to the rule text in Rule 1080(j), not just broker-dealers. The Exchange believes that this rule text is confusing. The Exchange proposes to delete Commentary .05(ii) to Rule 1080 because priority rules continue to be contained in Options 8, Section 25 (Floor Allocation). The priority rules have not changed and Off-Floor Broker Dealer Limit Orders continue to be bound by those rules. Exchange Rules 119 and 120 direct members in the establishment of priority of orders on the floor. This language within Commentary .05(ii) to Rule 1080 indicates that Off-Floor Broker Dealers may establish priority and the Specialist may match the priority, but these rules are subject to Rules 119, 120 and Options 8, Section 25 for allocation. There are other rules which address priority to all members, not just Off-Floor Broker Dealers. Rather, at the time AUTOM was available, this priority could be established, but is no longer the case. Finally, Off-Floor Broker Dealer Limit Orders are no longer entered via AUTOM.<sup>48</sup> This exception

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<sup>47</sup> The Exchange notes that AUTOM no longer exists. This legacy system was replaced by Phlx XL.

<sup>48</sup> AUTOM was a legacy electronic order delivery and reporting system which provided for the automatic entry and routing of Exchange-listed equity options and index options orders to the Exchange trading floor. Option orders entered by Exchange member organizations into AUTOM were routed to the appropriate specialist unit on the Exchange trading floor. Orders delivered through AUTOM could be executed manually, or certain orders were eligible for AUTOM's automatic execution feature, AUTO-X. Equity option and index option specialists

to cited Rule 1014(g)(i)(A) is no longer possible. The AUTOM order delivery system grew over the years into the current fully automated Phlx options trading system XL II. AUTOM and AUTO-X were replaced by the Phlx XL System, such that references to both terms refer to Phlx XL.<sup>49</sup> The Exchange notes that today all orders would be represented in the trading crowd pursuant to Options 8, Section 25(a)(1)(A).

As noted above, Phlx proposes to remove the agency/proprietary order distinction from its rules. Instead, the Exchange proposes to note a list of order types available on Phlx and separately provide restrictions for ROTs, Specialists and Off-Floor Broker Dealers as already described herein. The Exchange notes that in separately limiting those market participants the Exchange is not substantively changing the format of the order types, it is eliminating the categories of “agency” and “proprietary”. No other options markets segregates order types into those categories.

Notwithstanding the restrictions for ROTs, Specialists and Off-Floor Broker Dealers within proposed Rule 1080(e) and Rule 1014(e), the Exchange proposes to replace the order types listed within Rule 1080(b) with the below order types and descriptions to be added to Rule 1080(b).

(1) **Market Order.** A Market Order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. Specialists, ROTs and Off-Floor Broker-Dealers may not submit Market Orders.

(2) **Limit Order.** A Limit Order is an order to buy or sell a stated number of options contracts at a specified price or better.

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were required by the Exchange to participate in AUTOM and its features and enhancements. See Securities Exchange Act Release No. 38792 (June 30, 1997), 62 FR 36602 (July 8, 1997) (SR-Phlx-97-24).

<sup>49</sup> See Securities Exchange Act 72152 (May 12, 2014), 79 FR 28561 (May 16, 2014) (SR-Phlx-2014-32).

(3) **Intermarket Sweep Order.** An Intermarket Sweep Order (ISO) is a Limit Order that meets the requirements of Rule 1083. Orders submitted to the Exchange as ISO are not routable and will ignore the ABBO and trade at allowable prices on the Exchange. ISOs may be entered on the regular order book or into the Price Improvement XL Mechanism (“PIXL”) pursuant to Rule 1087(b)(11). ISO Orders may not be submitted during the Opening Process pursuant to Rule 1017.

(4) **Stop Order.** A Stop Order is a Limit Order or Market Order to buy or sell at a limit price when interest on the Exchange for a particular option contract reaches a specified price. A Stop Order shall be cancelled if it is immediately executable upon receipt. A Stop Order shall not be executed by a trade that is reported late or out of sequence or by a Complex Order trading with another Complex Order. Specialists and ROTs may not submit a Stop Order. Off-Floor Broker-Dealers may not enter a Stop Market Order.

(a) 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.

(b) A Stop Market Order is similar to a stop-limit except it becomes a Market Order when the option contract reaches a specified price.

(5) **All-or-None Order.** An All-or-None Order is a limit order or market order that is to be executed in its entirety or not at all. An All-or-None Order may only be submitted by a Public Customer. All-or-None Orders are non-displayed and non-routable. All-or-None Orders are executed in price-time priority among all Public Customer orders if the size contingency can be met. The Acceptable Trade Range protection in Rule 1099(a) is not applied to All-Or-None Orders.

(i) **Non-Displayed Contingency Orders.** A Non-Displayed Contingency Order shall be defined to include the following non-displayed order types: (1) Stop Orders; and (2) All-or-None Orders.

(6) **Opening Sweep.** An Opening Sweep is a one-sided order entered by a Specialist or ROT through SQF for execution against eligible interest in the System during the Opening Process. This order type is not subject to any protections listed in Rule 1099, except for Automated Quotation Adjustments. The Opening Sweep will only participate in the Opening Process pursuant to Rule 1017 and will be cancelled upon the open if not executed.

(7) **Cancel-Replacement Order.** A Cancel-Replacement Order is 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 result in a loss of priority.

(8) **Qualified Contingent Cross Order** or **QCC Order**. A QCC Order is as that term is defined in Rule 1088.

(9) **PIXL Order**. A PIXL Order is as described in Rule 1087.

(10) **Legging Order**. A Legging Order is as the term is specified in Rule 1098(f)(iii)(C).

(11) **Directed Orders**. A Directed Order is as described in Rule 1068.

All members may enter a Market Order, except Specialists and ROTs, as noted in the exclusion of Market Orders from current Rule 1080(b)(i)(B)(2). Current Rule 1080(b)(i)(B)(1) did not permit Specialists or ROTs to enter Market Orders and current Rule 1080(b)(i)(C)(1) did not permit Off-Floor Broker-Dealers to enter Market Orders. Proposed Rule 1080(e), which is discussed below, also notes the Off-Floor Broker-Dealer restriction for Market Orders. The Exchange proposes to describe a Market Order<sup>50</sup> at proposed 1080(b)(1) as, “an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. Specialists and ROTs may not submit a Market Order.” This is the same description as in Options 8, Section 32(a). The Exchange has historically defined its order types within Options 8, Section 32 which are related to floor trading and has filed rule changes noting this description of a Market Order.<sup>51</sup> The Exchange is not substantively amending this order type.

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<sup>50</sup> Market Orders are described within Options 8, Section 32(a).

<sup>51</sup> See Securities Exchange Act Release No. 83141 (May 1, 2018), 83 FR 20123 (May 7, 2018 (SR-Phlx-2018-32)). The Exchange drafted the description to be similar to the description in Options 8, Section 32. Although it is substantially

Today, all members may enter a Limit Order,<sup>52</sup> which the Exchange proposes to describe at proposed Rule 1080(b)(2) as “an order to buy or sell a stated number of options contracts at a specified price or better.” The description of a Limit Order is currently identically described within Options 8, Section 32(b). The Exchange is not substantively amending this order type.

An Intermarket Sweep Order is a Limit Order that meets the requirements of Rule 1083.<sup>53</sup> The Exchange proposes to state within proposed Rule 1080(b)(3), “An Intermarket Sweep Order (ISO) is a Limit Order that meets the requirements of Rule 1083. Orders submitted to the Exchange as ISO are not routable and will ignore the ABBO and trade at allowable prices on the Exchange. ISOs may be entered on the regular order book or into the Price Improvement XL Mechanism (“PIXL”) pursuant to Rule 1087(b)(11). ISO Orders may be submitted during the Opening Process pursuant to Rule 1017.” The Exchange notes that all members are eligible to enter an ISO.<sup>54</sup> The Exchange notes that ISO behavior, while described within Phlx Rules today as mentioned above, are being centralized within Rule 1080(b)(3). No substantive changes are being made to this order type which is currently described in various rules mentioned herein.

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similar to the footnote 4 in the aforementioned rule change which provides, “Market Orders are orders to buy or sell at the best price available at the time of execution.”

<sup>52</sup> Limit Orders are described within Options 8, Section 32(b).

<sup>53</sup> Rule 1083 currently describes an ISO Order.

<sup>54</sup> See Phlx Rule 1083.

The Exchange proposes to describe a Stop Order<sup>55</sup> at proposed Rule 1080(b)(4), as “a Limit Order or Market Order to buy or sell at a limit price when interest on the Exchange for a particular option contract reaches a specified price. A Stop Order shall be cancelled if it is immediately electable upon receipt. 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. Specialists and ROTs may not submit a Stop Order. An Off-Floor Broker-Dealers may not enter a Stop Market Order.” The Exchange further proposes to describe a Stop-Limit Order at proposed Rule 1080(b)(4)(A) as follows “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.” The Exchange proposes to describe a Stop Market Order at proposed Rule 1080(b)(4)(B) as follows, “A Stop Market Order is similar to a stop-limit except it becomes a Market Order when the option contract reaches a specified price.” Today, all members except Specialists, ROTs and Off-Floor Broker-Dealers may enter a Stop

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<sup>55</sup> Stop Orders are described within Options 8, Section 32(c)(1)-(2). The Exchange has reworded the Stop Order description to make clear that a Stop Order can be either a limit or market order in the first sentence and also more clearly describe the contingency. The Exchange does not believe that the descriptions differ substantively. Further, the Exchange has defined a stop order within a rule change. See Securities Exchange Act Release No. 85519 (April 5, 2019), 84 FR 14686 (April 11, 2019) (SR-Phlx-2019-07). The description in this rule change at footnote 14 is substantially similar in stating, “A stop order is a limit or market 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-market or stop-limit order shall not be triggered by a trade that is reported late or out of sequence or by a complex order trading with another complex order.”

Order.<sup>56</sup> Proposed Rule 1080(e), which is discussed below, also notes the Off-Floor Broker-Dealer restriction for Stop Market Orders. With this proposal, the terms stop and stop-limit are both provided for within the proposed term “Stop Order.” No substantive changes are being made to this order type.

An All-or-None Order is currently described within Rule 1078. The Exchange proposes to relocate Rule 1078, without amendment, into Rule 1080(b)(5) and reserve Rule 1078.<sup>57</sup> The Exchange also proposes to amend the definition of All-or-None Order currently within Options 8, Section 32(b)(3) which applies to the trading floor.<sup>58</sup> The Exchange notes that unlike Rule 1080(b)(5), which applies to electronic trading, All-or-None Orders entered into open outcry would not be subject to Acceptable Trade Range protection in Rule 1099(a), which covers only those orders submitted electronically into the System. No substantive changes are being made to this order type.

The Exchange proposes to define the term “Non-Displayed Contingency Orders” at proposed new Rule 1080(b)(5)(i) as follows: “A Non-Displayed Contingency Order

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<sup>56</sup> See Phlx Rule 1080(b)(i)(B)(1) and (2).

<sup>57</sup> An All-or-None Order is a limit order or market order that is to be executed in its entirety or not at all. An All-or-None Order may only be submitted by a Public Customer. All-or-None Orders are non-displayed and non-routable. All-or-None Orders are executed in price-time priority among all Public Customer Orders if the size contingency can be met. The Acceptable Trade Range protection in Rule 1099(a) is not applied to All-Or-None Orders. See Rule 1078.

<sup>58</sup> Options 8, Section 32(c)(3) provides, “(3) *All or None Order*. An all-or-none order is a market or limit order which is to be executed in its entirety or not at all.” The Exchange notes that other revisions are being made to Options 8, Section 32(b)(3) that were made in a prior rule change. See Securities Exchange Act Release No. 85262 (March 7, 2019), 84 FR 9192 (SR-Phlx-2019-03) and were inadvertently reversed in a subsequent filing that did not capture the amended text. See Securities Exchange Act Release No. 85740 (April 29, 2019), 84 FR 19136 (SR-Phlx-2019-17). The Exchange is reinstating the changes that were made in SR-Phlx-2019-03.

shall be defined to include the following non-displayed order types: (1) Stop Orders; and (2) All-or-None Orders.”

The Exchange proposes to define the Opening Sweep functionality within proposed Rule 1080(b)(6) for ease of reference to order types. The Opening Sweep is currently described within Rule 1017(b)(i).<sup>59</sup> Current Rule 1080(b)(i) notes the Exchange offers an opening-only-market order and a limit on opening order. The Exchange is amending the definition of Opening Sweep within Rule 1017(b)(i) by removing the language and simply referring to proposed Rule 1080(b)(6). The Exchange is amending and relocating the description of Opening Sweep within proposed Rule 1080(b)(6). Further, the Exchange proposes a change to the current rule to state it is an order and not a quote. This change will not amend the order type other than to make clear the manner it will be categorized. Phlx traditionally has referred to all interest within the SQF protocol as quote interest. The Exchange proposes to amend the references to “quotation” to “order” to make clear the type of interest that is being entered. An Opening Sweep is a one-sided order that only may be entered into the Opening Process. Further, the Exchange proposes to make clear that an Opening Sweep may only be entered by a Specialist or ROT as this order type is submitted through the SQF protocol.<sup>60</sup> Other market participants tag orders for the Opening Process by placing a TIF of “OPG” on the order as explained below. The Exchange notes that all members

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<sup>59</sup> Rule 1017(b)(i) provides, “An Opening Sweep is a one-sided electronic quotation submitted for execution against eligible interest in the system during the Opening Process.”

<sup>60</sup> See Phlx Rule 1080(a)(i)(B), which notes that the “Specialized Quote Feed” or “SQF” is an interface that allows Specialists, SQTs and RSQTs to submit Immediate-or-Cancel Orders through SQF.

may submit interest into the Opening Process. The Exchange also proposes to add two new sentences to the Opening Sweep description which provide, “This order type is not subject to any protections listed in Rule 1099, except for Automated Quotation Adjustments. The Opening Sweep will only participate in the Opening Process pursuant to Rule 1017 and will be cancelled upon the open if not executed.” The Exchange notes that the Automated Quotation Adjustments protections applies to quotes entered into SQF but would not apply to an Opening Sweep which is an order entered into SQF. The Exchange notes that the second sentence is not new as Opening Sweeps are described within Rule 1017 today and apply only during the Opening Process. This sentence provides additional context to the Opening Sweep.

The Exchange proposes to memorialize a cancel-replacement order within proposed Rule 1080(b)(7). A Cancel-Replacement Order is currently defined within Options 8, Section 32(c)(4) as “a contingency order consisting of two or more parts which require the immediate cancellation of a previously received order prior to the replacement of 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 such number.” The Exchange proposes to amend this description to state, “a Cancel-Replacement Order is 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 Exchange notes it is proposing to add the following language, which is not currently described within existing rules, “The replacement order

will result in a loss in priority.” The Exchange believes that as amended the Exchange provides additional detail to the order type. The additional language concerning priority is intended to provide market participants with additional detail about the retention of priority when amending a Cancel-Replacement Order and makes clear that it will not retain priority. The Exchange is memorializing the manner in which a Cancel-Replacement Order is handled today by the System. The Exchange notes that the order would be prioritized anew if it partially filled and the remainder of the unfilled order was returned to the Exchange.<sup>61</sup>

The Exchange proposes to include a Qualified Contingent Cross or “QCC” Order within proposed Rule 1080(b)(8) for ease of reference, which directs one to Rule 1088, which provides the detailed explanation of this order type. A QCC Order is described in detail within Rule 1088 today. While this order type is not currently listed within Rule 1080, the Exchange believes that it is useful to market participants to have all order types centralized. No substantive changes are being made to this order type.

The Exchange proposes to include a definition of a PIXL Order within proposed Rule 1080(b)(9) for ease of reference. A PIXL Order is described in greater detail within Rule 1087 today and that description is being referenced within Rule 1080(b)(9). While this order type is not currently listed within Rule 1080, the Exchange believes that it is useful to market participants to have all order types centralized. No substantive changes are being made to this order type.

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<sup>61</sup> See Phlx Rule 1091(a)(i), “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 System, unless any portion of the original order remains on the System, in which case the routed order shall retain its timestamp and its priority.”

The Exchange proposes to include a definition of a Legging Order within proposed Rule 1080(b)(10) for ease of reference. A Legging Order is as described in greater detail within Rule 1098(f)(iii)(C). While this order type is not currently listed within Rule 1080, the Exchange believes that it is useful to market participants to have all order types centralized. No substantive changes are being made to this order type.

The Exchange proposes to include a definition of a Directed Order within proposed Rule 1080(b)(11) for ease of reference. A Directed Order is described in greater detail within Rule 1068 today. While this order type is not currently listed within Rule 1080, the Exchange believes that it is useful to market participants to have all order types centralized. No substantive changes are being made to this order type.

The Exchange proposes to add Time in Force or “TIF” types within proposed new Rule 1080(c). Today these TIFs are noted within current Rule 1080(b)(i)(A)-(C) by category. The Exchange proposes to add descriptions to provide greater detail for these existing TIFs. The term “Time in Force” shall mean the period of time that the System will hold an order for potential execution, and shall include:

(1) **Day.** If not executed, an order entered with a TIF of “Day” expires at the end of the day on which it was entered. All orders by their terms are Day Orders unless otherwise specified. Day orders may be entered through FIX.

(2) **Immediate-or-Cancel or IOC.** An Immediate-or-Cancel (“IOC”) Order entered with a TIF of “IOC” is a Market Order or Limit Order to be executed in whole or in part upon receipt. Any portion not so executed is cancelled.

(A) Orders entered with a TIF of IOC are not eligible for routing.

(B) IOC orders may be entered through FIX or SQF, provided that an IOC Order entered by a ROT or Specialist through SQF is not subject to the Order Price Protection or the Market Order Spread Protection in Rule 1099(a).

(C) Orders entered into the Price Improvement XL Mechanism and Qualified Contingent Cross Mechanism are considered to have a TIF of IOC. By their terms, these orders will be: (1) executed either on entry or after an exposure period, or (2) cancelled.

(3) **Opening Only.** An Opening Only (“OPG”) order is entered with a TIF of “OPG”. This order can only be executed in the Opening Process pursuant to Rule 1017. This order type is not subject to any protections listed in Rule 1099, except for Automated Quotation Adjustments. Any portion of the order that is not executed during the Opening Process is cancelled.

(4) **Good Til Cancelled.** A Good Til Cancelled (“GTC”) Order entered with a TIF of GTC, if not fully executed, will 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 until market close.

The Exchange proposes to describe an order with a TIF of “Day” at proposed new Rule 1080(c)(1) as an order that if not executed, an order entered with a TIF of “Day” expires at the end of the day on which it was entered. All orders by their terms are Day Orders unless otherwise specified. Day Orders may be entered through FIX.<sup>62</sup> The Exchange believes that describing a Day Order with greater specificity will add detail to how Day Orders are treated in the System. The Exchange notes that orders are permitted to be entered with a TIF of “day” as noted in proposed Rule 1080(b). The Exchange notes that Options 8, Section 32 does not describe a “Day” order. The Exchange proposes to include the definition of a “Day” Order in proposed Options 8, Section 32(c)(2).

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<sup>62</sup> Financial Information eXchange" or “FIX” is an interface that allows members and their Sponsored Customers to connect, send, and receive messages related to orders and auction orders and responses to and from the Exchange. Features include the following: (1) execution messages; (2) order messages; and (3) risk protection triggers and cancel notifications. See Rule 1080(a)(i)(A).

The Exchange proposes to describe an order with a TIF of “Immediate-or-Cancel” or “IOC” at proposed new Rule 1080(c)(2) as a Market Order or Limit Order to be executed in whole or in part upon receipt. Any portion not so executed is cancelled. Current Options 8, Section 32(c)(5) describes an IOC Order as “An Immediate-or-Cancel (“IOC”) order is a limit order that is to be executed in whole or in part upon receipt. Any portion not so executed shall be cancelled. IOC Orders are not routable and shall not be subject to any routing process described in these Rules.” The Exchange is including a definition of an IOC Order within proposed Rule 1080(c)(2) similar to that in Options 8, Section 32(c)(5) with no substantive changes. Proposed Rule 1080(c)(2)(A) notes that Orders entered with a TIF of IOC are not eligible for routing. Further the Exchange proposes to add new details to this rule that are applicable specifically to the electronic market by stating that “IOC orders may be entered through FIX<sup>63</sup> or SQF, provided that an IOC Order entered by a ROT or Specialist through SQF is not subject to the Order Price Protection or the Market Order Spread Protection in Rule 1099(a).” Today, orders that are entered as IOC by a ROT or Specialist through SQF<sup>64</sup> are subject to the protections listed in Rule 1099,<sup>65</sup> except for Order Price Protection and Market Order Spread Protection. The Order Price Protection and Market Order Spread Protection, while available for orders, are not available on SQF. The Exchange notes these exceptions within this rule to make clear that this information is available to market participants within the description of IOC. The Exchange notes ROTs and Specialists

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<sup>63</sup> See Rule 1080(a)(i)(A).

<sup>64</sup> See Rule 1080(a)(i)(B).

<sup>65</sup> Phlx Rule 1099 is titled, “Risk Protections.”

utilize IOC Orders to trade out of accumulated positions and manage their risk when providing liquidity on the Exchange. Proper risk management, including using these IOC Orders to offload risk, is vital for ROTs and Specialists, and allows them to maintain tight markets and meet their quoting and other obligations to the market. The Exchange believes that allowing ROTs and Specialists to submit IOC Orders through their preferred protocol increases their efficiency in submitting such orders and thereby allow them to maintain quality markets to the benefit of all market participants that trade on the Exchange. Further, unlike other market participants, ROTs and Specialists provide liquidity to the market place and have obligations.<sup>66</sup> The Exchange believes not offering Order Price Protection and Market Order Spread Protection for IOC Orders entered through SQF is consistent with the Act because ROTs and Specialists have more sophisticated infrastructures than other market participants and are able to manage their risk, particularly with respect to quoting, using tools that are not available to other market participants.<sup>67</sup>

Also, the proposed rule would also specify that orders entered into the Price Improvement XL (“PIXL”) Mechanism and Qualified Contingent Cross (“QCC”) Mechanism are considered to have a TIF of IOC. By their terms, these orders will be: (1)

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<sup>66</sup> Specialists have quoting obligations during the Opening Process as specified in Rule 1017(d) and ROTs and Specialists have intra-day quoting obligations as specified in Rule 1093.

<sup>67</sup> ROTs and Specialists quotes are subject to various protections listed in Rule 1099(c). These additional quoting protections permit ROTs and Specialists to manage their exposure at the Exchange. Other market participants would not be subject to these risk protections because they do not submit quotes on Phlx and do not utilize SQF.

executed either on entry or after an exposure period, or (2) cancelled.<sup>68</sup> The Exchange believes that adding these new details to the manner in which IOC Orders are handled within the System will bring greater transparency to these order types.

The Exchange proposes to describe an order with a TIF of “Opening Only” or “OPG” at proposed new Rule 1080(c)(3) as an order can only be executed in the Opening Process pursuant to Rule 1017. The proposed rule also provides that “Any portion of the order that is not executed during the Opening Process is cancelled.” The Exchange also proposes to note “This order type is not subject to any protections listed in Rule 1099, except for Automated Quotation Adjustments.” This limitation is already provided for within Rule 1099. The Exchange currently refers to this TIF as limit on opening order and proposes to rename this TIF “Opening Only” or “OPG.” The Exchange notes that the terms “opening-only market order” and “limit on opening” are market and limit orders with a TIF of OPG. The Exchange believes that memorializing OPG as a TIF explains the manner in which these orders are entered into the Opening Process for handling pursuant to Rule 1017.

An order with a TIF of “Good Til Cancelled” or “GTC” is described at proposed new Rule 1080(c)(4) and is also being included in Options 8, Section 32(c)(3) as an order that if not fully executed, will 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 until market close. The Exchange has noted this TIF within the current Rule 1080(b), however it did not describe the TIF. The Exchange proposes to define it

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<sup>68</sup> The TIF of IOC is applied to all PIXL and QCC Orders today.

within both Rules 1080 and Options 8, Section 32, according to the manner in which the TIF is applied today within the System.

Proposed Rule 1080(d) notes that DNR, SRCH and FIND are described within Rule 1093. Specifically, the proposed rule text provides, “Routing Strategies. Orders may be entered on the Exchange with a routing strategy of FIND, SRCH or Do-Not-Route (“DNR”) as provided in Rule 1093 through FIX only.” Rule 1093 describes DNR, SRCH and FIND Orders in greater detail. The Exchange is noting the limitation of FIX for additional information on the entry of routed orders. FIX is the only order entry protocol offered on Phlx today for FIND, SRCH, or DNR orders.<sup>69</sup> The current rule text of Rule 1080(b)(i) includes this routing strategies in the list of order types. The Exchange proposes to separate out these FIX-only routing strategies within proposed Rule 1080(d) for clarity.

#### Rule 1080(f) Unbundling of Orders

The Exchange proposes to amend the rule text within Rule 1080(b)(iii)<sup>70</sup> which concerns the unbundling of orders to simply re-number this provision as proposed new Rule 1080(f) and remove references to outdated systems (AUTOM and AUTO-X).

#### Rule 1080(c)

Rule 1080(c) currently states,

Phlx XL automatically executes eligible orders using the Exchange 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

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<sup>69</sup> See Phlx Rule 1080(a)(i)(A).

<sup>70</sup> Current Rule 1080(b)(iii) provides, “Orders may not be unbundled for the purposes of eligibility for AUTOM and AUTO-X, nor may a firm solicit a customer to unbundle an order for this purpose.

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, respecting situations in which the Quote Exhaust feature is engaged, the 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.

The Exchange proposes to delete all of the aforementioned rule text. The first sentence, "Phlx XL automatically executes eligible orders using the Exchange 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" while true is explained in other rules. The Exchange notes in Options 8, Section 25 the manner in which orders are allocated today at the either the NBBO or the Phlx Best Bid or Offer. The Exchange also notes that Rule 1082 provide for the manner in which the Exchange does not trade-through the NBBO. This sentence is not providing the detail contained in those other rules.

With respect to the next three sentences, which provide, “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”<sup>71</sup> and “Book Sweep”<sup>72</sup> are subsumed under the term “AUTO-X” for purposes of these rules,” the Exchange proposes to delete these sentences. As noted above AUTOM no longer exists so references to AUTOM orders are obsolete. Also, specialist manual handling no longer exists.<sup>73</sup> The explanation of manual order handling is not relevant in today’s System. The Exchange notes that all executions occur

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<sup>71</sup> Book Match was an automatic execution feature of the Exchange's systems that automatically executes inbound marketable orders against limit orders 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. See Securities Exchange Act Release No. 54312 (August 14, 2006), 71 FR 47856 (August 18, 2006) (SR-Phlx-2006-28).

<sup>72</sup> Book Sweep was an automatic execution feature of the Exchange's systems that, respecting non-Streaming Quote Options, allowed certain orders resting on the limit order book to be automatically executed when the bid or offer generated by the Exchange's system or by the specialist's proprietary quoting system locks (*i.e.*, \$1.00 bid, \$1.00 offer) or crosses (*i.e.*, \$1.05 bid, \$1.00 offer) the Exchange's best bid or offer in a particular series as established by an order on the limit order book. Orders in non-Streaming Quote Options executed by the Book Sweep feature were allocated among crowd participants participating on the Wheel. Book Sweep is being retained for Streaming Quote Options. See Securities Exchange Act Release No. 54312 (August 14, 2006), 71 FR 47856 (August 18, 2006) (SR-Phlx-2006-28).

<sup>73</sup> Manual execution by a specialist could occur in AUTOM. Specialist manual handling, 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). Rule 1080(c)(iv)(G) notes that no orders will be executed manually on Phlx XL which is the current System.

within the match engine as explained in Options 8, Section 25. Partial manual execution is not possible within the System. As all AUTO-X functionality was overridden by the initiation of Phlx XL fully automated technology, the references to the terms “Book Match” and “Book Sweep” are no longer necessary. The rule text referring to legacy systems should have been removed at the time that Phlx XL was implemented. The Exchange is proposing to remove Rule 1080(c) rules related to a legacy system to avoid confusion.

There is a reference to Phlx XL within Rule 1080(c), “In Phlx XL II, respecting situations in which the Quote Exhaust feature is engaged, the system will automatically execute transactions as set forth in Rule 1082.” The Exchange notes that the Quote Exhaust feature is described within Rule 1082(a)(3) and therefore this reference is not necessary within Rule 1080. The aforementioned rule text is being deleted in its entirety.

For similar reasons, the Exchange is removing the remainder of 1080(c).

Rule 1080(c)(i)

The Exchange proposes to delete Rule 1080(c)(i)(A) and (B) in their entirety; the rule text states:

(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 the NBBO based on the best bid or offer in markets whose quotes are not subject to 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.

The SEC Quote Rule is referenced in current Rule 1082(a)(iii).<sup>74</sup> The Exchange proposes to remove this rule text as Rule 1082 provides for Firm Quotations as does Rule 1019(b)(5). The Exchange describes NBBO Price Protection within Rule 1096(b). The Exchange notes that the references to AUTOM processes do not exist today.

#### Rule 1080(c)(ii)

The Exchange proposes to delete Rule 1080(b)(ii)(A) and (B) which provides,

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<sup>74</sup> See Phlx Rule 1082(a)(iii) The term “SEC Quote rule” shall mean rule 602 of Regulation NMS under the Securities Exchange Act of 1934, as amended.

## **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.
- (2) The term "User" means any person or firm that obtains access to AUTO-X through an Order Entry Firm.

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

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

Rule 1080(c)(ii)(A)(1) currently defines an "Order Entry Firm" as a member organization of the Exchange that is able to route orders to AUTOM. The Exchange proposes to amend the definition of Order Entry Firm and relocate it to Rule 1000(b)(38) to provide, "An Order Entry Firm or "OEF" is a member organization that submits orders, as agent or principal, on the Exchange." The Exchange believes that this new description more accurately describes these market participants. The Exchange notes that Rule 1080(c)(ii)(A)(2) currently defines a "User" as any person or firm that obtains access to AUTO-X through an Order Entry Firm. The Exchange proposes to delete this term. The term User is an obsolete definition intended to refer to the outdated AUTOM system. The Exchange uses the terms "member" and "member organization" in its rules to apply to entities and persons that may access the System. The Exchange only permits members and member organizations to access it System.

The Exchange currently provides for obligations of Order Entry Firms within current Rule 1080(c)(ii)(B). The rule text provides that "Obligations of Order Entry

Firms. Order Entry Firms shall: (1) Comply with all applicable Exchange options trading rules and procedures; (2) Provide written notice to all Users regarding the proper use of AUTO-X.” The Exchange proposes to delete Rule 1080(c)(ii)(B) and eliminate the requirement that Order Entry Firms<sup>75</sup> comply with all applicable Exchange options trading rules and procedures and provide written notice to all Users regarding the proper use of AUTO-X. The Exchange notes that all members and member organizations are subject to its rules. An Order Entry Firm would be required to be a member or member organization to access the System. The AUTO-X procedures are irrelevant and therefore this sentence is being deleted. AUTO-X no longer exists, it was part of AUTOM as explained herein.

Rule 1080(c)(iii)

The Exchange proposes to delete the rule text at Rule 1080(c)(iii)(A) and (B), titled “Quotations Interacting with Limit Orders on the Book” which provides,

(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

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<sup>75</sup> See Rule 1080(c)(ii)(A)(1).

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.

The Exchange proposes to delete this rule text within Rule 1080(c)(iii)(A) because it reflects an outdated Auto-Quote system which no longer exists. The functionality described in subparagraph (iii)(A) no longer exists, including Auto-Quote<sup>76</sup> and the Book Sweep feature, as previously mentioned. These features initially existed within Phlx XL. Phlx XL was later replaced by Phlx XL II in 2009.<sup>77</sup> With respect to Rule 1080(c)(iii)(B), the Exchange notes that the Phlx XL functionality described herein was renamed “Market Sweep.” The Market Sweep description within current Rule 1080(c)(iii)(B) describes an IOC order. Today, ROTs and Specialists may enter IOC orders through SQF. This functionality is already included as part of the SQF functionality and also the IOC description is proposed within new Rule 1080(c)(2). The Exchange therefore proposes the deletion of Rule 1080(c)(iii)(B).

#### Rule 1080(c)(iv)

The Exchange proposes to delete Rule 1080(c)(iv) which provides,

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<sup>76</sup> Auto-Quote was the Exchange's electronic options pricing system, which enabled specialists, Streaming Quote Traders (“SQTs”) and Remote Streaming Quote Traders (“RSQTs”), to automatically monitor and instantly update and submit electronic quotations for equity option and index option contracts. Auto-Quote was eliminated in 2007. See Securities Exchange Act Release No. 55498 (March 20, 2007, 72 FR 14318 (March 27, 2007) (SR-Phlx-2007-15) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Delete the Exchange's Auto-Quote Options Pricing Functionality). This filing inadvertently did not remove all references to Auto-Quote.

<sup>77</sup> See Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32).

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.

The Exchange proposes to delete Rule 1080(c)(iv) because it refers to the possibility of executions being manually handled by the specialist, which cannot occur anymore, as described above.<sup>78</sup> Rule 1080(c)(iv)(A) is currently reserved, and is being

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<sup>78</sup> Manual execution by a specialist could occur in AUTOM. Specialist manual handling, 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). Rule 1080(c)(iv)(G) notes that no orders will be executed manually on Phlx XL which is the current System.

deleted. Rule 1080(c)(iv)(B) describes AUTOM, which is now obsolete and proposed to be deleted. Phlx Rule 1017 describes the timeframe interest will be accepted for the Opening Process. Similarly, Rule 1080(c)(iv)(C) describes a process for opening and reopening which is described in Phlx Rule 1017; the rule text is not necessary. A trading halt will result in a reopening pursuant to Rule 1017. Rule 1080(c)(iv)(D) and (E) is proposed to be deleted because it is not a possibility for manual handling today. As noted in Rule 1080(c)(iv)(G) no orders are handled manually on Phlx XL, which the Exchange is simply referring to as System. The Exchange also proposes to delete Rule 1080(c)(iv)(F) which is reserved.

Rule 1080(c)(v) and vi

The Exchange proposes to delete Rule 1080(c)(v) which provides,

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.

The Exchange proposes to delete the rule text at Rule 1080(c)(v) because it references obsolete functionality related to AUTOM and specialist manual handling. Phlx XL II contained no such functionality and replaced specialist manual handling with automated functionality.

The Exchange also proposes to delete Rule 1080(b)(vi) which is currently reserved.

#### Rule 1080(d), Hours

The Exchange proposes to delete Rule 1080(d), “Hours.” AUTOM is no longer a relevant system. The Exchange’s trading hours for quotes is provided for in Rule 1019(b)(4)<sup>79</sup> and the trading hours for orders is provided for in Rule 1093(a)(2).<sup>80</sup> The Exchange does not believe that this information is necessary.

#### Rule 1080(e), Extraordinary Circumstances

The Exchange proposes to delete Rule 1080(e). “Extraordinary Circumstances,” which provides,

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

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<sup>79</sup> The System accepts quotes for the Opening Process as specified in Rule 1017.

<sup>80</sup> The System accepts orders beginning at a time specified by the Exchange and communicated on the Exchange’s web site.

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.

Rule 1080(e), Extraordinary Circumstances, is proposed to be deleted because it refers to the obsolete functionality of Phlx XL and AUTO-X (AUTO-X was part of AUTOM and is no longer in existence). This also involves the deletion of subparagraph

(i), because the Emergency Committee no longer exists;<sup>81</sup> emergencies related to the System or trading floor are handled pursuant to various other provisions.<sup>82</sup>

#### Rule 1080(f) Specialist Obligations

The Exchange proposes to delete Rule 1080(f), “Specialist Obligations,” which provides,

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.

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. Specialist obligations are noted within Phlx Rule 1020,

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<sup>81</sup> See Securities Exchange Act Release No. 71906 (April 8, 2014), 79 FR 20949 (April 14, 2014) (SR-Phlx-2014-20).

<sup>82</sup> See By-Law Article VII, Section 7-5, Authority to Take Action Under Emergency or Extraordinary Market Conditions.

“Registration and Functions of Options Specialists” as well as Rule 1014, “Obligations of Market Makers.”

Rule 1080(g), Contra-Party Participation

The Exchange proposes to delete Rule 1080(g), “Contra-Party Participation,” which provides,

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.

The Exchange proposes to delete Rule 1080(g), Contra-Party Participation, because Book Match is obsolete. As noted in the last sentence of the text, with Phlx XL, Rule 1082(a)(ii)(B)(3)(c) discusses new interest in the opposite side of the market.

Rule 1080(h), Responsibility for AUTOM Orders

The Exchange proposes to delete Rule 1080(h), Responsibility for AUTOM Orders, which provides,

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.

The Exchange proposes to delete Rule 1080(h), Responsibility for AUTOM Orders, 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 delete Rule 1080(i), (m), and (n) which are currently reserved. The Exchange also proposes to delete the following extraneous sentence:

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

Commentary .01

The Exchange proposes to delete Commentary .01 to Rule 1080 which provides,

**.01 Reserved**

(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.

The Exchange notes that the language contained in Commentary .01 to Rule 1080 refers to legacy functionality that existed prior to the INET transition and does not reflect current functionality. Today, the System automatically throttles and provides equal access to the Order Book across all interfaces.

Commentary .02

The Exchange proposes to delete Commentary .02 which provides,

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.

As explained herein, AUTOM is an outdated system. The Exchange notes its order types within Phlx Rules 1080(b) and Options 8, Section 32, including Limit Orders. Other rules govern trading on the floor, including, but not limited to Options 8, Sections 25, 29 and 30. Also, as discussed above, specialist manual execution no longer exists.

#### Commentary .03

The Exchange proposes to delete Commentary .03 to Rule 1080 which provides,

“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.

The Exchange relocated an updated description of ISO Orders to proposed Rule 1080(b)(3). The Exchange notes that it removed references to Phlx XL and added greater detail about ISO in the PIXL Auction and during the Opening Process. Rule 1083 contains more information with respect to ISO Orders which is referenced within the rule.

Commentary .04 and .05

The Exchange proposed the deletion of these commentaries within the discussion of Rule 1080(b) as these commentaries related to text within that section.

Rule 1000, Applicability, Definitions and References

The Exchange proposes to amend Rule 1000(b)(40) which is currently reserved, to define the term “Away Best Bid or Offer” or “ABBO” to mean the displayed National Best Bid or Offer not including the Exchange’s Best Bid or Offer. The Exchange believes that this term will bring greater clarity to the Exchange’s rules. The Exchange proposes to delete Rule 1000(b)(49) to remove the definition of “Agency Order,” as it is no longer using this categorization of orders, as discussed above.

Rule 1014, Obligations and Restrictions Applicable to Specialists and Registered Options Traders

The Exchange explained above the proposed addition of rule text to Rule 1014(e), which is currently reserved, to explain what types of orders a ROT or Specialist may not enter.

Rule 1017

The term “All-or-None” is being capitalized within Rule 1017(b). The description of the Opening Sweep in Rule 1017(b)(i) is being deleted, and a cross-reference to the new definition for Opening Sweep, in 1080(b)(6), is being added within the rule.

Rule 1078, All-or-None

As noted above, the Exchange is relocating the text of this rule into Rule 1080(b)(5) and reserving this rule.

Rule 1098, Complex Orders on the System

The Exchange proposes to update Rule 1098 to note that certain order types are described in proposed Rule 1080(b) and (c). The Exchange is removing the descriptions of order types within Rule 1098(b)(v) and instead referencing back to Rule 1080. The order types entered as complex orders do not differ in description from those entered on the simple market. This proposal will conform order types across the electronic market, as well as the floor, with the proposed changes to Options 8, Section 32. The Exchange is adding Directed Orders to Rule 1098(b)(v) as Directed Orders are proposed to be added to Rule 1080(b).

The Exchange also proposes to amend Rule 1098(d)(B), 1098(e)(iv) and 1098(f)(ii) to redefine certain sweeps as “orders” instead of “quotations.” Specifically, similar to the amendment for Opening Sweeps defined above, the Exchange is proposing to amend the references to COOP Sweep, COLA Sweep and CBOOK Sweep to describe them as a “one-sided electronic order entered by a Specialist or ROT through SQF” instead of “a one-sided electronic quotation.” Phlx traditionally has referred to all

interest within the SQF protocol as quote interest. There is no systemic change as a result of this amendment. The Exchange is simply re-categorizing these “quotes” as “orders” as they are identical to IOC orders. The Exchange proposes to amend the references to “quotation” to “order” to make clear the type of interest that is being entered. Further, the Exchange proposes to make clear that these sweeps may only be entered by a Specialist or ROT through SQF.<sup>83</sup> This is the case today.

The Exchange offers ROTs and Specialists the ability to expeditiously submit IOC orders through SQF, without having to utilize the FIX protocol. This allows ROTs and Specialists to manage risk utilizing a single protocol, SQF. Unlike other market participants, ROTs and Specialists are required to provide liquidity to the market and are subject to certain obligations, including a requirement to provide continuous two-sided quotes on a daily basis.<sup>84</sup> ROTs and Specialists utilize IOCs (today sweeps) to trade out of accumulated positions and manage their risk when providing liquidity on the Exchange. Proper risk management, including using these IOCs to offload risk, is vital for ROTs and Specialists, and allows them to maintain tight markets and meet their quoting and other obligations to the market. The Exchange believes that unlike other market participants, ROTs and Specialists have obligations and risks, which are mitigated by providing these market participants with the ability to increase their efficiency in submitting such orders and thereby allow them to maintain quality markets to the benefit of all market participants that trade on the Exchange. The Exchange notes that other

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<sup>83</sup> Market Makers on Phlx include Specialists and ROTs. See note 3.

<sup>84</sup> See Phlx Rule 1081.

exchanges offer similar capabilities to market makers.<sup>85</sup> Furthermore, other exchanges do not offer order protections on order submitted through a quoting protocol. MIAX's Price Protection on Non-Market Maker Orders is not available for orders submitted by a Market Maker.<sup>86</sup> The Price Protection on Non-Market Maker Orders prevents an order from being executed at a price beyond the price designated in the order's price protection instructions, and is a similar protection to the Exchange's Limit Order Price Protection. The Exchange similarly believes that it is consistent with the Act to not apply certain protections to Market Maker Immediate-or-Cancel Orders submitted through SQF.

ROTs and Specialists handle a large amount of risk when quoting on the Exchange and in addition to the risk protections required by the Exchange, ROTs and Specialists utilize their own risk management parameters when entering orders, minimizing the likelihood of a ROTs and Specialist order resulting from an error from being entered. The Exchange believes that ROTs and Specialists, unlike other market participants, have the ability to manage their risk when submitting IOC Orders through SQF and should be permitted to elect this method of order entry to obtain efficiency and speed of order entry, particularly in light of the continuous quoting obligations the Exchange imposes on these participants.

Options 8, Section 32

The Exchange is proposing to amend Options 8, Section 32 to add an "(a)" before

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<sup>85</sup> Miami International Securities Exchange LLC ("MIAX") utilizes its MIAX Express Interface (MEI), a quoting interface, for market makers to enter immediate-or-cancel orders.

<sup>86</sup> See MIAX Rule 515(c)(1).

the rule text. The Exchange proposes to amend the “a” and “b” before Market Order<sup>87</sup> and Limit Order<sup>88</sup> to a “1” and “2” respectively.

Options 8, Section 32 governs the trading floor while Rule 1080 governs electronic trading. A member enters orders through FBMS, directly into the System shall be governed by Rule 1080 with respect to order types. The Exchange proposes to re-letter Contingency Order from “c” to “b.” The Exchange proposes to replace the current All or None Order<sup>89</sup> description within Options 8, Section 32(b)(3) with the rule text currently within Rule 1078 with the exception of the description of the Acceptable Trade Range Protection, which is not applied when submitting orders in open outcry.

The Exchange proposes to add a new Options 8, Section 32(c) which provides, “Time in Force or “TIF.” The term “Time in Force” shall mean the period of time that the System will hold an order for potential execution, and shall include:”. This sentence will provide more contextual information. The Exchange will renumber the Immediate or Cancel Order from Options 8, Section 32(b)(5) to new Options 8, Section 32(c)(1). The Exchange proposes to add two additional TIFs, “Day” and “Good Til Cancelled” at proposed new Options 8, Section 32(c)(2) and (3). The Exchange proposes to utilize the descriptions proposed within new Rule 1080(c)(1) and (4). The Exchange proposes to add a description for Floor Qualified Contingent Cross Orders within new proposed

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<sup>87</sup> *Market Order.* A market order is an order to buy or sell a stated number of option contracts and is to be executed at the best price obtainable when the order reaches the post.

<sup>88</sup> *Limit Order.* A limit order is an order to buy or sell a stated number of option contracts at a specified price, or better.

<sup>89</sup> *All or None Order.* An all-or-none order is a market or limit order which is to be executed in its entirety or not at all.

Options 8, Section 32(e). The description is copied from Rule 1064(e) with a title, “Floor Qualified Contingent Cross Order or Floor QCC Order.”<sup>90</sup> The Exchange proposes to re-letter the remainder of the rule.

Options 8, OFPA A-3

The Exchange proposes to add a cross-reference to the definition of All-or-None Orders in proposed new Rule 1080(b)(5) within Options Floor Procedure Advice A-3.

The Exchange notes that other revisions are being made to Options 8, Section 32(b)(3) that were made in a prior rule change<sup>91</sup> and inadvertently removed by a subsequent rule change. The subsequent rule change did not capture the amended text.<sup>92</sup> The Exchange is reinstating the changes that were made in SR-Phlx-2019-03 within this rule change.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>93</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>94</sup> in particular, in that it is designed to promote just and equitable principles of trade and to protect

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<sup>90</sup> The Exchange proposes, “A Floor Qualified Contingent Cross Order is comprised of an originating order to buy or sell at least 1,000 contracts, as provided in Options 8, Section 30(e), that is identified as being part of a qualified contingent trade, as that term is defined in subsection Options 8, Section 30(e)(3), coupled with a contra-side order or orders totaling an equal number of contracts.”

<sup>91</sup> See Securities Exchange Act Release No. 85262 (March 7, 2019), 84 FR 9192 (SR-Phlx-2019-03).

<sup>92</sup> See Securities Exchange Act Release No. 85740 (April 29, 2019), 84 FR 19136 (SR-Phlx-2019-17).

<sup>93</sup> 15 U.S.C. 78f(b).

<sup>94</sup> 15 U.S.C. 78f(b)(5).

investors and the public interest by amending Rule 1080 to amend the order types descriptions and eliminate references and descriptions of outdated functionality.

#### Order Types

The Exchange's proposal to remove the distinction between "agency and "proprietary" is consistent with the Act because this distinction is not necessary to describe the types of orders available on Phlx. The Exchange notes that while that distinction may have been applicable at one point in time with respect to entering orders, it is not suitable to limit the entry of certain orders on that basis. Phlx captures capacity of market participants when they submit orders to the System. Further, the Exchange notes within proposed Rule 1080(b) any limitations that impact a market participant's ability to submit an order. Finally, proposed Rule 1014(e) will provide limitations for ROTs and Specialists submitting orders.

The Exchange notes that today no other options market segregates the submission of order types by whether the order is an agency or proprietary order. Rather, Phlx's proposal as well as rules of other options exchanges impose limitations on the types of orders that may be entered by ROTs and Specialists as described further herein, as well as other limitations related to market ROTs and Specialists makers entering orders.<sup>95</sup> While the Exchange is eliminating the references to "agency" and "proprietary" orders, the Exchange notes that there is no impact to market participants or systemic change that results from the elimination of these terms. The list of order types presented below reflect current practice. The Exchange is not changing the manner in which orders are being submitted to the Exchange. The Exchange believes that by defining the rules,

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<sup>95</sup> See ISE, GEMX and MRX Options 3, Section 7, Miami International Securities Exchange, LLC Rule 515 and Cboe Exchange, Inc. Rule 5.6.

similar to other options markets, it will bring greater transparency to the Exchange's Rules and permit an ease of reference when comparing rulebooks. The Exchange notes that this proposal will not amend the System except for the changes described below where the Exchange is noting a change is proposed. Other functionalities offered by Phlx remains unchanged with this proposal.

The Exchange's proposal to replace the current rule text regarding order types within Rule 1080(b) with a list of current order types will bring greater transparency to the Exchange's Rules. Today, Rule 1080(b)(i) lists certain order types that have not been available on Phlx since Phlx replatformed its technology to INET in 2009. Specifically, the Exchange believes that eliminating order types that are not available, which include "or better," "simple cancel to reduce size (cancel leaves)," "cancel to change price" and "possible duplicate orders," is consistent with the Act because the revised rule will make clear the order types that are available and will clarify the rules. The Exchange notes that these order types have not been available for some time. The Exchange believes market participants are aware of the current order types that are accepted by the System because they review the Exchange's specifications. Proposed Rule 1080(b) would make clear what order types are available and provide a description of each order type.

Current Options 8, Section 32 describes the order types available for trading on the Trading Floor of the Exchange. The order types available within Phlx are the same regardless of whether the order is entered electronically or through the Options Floor Broker Management System.<sup>96</sup> Additionally, these order types may be entered in either

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<sup>96</sup> Options Floor Based Management System or ("FBMS") is a component of the System designed to enable members and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. The

the simple or complex order books. For these reasons, the Exchange is simultaneously updating the descriptions of the order types into Options 8, Section 32, and Rules 1080 and 1098 to ensure conformity among these rules. The description of Market Order within proposed Rule 1080(b)(1) is substantially similar to the description of Options 8 Section 32(a). The description of a Limit Order within proposed 1080(b)(2) is identical to the description within Options 8, Section 32(b). The ISO description within proposed Rule 1080(b)(3) refers to current Rule 1083 and references the current behavior within PIXL pursuant to Rule 1087. Finally, ISO behavior for the Opening Process is referenced within Rule 1017. The Exchange believes that describing the behavior of the ISO Order within Rule 1080(b) is consistent with the Act because this functionality exists today and is being centralized within one description for ease of reference for members. The Stop Order description proposed within Rule 1080(b)(4) is being modified from the definition within Options 8, Section 32(c)(1) but the Exchange believes the description is substantially similar.

Adding a description for Non-Displayed Contingency Orders within Rule 1080(b)(5) will enhance the Rulebook and allow the Exchange to readily refer to these categories of orders within its rules. In addition, this description will apprise members of the order types on Phlx that are Non-Displayed in one location within the Rulebook. The

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FBMS also is designed to establish an electronic audit trail for options orders negotiated, represented and executed by members on the Exchange, to the extent permissible under Rule 1000(f), such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order. The features of FBMS are described in Rules 1063(e) and 1085. In addition, a non-member or member may utilize an FBMS FIX interface to create and send an order into FBMS to be represented by a Floor Broker for execution. See Phlx Rule 1080(a)(i)(C).

All-or-None description within proposed Rule 1080(b)(6) is identical to Rule 1078.

The Opening Sweep description is being revised to describe this order type as an order and not a quote. The Exchange notes that the categorization of the Opening Sweep is not a substantial change to the manner in which the order type functions. The System is not being amended. The Opening Sweep is currently described within Rule 1017(b)(i).<sup>97</sup>

Current Rule 1080(b)(i) notes the Exchange offers an opening-only-market order and a limit on opening order. The Exchange is amending the definition of Opening Sweep within Rule 1017(b)(i) by removing the language and simply referring to proposed Rule 1080(b)(6). Phlx traditionally has referred to all interest within the SQF protocol as quote interest. The Exchange proposes to amend the references to “quotation” to “order” to make clear the type of interest that is being entered. The Opening Sweep is an IOC Order that only may be entered into the Opening Process. Further, the Exchange proposes to make clear that an Opening Sweep may only be entered by a Specialist or ROT as this order type is submitted through the SQF protocol.<sup>98</sup> Other market participants tag orders for the Opening Process by placing a TIF of “OPG” on the order as explained below. The Exchange notes that all members may submit interest into the Opening Process. The Exchange believes that this rule change is consistent with the Act because the categorization has no impact on the functionality on the manner in which members utilize the Opening Sweep functionality. From the member prospective there is

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<sup>97</sup> Rule 1017(b)(i) provides, “An Opening Sweep is a one-sided electronic quotation submitted for execution against eligible interest in the system during the Opening Process.”

<sup>98</sup> See Phlx Rule 1080(a)(i)(B) notes that (B) “Specialized Quote Feed” or “SQF” is an interface that allows Specialists, SQTs and RSQTs may submit Immediate-or-Cancel Orders through SQF.

no functional change. The Exchange believes that this amendment will conform the categorization of this order type to that of order types that are Immediate-or-Cancel Orders despite the protocol. The Exchange's proposal to add two new sentences to the Opening Sweep description which provide, "This order type is not subject to any protections listed in Rule 1099, except for Automated Quotation Adjustments. The Opening Sweep will only participate in the Opening Process pursuant to Rule 1017 and will be cancelled upon the open if not executed" are consistent with the Act. Automated Quotation Adjustments protections applies to quotes entered into SQF but would not apply to an Opening Sweep which is an order entered into SQF. The Exchange notes that the second sentence is not new as Opening Sweeps are described within Rule 1017 today and apply only during the Opening Process. Both of sentences bring greater transparency to this rule.

The Exchange offers ROTs and Specialists the ability to expeditiously submit IOC orders through SQF, without having to utilize the FIX protocol. This allows ROTs and Specialists to manage risk utilizing a single protocol, SQF. Unlike other market participants, ROTs and Specialists are required to provide liquidity to the market and are subject to certain obligations, including a requirement to provide continuous two-sided quotes on a daily basis.<sup>99</sup> ROTs and Specialists utilize IOCs (today sweeps) to trade out of accumulated positions and manage their risk when providing liquidity on the Exchange. Proper risk management, including using these IOCs to offload risk, is vital for ROTs and Specialists, and allows them to maintain tight markets and meet their

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<sup>99</sup> Specialists have quoting obligations during the Opening Process as specified in Rule 1017(d) and ROTs and Specialists have intra-day quoting obligations as specified in Rule 1093.

quoting and other obligations to the market. The Exchange believes that unlike other market participants, ROTs and Specialists have obligations and risks, which are mitigated by providing these market participants with the ability to increase their efficiency in submitting such orders and thereby allow them to maintain quality markets to the benefit of all market participants that trade on the Exchange. The Exchange notes that other exchanges offer similar capabilities to market makers.<sup>100</sup> Furthermore, other exchanges do not offer order protections on orders submitted through a quoting protocol. MIAX's Price Protection on Non-Market Maker Orders is not available for orders submitted by a Market Maker.<sup>101</sup> The Price Protection on Non-Market Maker Orders prevents an order from being executed at a price beyond the price designated in the order's price protection instructions, and is a similar protection to the Exchange's Limit Order Price Protection. The Exchange similarly believes that it is consistent with the Act to not apply certain protections to Market Maker Immediate-or-Cancel Orders submitted through SQF.

ROTs and Specialists handle a large amount of risk when quoting on the Exchange and in addition to the risk protections required by the Exchange, ROTs and Specialists utilize their own risk management parameters when entering orders, minimizing the likelihood of a ROTs and Specialist order resulting from an error from being entered. The Exchange believes that ROTs and Specialists, unlike other market participants, have the ability to manage their risk when submitting IOC Orders through SQF and should be permitted to elect this method of order entry to obtain efficiency and

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<sup>100</sup> Miami International Securities Exchange LLC ("MIAX") utilizes its MIAX Express Interface (MEI), a quoting interface, for market makers to enter immediate-or-cancel orders.

<sup>101</sup> See MIAX Rule 515(c)(1).

speed of order entry, particularly in light of the continuous quoting obligations the Exchange imposes on these participants.

The Exchange's proposal to describe the Cancel-Replacement Order within proposed Rule 1080(b)(7) is similar to the order type currently described within Options 8, Section 32(c)(7). The Exchange is amending this description in a manner that is similar to Options 8, Section 32(7) except the Exchange is adding additional rule text that is not currently described within the existing Rules. The Exchange proposes to make clear when a loss of priority would occur when submitting a Cancel-Replacement Order. The Exchange believes that memorializing the current System practice in which the System determines how to prioritize a Cancel-Replacement Order is consistent with the Act because when an order is routable, the System would need to re-check the order to determine if it is marketable and therefore routable. Phlx Rule 1093 describes routing functionality.

With respect to QCC Orders, PIXL Orders, Legging Orders and Directed Orders, the Exchange's proposal to note the rule where a detailed explanation of the Order Type may be found will add greater transparency to the Exchange's Rules. The Exchange's proposal to include all order types within proposed Rule 1080(b) is consistent with the Act and the protection of investors and the general public because it will provide members with a complete list of order types thereby adding greater transparency to the Exchange's Rules.

The Exchange's proposal to add TIFs to proposed Rule 1080(c) will also enhance the Exchange's Rulebook by including these order types to the proposed set of Rules and providing additional transparency. The Exchange proposes to add at Rule 1080(c)(1) a

description of a Day Order. The Exchange's proposed description of a Day Order memorializes the manner in which the System currently treats a TIF of "Day." Exchange members today are familiar with a Day Order which is described in the specifications. The Exchange believes that this description is consistent with the Act in that the TIF of Day simply clarifies that an order with a TIF of day will be cancelled at the end of the day if not executed and serves to provide greater clarity to the Exchange's Rules. The Exchange's proposal to describe an IOC Order at proposed Rule 1080(c)(2) similar to Options 8 Section 32(c)(8) except that the Exchange also proposes to note that the IOC Order may be a Market Order. This is not the case for Market Orders on the trading floor as a price is required to be specified in the trading crowd. Today, Market Orders may be marked with a TIF of "IOC", this is not a System change. The Exchange is also proposing to include new rule text to further describe that in an electronic market the types of protocols that may be utilized on Phlx to submit IOC Orders. Further the Exchange proposes to note that IOC orders submitted through SQF are not subject to the order protections within Phlx Rule 1099, except for Automated Quotation Adjustments.

The Exchange notes that SQF is utilized by ROTs and Specialists. These market participants are required to provide liquidity to the market and are subject to certain obligations, including requirements to provide two-sided quotes on a daily basis.<sup>102</sup> ROTs and Specialists use IOC Orders to trade out of accumulated positions and manage their risk when providing liquidity on the Exchange. Proper risk management, including using IOC Order to offload risk, is vital for these market participants, and allows them to maintain tight markets and meet their quoting obligations to the market. ROTs and

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<sup>102</sup> See Phlx Rule 1091.

Specialists handle a large amount of risk when quoting and in addition to the risk protections required by the Exchange, ROTs and Specialists utilize their own risk management parameters when entering orders, minimizing the likelihood of a ROT or Specialist order resulting from an error from being entered. The Exchange believes that ROTs and Specialists, unlike other market participants, have the ability to manage their risk when submitting IOC Orders through SQF and should be permitted to elect this method of order entry to obtain efficiency and speed of order entry, particularly in light of the quoting obligations the Exchange imposes on these participants. The Exchange noted in a another rule change that market makers on Phlx may enter Immediate-or-Cancel Orders through SQF and are similarly not subject to certain risk protections.<sup>103</sup>

The Exchange's proposal to define an order with a TIF of "Opening Only" within Rule 1080(c)(3) as an IOC Order that can be entered during the Opening Process is consistent with the Act. The limitation of order protections within the Opening Process is noted within Rule 1099. The Exchange notes that this TIF exists today but is being renamed. Today, orders that are entered as IOC by a ROT or Specialist through SQF<sup>104</sup> are subject to the protections listed in Rule 1099,<sup>105</sup> except for Order Price Protection and Market Order Spread Protection. The Order Price Protection and Market Order Spread

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<sup>103</sup> See Securities Exchange Act Release No. 81034 (June 27, 2017), 82 FR 30923 (July 3, 2017) (SR-ISE-2017-58). See also Securities and Exchange Release No. 76295 (October 29, 2015), 80 FR 68338 at 68339 (November 4, 2015) (SR-Phlx-2015-83) (Phlx noted in footnote 8 that while SQF permits the receipt of quotes, sweeps are not included for purposes of the Percentage Based risk protection in Rule 1095(i)). Phlx Rule 1080(c)(iii)(B) provides that, "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."

<sup>104</sup> See Rule 1080(a)(i)(B).

<sup>105</sup> Phlx Rule 1099 is titled, "Risk Protections."

Protection, while available for orders, are not available on SQF. The Exchange's proposal to note these exceptions within this rule is consistent with the Act because it brings greater transparency with respect to the availability of order protections. The Exchange notes ROTs and Specialists utilize IOC Orders to trade out of accumulated positions and manage their risk when providing liquidity on the Exchange. Proper risk management, including using these IOC Orders to offload risk, is vital for ROTs and Specialists, and allows them to maintain tight markets and meet their quoting and other obligations to the market. The Exchange believes that allowing ROTs and Specialists to submit IOC Orders through their preferred protocol increases their efficiency in submitting such orders and thereby allow them to maintain quality markets to the benefit of all market participants that trade on the Exchange. Further, unlike other market participants, ROTs and Specialists provide liquidity to the market place and have obligations.<sup>106</sup> The Exchange believes not offering Order Price Protection and Market Order Spread Protection for IOC Orders entered through SQF is consistent with the Act because ROTs and Specialists have more sophisticated infrastructures than other market participants and are able to manage their risk, particularly with respect to quoting, using tools that are not available to other market participants.<sup>107</sup>

Finally, the Exchange's proposal to memorialize a GTC Order within proposed

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<sup>106</sup> Specialists have quoting obligations during the Opening Process as specified in Rule 1017(d) and ROTs and Specialists have intra-day quoting obligations as specified in Rule 1093.

<sup>107</sup> ROTs and Specialists quotes are subject to various protections listed in Rule 1099(c). These additional quoting protections permit ROTs and Specialists to manage their exposure at the Exchange. Other market participants would not be subject to these risk protections because they do not submit quotes on Phlx and do not utilize SQF.

Rule 1080(c)(4) is consistent with the Act and will provide a description for a GTC Order that does not exist today. The TIF is noted within current Rule 1080(b)(i) without a description. Similar to a Day Order, the Exchange believes that it is consistent with the Act to describe a GTC Order, which is eligible as an order until cancelled, within Rule 1080(c) to provide members with greater transparency as to the TIFs which are available on Phlx.

The Exchange's proposal to note the various routing strategies within Rule 1080(d) is consistent with the Act because it will also add greater transparency to the Exchange's rules. These routing strategies are already described within Rule 1093 and will add greater transparency to this rule. The Exchange is simply relocating the restrictions that are applicable today to Off-Floor Broker Dealers to new Rule 1080(e) without any substantive changes.

The order types description within proposed Rule 1080(b) should promote just and equitable principles of trade and perfect the mechanisms of a free and open market and the national market system by providing greater clarity concerning certain aspects of the System's operations. The order types proposed within Rule 1080(b) do not add any new functionality, rather, they provide descriptions for each available order type currently offered by the Exchange. The proposed rules provide additional detail related to functionality for certain order types and the handling of orders which offers greater transparency with respect to the Exchange's order type functionality.

Proposed Rule 1014(e) would permit ROTs and Specialists to enter orders in both their assigned and unassigned options, but it would also limit a ROT or Specialist to not exceed 25 percent of the total number of all contracts executed by the ROT or Specialist

in unassigned options in any calendar quarter. This limitation is similar to limitations on other options markets.<sup>108</sup> Today, ROTs and Specialists on Phlx may not enter orders in non-appointed option series.<sup>109</sup> The Exchange's proposal to permit a ROT or Specialist to enter a limited amount of orders is consistent with the Act because ROTs and Specialists may enter orders for purposes of providing liquidity on the Exchange in certain circumstances. Further, the Exchange still proposes to limit ROTs and Specialists. The Exchange is excluding order types that today may not be entered by a Specialist or ROT today. Today, Specialists and ROTs may not enter All-or-None Orders, and public customer-to-public customer cross orders subject to Rule 1087(a) and (f), which orders may only be entered by a Public Customer. The Exchange proposes to prohibit SQTs and RSQTs from entering Market Orders and Stop Orders as well because the Exchange requires SQTs and RSQTs to "maintain a two-sided market in those options in which the electronic ROT is registered to trade, in a manner that enhances the depth, liquidity and competitiveness of the market" pursuant to Phlx Rule 1081(a)(i). The Exchange believes that permitting SQTs and RSQTs to enter Market Orders does not achieve this objective as Market Orders are designed to remove liquidity from the Order Book. Further, the Exchange does believe that Stop Orders similarly are designed to remove liquidity from the Order Book and are non-displayed order types until they are triggered which does not benefit the role of an SQT or RSQT in displaying liquidity on

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<sup>108</sup> See ISE, GEMX and MRX Options 2, Section 6, NOM Rules at Chapter VII, Section 6(e), and BX Rules at Options 2, Section 5(e). Further, NYSE Arca, Inc. ("NYSE Arca") and NYSE American LLC ("NYSE American") do not limit the types of orders that can be entered by market makers. See NYSE Arca Rule 6.37B-O and NYSE American Rule 925.2NY.

<sup>109</sup> Phlx Rule 1014(b)(ii), SQTs and RSQTs may only trade in a market making capacity in classes of options in which the SQT is assigned.

the Order Book. Finally, Directed Orders may not be entered by Specialists and ROTs today pursuant to Rule 1068.

The Exchange believes its proposal is consistent with the Act. No longer limiting the amount of orders that may be executed by ROTs and Specialists to simply appointed classes will allow market making participants to enter more orders than they are permitted to enter today. The current restriction imposed by Commentary .01 to Rule 1014 to execute at least 50% of the trading activity in any quarter is only possible today in assigned options series and therefore is not very restrictive. Allowing ROTs and Specialists to enter order in assigned series is in addition to their current obligations to quote intra-day.<sup>110</sup> In order to meet those obligations ROTs and Specialists will need to stay focused on adding liquidity to Phlx. Further, permitting ROTs and Specialists to enter orders in non-appointed classes provided they do not exceed 25% of the total number of contracts executed in any quarter is consistent with the Act because the proposed rule will allow ROTs and Specialists to continue to provide liquidity on Phlx, as is the case today, while not restricting their business activity in a manner that is no other market participants is restricted to transact. Phlx's proposal will allow market making participants the same flexibility as exists today on other options markets.

The Exchange's proposal to amend current Rule 1080(b)(i)(B) and (C) to remove the current size limitation of 10 contracts pursuant to which certain orders must be entered as IOC by ROTs and Specialists is consistent with the Act because the Exchange believes that this limitation is no longer necessary given the evolution of the market place and further that it hinders non-SQT ROTs and Specialists unnecessarily. No other

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<sup>110</sup> See Phlx Rule 1081.

options market has similar limitations today.<sup>111</sup> The 10 contract limitation was put in place to restrict participants, whose primary role was to provide liquidity, from using orders of small size to avoid providing liquidity using quotes which were historically required to be of a size of 10 contracts or more. Proposed Rule 1080(b) does not impose any limit and serves to promote just and equitable principles of trade by not limiting ROTs and Specialists, who today are the only market participants with such a restriction.

Similar to the rule change proposed for Opening Sweeps within proposed Rule 1080(b)(6) the Exchange proposes to amend Rule 1098 to amend the descriptions of COOP Sweeps, COLA Sweeps and CBOOK Sweeps to change the description of these IOC Orders from a quote to an order. The Exchange's proposal to describe these sweeps as one-sided orders entered by a Specialist or ROT through SQF instead of as one-sided quotations will make clear the type of interest that these sweeps are for purposes of order entry. Phlx traditionally has referred to all interest within the SQF protocol as quote interest but this classification is not correct when distinguishing interest as either a quote or order. Today these sweeps are considered order interest, so no change is being made to the manner in the System accepts or processes these sweeps. The Exchange believes its proposal is consistent with the Act because the proposal will align sweeps in the proper category of interest as order interest to avoid confusion and protect investors and the general public.

#### Outdated Systems

The Exchange proposes to remove references to obsolete functionality within Rule 1080(c)-(h). There are multiple references to legacy systems and terms related to

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<sup>111</sup> See note 32 above.

those Systems. The AUTOM order delivery system grew over the years into the current fully automated Phlx options trading system XL II. AUTOM and AUTO-X were replaced by the Phlx XL System, such that references to both terms refer to Phlx XL.<sup>112</sup> Also, specialist manual handling no longer exists.<sup>113</sup> The explanation of manual order handling is not relevant in today's System. The Exchange notes that all executions occur within the match engine as provided for within Options 8, Section 25. Partial manual execution is not possible within the current System. Rule 1080(c)(iv)(G) provides that no orders are handled manually on Phlx XL, which the Exchange is simply referring to as System. As all AUTO-X functionality was overridden by the initiation of Phlx XL fully automated technology, the references to the terms "Book Match" and "Book Sweep" are no longer necessary. The rule text referring to legacy systems should have been removed at the time that Phlx XL was implemented. The functionality described in Rule 1080(c)(iii)(A) no longer exists, including Auto-Quote<sup>114</sup> and the Book Sweep feature, as previously mentioned. These features initially existed within Phlx XL. Phlx XL was

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<sup>112</sup> See Securities Exchange Act 72152 (May 12, 2014), 79 FR 28561 (May 16, 2014) (SR-Phlx-2014-32).

<sup>113</sup> Manual execution by a specialist could occur in AUTOM. Specialist manual handling, 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). Rule 1080(c)(iv)(G) notes that no orders will be executed manually on Phlx XL which is the current System.

<sup>114</sup> Auto-Quote was the Exchange's electronic options pricing system, which enabled specialists, Streaming Quote Traders ("SQTs") and Remote Streaming Quote Traders ("RSQTs"), to automatically monitor and instantly update and submit electronic quotations for equity option and index option contracts. Auto-Quote was eliminated in 2007. See Securities Exchange Act Release No. 55498 (March 20, 2007, 72 FR 14318 (March 27, 2007) (SR-Phlx-2007-15).

later replaced by Phlx XL II in 2009.<sup>115</sup> Rule 1080(e), Extraordinary Circumstances, is proposed to be deleted, because it refers to the obsolete functionality of Phlx XL and AUTO-X (AUTO-X was part of AUTOM and is no longer in existence). This also involves the deletion of subparagraph (i), because the Emergency Committee no longer exists;<sup>116</sup> emergencies related to the System or trading floor are handled pursuant to various other provisions.<sup>117</sup> The Exchange believes that removing obsolete rule text and functionality will protect investors and the public interest because it will avoid confusion within the rules.

Additionally, certain redundant rule text is being removed. With respect to Rule 1080(c)(iii)(B), the Exchange notes that the Phlx XL functionality described herein was renamed “Market Sweep.” Today this functionality is referred to within the Specialized Quote Feed functionality within Rule 1080(a)(i)(B) and will also be referred to within proposed Rule 1080(c)(2)(B) which describes IOC Orders. The Exchange notes that the Quote Exhaust feature is described within Rule 1082(a)(3) and therefore this reference is not necessary within Rule 1082. The SEC Quote Rule is referenced in current Rule 1082(a)(iii).<sup>118</sup> Rule 1080(c)(ii)(A)(1) defines an “Order Entry Firm” as a member organization of the Exchange that is able to route orders to AUTOM. The term Order

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<sup>115</sup> See Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32).

<sup>116</sup> See Securities Exchange Act Release No. 71906 (April 8, 2014), 79 FR 20949 (April 14, 2014) (SR-Phlx-2014-20).

<sup>117</sup> See By-Law Article VII, Section 7-5, Authority to Take Action Under Emergency or Extraordinary Market Conditions.

<sup>118</sup> See Phlx Rule 1082(a)(iii) The term “SEC Quote rule” shall mean rule 602 of Regulation NMS under the Securities Exchange Act of 1934, as amended.

Entry Firm is not necessary to describe order types or other functionality. Rule 1080(c)(ii)(A)(2) defines a “User” as any person or firm that obtains access to AUTO-X through an Order Entry Firm. The term User is an obsolete definition intended to refer to the outdated AUTOM system. The Exchange uses the terms member and member organization in its rules to apply to entities and persons that may access the System. The Exchange only permits members and member organizations to access it System. 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. Specialist obligations are noted within Phlx Rule 1020, “Registration and Functions of Options Specialists” as well as Rule 1014, “Obligations of Market Makers.” The Exchange proposes to delete Rule 1080(g), Contra-Party Participation, because Book Match is obsolete. As noted in the last sentence of the text, with Phlx XL, Rule 1082(a)(ii)(B)(3)(c) discusses new interest in the opposite side of the market. Removing obsolete and redundant rule text will bring greater clarity to the Exchange’s rules. With respect to Commentary .01(b) of Rule 1080, the Exchange notes that it does not throttle as described in this rule text. The Exchange notes that the language contained in Commentary .01 to Rule 1080 refers to legacy functionality that existed prior to the INET transition and does not reflect current functionality. Today, the System automatically throttles and provides equal access to the Order Book across all interfaces.

#### Rule 1000

The Exchange’s proposal to memorialize the defined term “Order Entry Firm” within proposed Rule 1000(b)(38) will permit the term to be utilized throughout the

Rulebook.

The Exchange's proposal to amend Rule 1000(b)(40) which is currently reserved, to define the term "Away Best Bid or Offer" or "ABBO" to mean the displayed National Best Bid or Offer not including the Exchange's Best Bid or Offer will add greater clarity to the Exchange's rules.

The Exchange's proposal to remove the term "Agency Order" from Rule 1000(b)(49) is consistent with the Act because this term is not necessary or utilized elsewhere in the Rulebook other than without Rule 1080(b). The Exchange is revising Rule 1080(b) such that this term is no longer required.

#### Rule 1017

The Exchange's proposal to capitalize the term "All-Or-None" and revise the defined term "Opening Sweep" to refer to Rule 1080(b)(6) are non-substantive amendments.

#### Rule 1078

The Exchange's proposal to delete Rule 1078 is non-substantive.

#### Rule 1098

The Exchange's proposal to cross-reference proposed Rule 1080(c) refer to the defined terms within Rule 1080(b) is consistent with the Act because as noted herein both simple and complex orders are similar for the order types defined within proposed Rule 1080(b). This amendment merely continues to conform those terms.

#### Options 8, Section 32

The Exchange's proposal to re-number/re-letter Options 8, Section 32 is non-substantive. The Exchange's proposal to amend proposed Rule 1080(b)(3) to add further

information to the All-or-None Order to align the rule with proposed Rule 1080(b)(5), except with respect to the last sentence of proposed Rule 1080(b)(5) which does not apply with respect to Floor Trading is consistent with the Act. The additional clarity will serve to align the rules and bring greater transparency to the distinctions between electronic and Floor Trading where those distinctions exist.

Adding a new TIF section to proposed Options 8, Section 32(c) similar to proposed Rule 1080(c) will align those rules. Memorializing a Day Order and a GTC Order will also make clear that those TIFs are available today on the Trading Floor. Those TIFs are available today and are not included within Options 8, Section 32.

Finally, the Exchange seeks to memorialize the Floor QCC Order which is described within Options 8, Section 30(e) within Options 8, Section 32 to bring greater transparency to the order types available on the Trading Floor. This amendment is non-substantive as this order type exists today.

The Exchange notes that this proposal does not amend the System or the manner in which Floor Trading members may submit orders to the Trading Floor.

#### Options 8, Section 39

The Exchange proposes to amend the All-or-None Order to refer to Rule 1080(b)(5). As described herein, the remaining changes are intended to conform the rule to a prior rule change that was inadvertently amended.<sup>119</sup>

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<sup>119</sup> The Exchange notes that other revisions are being made to Options 8, Section 32(b)(3) that were made in a prior rule change. See Securities Exchange Act Release No. 85262 (March 7, 2019), 84 FR 9192 (SR-Phlx-2019-03) and were inadvertently reversed in a subsequent filing that did not capture the amended text. See Securities Exchange Act Release No. 85740 (April 29, 2019), 84 FR 19136 (SR-Phlx-2019-17). The Exchange is reinstating the changes that were made in SR-Phlx-2019-03.

### Technical Amendments

The Exchange's proposal to update the cross-references, remove reserved sections and re-number/re-letter its rules will bring greater organization to the Rulebook.

#### 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.

### Order Types

The Exchange's proposal to remove the distinction between "agency" and "proprietary" will apply uniformly to all market participants in that it will not cause an undue burden on competition. The change will not impact the manner in which member submit orders into the System. The Exchange is not changing the manner in which orders are being submitted to the Exchange. The Exchange notes that today no other options market segregates the submission of order types by whether the order is an agency or proprietary order.

The Exchange's proposal to replace the current rule text regarding order types within Rule 1080(b) with a list of current order types will not impose an undue burden on competition, rather it will bring greater transparency to the Exchange's Rules. The order types listed within Rule 1080 are available to all market participants except that All-or-None Orders are available only to customers as provided today within Rule 1078. Current Options 8, Section 32 describes the order types available for trading on the Trading Floor of the Exchange. The order types available within Phlx are the same regardless of whether the order is entered electronically or through the Options Floor

Broker Management System.<sup>120</sup> Additionally, these order types may be entered in either the simple or complex Order Book. For these reasons, the Exchange is simultaneously updating the descriptions of the order types into Options 8, Section 32, 1080 and 1098 to ensure conformity among these rules.

Eliminating the rule text for the following order types, “or better,” “simple cancel to reduce size (cancel leaves),” “cancel to change price” and “possible duplicate orders,” does not create an undue burden on competition because the Exchange does not offer these order types to any market participant today. The Exchange notes that it believes market participants are aware of the current order types that are accepted by the System. Currently, the rule provides a list of order types within Options 8, Section 32 which describe the order types for trading on the floor of the Exchange. The order types available within Phlx are the same regardless of whether the order is entered electronically or through the Options Floor Broker Management System. Additionally, these order types may be entered in either the simple or complex order books.

Further, the Exchange is defining terms within Rule 1080(b) which are already defined in the Rulebook, in some cases, for ease of reference.<sup>121</sup> The new descriptions of order types will provide greater clarity regarding the operation of the System. The order types within Rule 1080(b) do not add any new functionality but instead re-organize the Exchange’s order type rules to provide additional detail regarding the order type

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<sup>120</sup> See note 96 above.

<sup>121</sup> Opening Sweep is defined in Rule 1017(b)(i). QCC Order is defined within Rule 1080(o). The PIXL Order is defined within Rule 1087. All-or-None Orders are defined within Rule 1078. A Legging Order is defined within Rule 1098(f)(iii)(C). Directed Orders if defined with Rule 1068. Do No Route Orders are defined within Rule 1093.

functionality currently offered by the Exchange.

The description of Market Order within proposed Rule 1080(b)(1) is substantially similar to the description of Options 8 Section 32(a). The description of a Limit Order within proposed 1080(b)(2) is identical to the description within Options 8, Section 32(b). The ISO description within proposed Rule 1080(b)(3) refers to current Rule 1083 and references the current behavior within PIXL pursuant to Rule 1087. Finally, ISO behavior for the Opening Process is referenced within Rule 1017. The Exchange believes that describing the behavior of the ISO Order within Rule 1080(b) does not impose an undue burden on competition because this functionality exists today and is being centralized within one description for ease of reference for members. The Stop Order description proposed within Rule 1080(b)(4) is being modified from the definition within Options 8, Section 32(c)(1) but the Exchange believes the description is substantially similar.

Adding a description for Non-Displayed Contingency Orders within Rule 1080(b)(5) will enhance the Rulebook and allow the Exchange to readily refer to these categories of orders within its rules. The All-or-None Order description within proposed Rule 1080(b)(6) is identical to Rule 1078.

The Opening Sweep description is being revised to describe this order type as an order and not a quote. The Exchange does not believe this change imposes an undue burden on competition because an Opening Sweep may only be entered by a Specialist or ROT as this order type is submitted through the SQF protocol.<sup>122</sup> Other market

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<sup>122</sup> See Phlx Rule 1080(a)(i)(B) notes that (B) “Specialized Quote Feed” or “SQF” is an interface that allows Specialists, SQTs and RSQTs may submit Immediate-or-Cancel Orders through SQF.

participants tag orders for the Opening Process by placing a TIF of “OPG” on the order as explained below. The Exchange notes that all members may submit interest into the Opening Process. Further, the categorization has no impact on the functionality on the manner in which members utilize the Opening Sweep functionality.

The Exchange’s proposal to describe the Cancel-Replacement Order within proposed Rule 1080(b)(7) is similar to the order type currently described within Options 8, Section 32(c)(7). The Exchange’s proposal to add rule text that is not currently described within the existing Rules to make clear when a loss of priority would occur when submitting a Cancel-Replacement Order does not impose an undue burden on competition.

The Exchange’s proposal to add TIFs to proposed Rule 1080(c) will enhance the Exchange’s Rulebook by including these order types to the proposed set of Rules and providing additional transparency. The Exchange proposal to add at Rule 1080(c)(1) of a Day Order does not impose an undue burden on competition, rather it memorializes the manner in which the System currently treats a TIF of “Day” thereby adding transparency. The Exchange’s proposal to describe an IOC Order at proposed Rule 1080(c)(2) similar to Options 8 Section 32(c)(8), with the addition of Market Order, and include new rule text to further describe that in an electronic market the types of protocols that may be utilized on Phlx to submit IOC Orders does not impose an undue burden on competition. Further the Exchange proposes to note that IOC orders submitted through SQF are not subject to the order protections within Phlx Rule 1099, except for Automated Quotation Adjustments. The Exchange notes that SQF is utilized by ROTs and Specialists, which market participants are required to provide liquidity to the market and are subject to

certain obligations, including requirements to provide two-sided quotes on a daily basis.<sup>123</sup> ROTs and Specialists utilize their own risk management parameters when entering orders, minimizing the likelihood of a ROT or Specialist order resulting from an error from being entered. The Exchange believes that ROTs and Specialists, unlike other market participants, have the ability to manage their risk when submitting IOC Orders through SQF and should be permitted to elect this method of order entry to obtain efficiency and speed of order entry, particularly in light of the quoting obligations the Exchange imposes on these participants.

The Exchange's proposal to define an order with a TIF of "Opening Only" within Rule 1080(c)(3) as an IOC Order that can be entered during the Opening Process and note as new language to this order type that this order type is not subject to the risk protection within Rule 1099, except for Automated Quotation Adjustment does not impose an undue burden on competition as the limitation of order protections within the Opening Process is noted within Rule 1099. The Exchange notes that this TIF exists today but is being renamed. Finally, the Exchange's proposal to memorialize a GTC Order within proposed Rule 1080(c)(4) will provide a description for a GTC Order that does not exist today. The TIF is noted within current Rule 1080(b)(i) without a description. This amendment will provide members with greater transparency as to the TIFs which are available on Phlx.

The Exchange's proposal to note the various routing strategies within Rule 1080(d) will also add greater transparency to the Exchange's rules. These routing strategies are already described within Rule 1093 and will add greater transparency to

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<sup>123</sup> See Phlx Rule 1091.

this rule. The Exchange is simply relocating the restrictions that are applicable today to Off-Floor Broker Dealers to new Rule 1080(e) without any substantive changes.

The Exchange's proposal at Rule 1014(e) would permit ROTs and Specialists to enter orders in their assigned and unassigned options series, but limit a ROT or Specialist to not exceed 25 percent of the total number of all contracts executed by the ROT or Specialist in their unassigned options series in any calendar quarter, does not impose an undue burden on competition, rather it provides ROTs and Specialists with the ability to enter orders subject to the same limitation that exists today on other options markets.<sup>124</sup> Today, ROTs and Specialists on Phlx may not enter orders in non-appointed option series<sup>125</sup> and further the Exchange requires, pursuant to Commentary .01 to Rule 1014 that at least 50% of the trading activity in any quarter (measured in terms of contract volume) of an ROT (other than an RSQT) shall ordinarily be in classes of options to which he is assigned. Proposed Rule 1014(e) does not impose an undue burden on competition because unlike other market participants, ROTs and Specialists continue to have obligations to quote intra-day<sup>126</sup> and in order to meet those obligations they will need to stay focused on adding liquidity to Phlx. The Exchange believes that liquidity will not be impacted on Phlx because the Exchange is permitting ROTs and Specialists to enter more orders in appointed classes because ROTs and Specialists may enter orders in non-appointed classes provided they do not exceed 25% of the total number of contracts executed in any quarter. The proposal will allow ROTs and Specialists to continue to

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<sup>124</sup> See note 109 above.

<sup>125</sup> Phlx Rule 1014(b)(ii), SQTs and RSQTs may only trade in a market making capacity in classes of options in which the SQT is assigned.

<sup>126</sup> See Phlx Rule 1081.

provide liquidity on Phlx, as is the case today, while not restricting their business activity in a manner that is no other market participants is restricted to transact.

The Exchange's proposal to remove a size limitation of 10 contracts within current Rule 1080(b)(i)(B) and (C) pursuant to which certain orders must be entered as IOC by ROTs and Specialists does not impose an undue burden on competition, rather the Exchange believes the provision unnecessarily hinders non-SQT ROTs and Specialists. ROTs and Specialists are the only market participants with such a restriction. The limitation is no longer necessary given the evolution of the market place. No other options market has similar limitations today.<sup>127</sup> The 10 contract limitation was put in place to restrict participants, whose primary role was to provide liquidity, from using orders of small size to avoid providing liquidity using quotes which were historically required to be of a size of 10 contracts or more.

The Exchange's proposal to make clear that Opening Sweeps within Rule 1080(b)(6), COOP Sweeps, COLA Sweeps and CBOOK Sweeps within Rule 1098 are in fact orders and not quotations will bring greater clarity to the Exchange's rules. The Exchange's proposal to describe these sweeps as one-sided orders entered by a Specialist or ROT through SQF instead of as one-sided quotations will make clear the type of interest that these sweeps are for purposes of order entry. Phlx traditionally has referred to all interest within the SQF protocol as quote interest but this classification is not correct when distinguishing interest as either a quote or order. The Exchange believes its proposal does not impose any burden on competition because sweeps are orders today and would be uniformly considered orders for all ROTs and Specialists. All market

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<sup>127</sup> See note 32 above.

participants may enter interest during the Opening Process. The Exchange notes that the amending these sweep descriptions will align sweeps in the proper category of interest as order interest to avoid confusion.

The Exchange's proposal to note the various routing strategies within Rule 1080, and relocate the restrictions that are applicable today to Off-Floor Broker Dealers to new Rule 1080(e) do not impose an undue burden on competition, rather these changes add greater clarity to the Exchange's Rules.

#### Outdated Systems

Removing references to obsolete functionality within Rule 1080(c)-(h) does not impose an undue burden on competition, rather it brings greater clarity to the Exchange's rules. Today, no market participant has access to the functionality which is proposed to be deleted. Removing the obsolete functionality will make clear what is offered on the Exchange. In addition, removing redundant text which is already described elsewhere in the Rulebook will bring greater clarity to the Rulebook. Removing obsolete and redundant rule text will bring greater clarity to the Exchange's rules. With respect to Commentary .01(b) of Rule 1080, the Exchange notes that it does not throttle as described in this rule text. The Exchange notes that the language contained in Commentary .01 to Rule 1080 refers to legacy functionality that existed prior to the INET transition and does not reflect current functionality. Today, the System automatically throttles and provides equal access to the Order Book across all interfaces.

#### Rule 1000

The Exchange's proposal to memorialize the defined term "Order Entry Firm" within proposed Rule 1000(b)(38) will permit the term to be utilized throughout the

Rulebook.

The Exchange's proposal to amend Rule 1000(b)(40) which is currently reserved, to define the term "Away Best Bid or Offer" or "ABBO" to mean the displayed National Best Bid or Offer not including the Exchange's Best Bid or Offer will add greater clarity to the Exchange's rules.

The Exchange's proposal to remove the term "Agency Order" from Rule 1000(b)(40) is consistent with the Act because this term is not necessary or utilized elsewhere in the Rulebook other than without Rule 1080(b). The Exchange is revising Rule 1080(b) such that this term is no longer required.

#### Rule 1098

The Exchange's proposal to cross-reference proposed Rule 1080(c) refer to the defined terms within Rule 1080(b) does not impose an undue burden on competition because as noted herein both simple and complex orders are similar for the order types defined within proposed Rule 1080(b). This amendment merely continues to conform those terms.

#### Options 8, Section 32

The Exchange's proposal to re-number/re-letter Options 8, Section 32 is non-substantive. The Exchange's proposal to amend proposed Rule 1080(b)(3) to add further information to the All-or-None Order to align the rule with proposed Rule 1080(b)(5), except with respect to the last sentence of proposed Rule 1080(b)(5) which does not apply with respect to Floor Trading does not impose an undue burden on competition, rather the amendment adds clarity to the Rule and brings greater transparency to the distinctions between electronic and Floor Trading where those distinctions exist.

Adding a new TIF section to proposed Options 8, Section 32(c) similar to proposed Rule 1080(c) will align those rules. Memorializing a Day Order and a GTC Order will also make clear that those TIFs are available today on the Trading Floor. Those TIFs are available today and are not included within Options 8, Section 32.

Finally, the Exchange seeks to memorialize the Floor QCC Order which is described within Options 8, Section 30(e) within Options 8, Section 32 to bring greater transparency to the order types available on the Trading Floor. This amendment is non-substantive as this order type exists today. The Exchange notes that this proposal does not amend the System or the manner in which Floor Trading members may submit orders to the Trading Floor.

#### Options 8, Section 39

The Exchange proposes to amend the All-or-None Order to refer to Rule 1080(b)(5). As described herein, the remaining changes are intended to conform the rule to a prior rule change that was inadvertently amended.<sup>128</sup>

#### Technical Amendments

The Exchange's proposal to update the cross-references, remove reserved sections and re-number/re-letter its rules will bring greater organization to the Rulebook.

#### 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.

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<sup>128</sup> The Exchange notes that other revisions are being made to Options 8, Section 32(b)(3) that were made in a prior rule change. See Securities Exchange Act Release No. 85262 (March 7, 2019), 84 FR 9192 (SR-Phlx-2019-03) and were inadvertently reversed in a subsequent filing that did not capture the amended text. See Securities Exchange Act Release No. 85740 (April 29, 2019), 84 FR 19136 (SR-Phlx-2019-17). The Exchange is reinstating the changes that were made in SR-Phlx-2019-03.

6. Extension of Time Period for Commission Action

Not Applicable.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)<sup>129</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>130</sup> in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

The Exchange believes that this proposal does not significantly affect the protection of investors or the public interest because the Exchange's proposal to replace the current rule text regarding order types within Rule 1080(b) with a list of current order types will bring greater transparency to the Exchange's Rules. Eliminating the rule text listing "or better," "simple cancel to reduce size (cancel leaves)," "cancel to change price" and "possible duplicate orders" as available order types does not significantly affect the protection of investors or the public interest because these order types have not been available for some time. The Exchange notes that it believes market participants are aware of the current order types that are accepted by the System. Currently, the rule provides a list of order types within Options 8, Section 32, which describe the order types for trading on the floor of the Exchange. The order types available within Phlx are the

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<sup>129</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>130</sup> 17 CFR 240.19b-4(f)(6).

same regardless of whether the order is entered electronically or through the Options Floor Broker Management System. Additionally, these order types may be entered in either the simple or complex order book. For these reasons, the Exchange is simultaneously updating the descriptions of the order types into Options 8, Section 32, and Rules 1080 and 1098. Further, the Exchange is defining terms within Rule 1080(b) which are already defined in the Rulebook for ease of reference.<sup>131</sup> The order types within Rule 1080(b)-(d) do not add any new functionality but instead re-organize the Exchange's order type rules to provide additional detail regarding the order type functionality currently offered by the Exchange. The Exchange's proposed rule changes provide additional detail related to functionality for certain order types and the handling of orders which offers greater transparency with respect to the Exchange's order type functionality. The Exchange's proposal to permit ROTs and Specialists to enter orders but limit a ROT or Specialist to not exceed 25 percent of the total number of all contracts executed by the ROT or Specialist in any calendar quarter. This limitation is similar to limitations on other options markets.<sup>132</sup> Today, ROTs and Specialists on Phlx may not enter orders in non-appointed option series.<sup>133</sup> The Exchange's proposal to permit a ROT or Specialist to enter a limited amount of orders does not significantly affect the protection of investors or the public interest because ROTs and Specialists may enter

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<sup>131</sup> Opening Sweep is defined in Rule 1017. QCC Order is defined within Rule 1080(o). The PIXL Order is defined within Rule 1087. All-or-None Orders are defined within Rule 1078. A Legging Order is defined within Rule 1098(f)(iii)(C). Directed Orders if defined with Rule 1068. Do No Route Orders are defined within Rule 1093.

<sup>132</sup> See note 108 above.

<sup>133</sup> Phlx Rule 1014(b)(ii), SQTs and RSQTs may only trade in a market making capacity in classes of options in which the SQT is assigned.

orders for purposes of providing liquidity on the Exchange in certain circumstances. Further, the Exchange still proposes to limit ROTs and Specialists. This limitation is similar to limitations on other options markets. The Exchange is excluding order types that today may not be entered by a Specialist or ROT as is the case today. Today, Specialists and ROTs may not enter All-or-None Orders and public customer-to-public customer cross orders, which orders may only be entered by a Public Customer.<sup>134</sup> The Exchange is only excluding order types that today may not be entered by a Specialist or ROT. All-or-None Orders and public-customer-to-public customer cross orders may only be entered by a Public Customer. The Exchange proposes to prohibit SQTs and RSQTs from entering Market Orders and Stop Orders as well because the Exchange requires SQTs and RSQTs to “maintain a two-sided market in those options in which the electronic ROT is registered to trade, in a manner that enhances the depth, liquidity and competitiveness of the market” pursuant to Phlx Rule 1081(a)(i). The Exchange believes that permitting SQTs and RSQTs to enter Market Orders does not achieve this objective as Market Orders are designed to remove liquidity from the Order Book. Further, the Exchange does believe that Stop Orders similarly are designed to remove liquidity from the Order Book and are non-displayed order types until they are triggered which does not benefit the role of an SQT or RSQT in displaying liquidity on the Order Book. Directed Orders may not be entered by ROTs or Specialists today pursuant to Rule 1068. The list of TIFs which are being added to Rule 1080(c) represent current practice and are being memorialized to provide greater detail to the Exchange’s Rules. With respect to adding

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<sup>134</sup> A Public Customer shall mean a person or entity that is not a broker or dealer in securities and is not a Professional as defined within Phlx Rule 1000(b)(14). See Rule 1000(b)(56).

the TIFs “Day” and “GTC” to Options 8, Section 32, the Exchange notes that today floor participants may utilize a TIF of Day and GTC on their orders that they enter through FBMS. The Exchange notes that Options 8, Section 32 and Rule 1080 apply to all floor participants and Rule 1080 permitted these TIFs. With this proposal the Exchange has aligned the descriptions of order types and defined the order types specifically applicable to the trading floor by updating Options 8, Section 32. The Exchange also proposes to memorialize, similar to Rule 1080(b), other order types already specified in the trading rules for ease of reference.<sup>135</sup> The Exchange’s proposal to remove a size limitation of 10 contracts pursuant to which certain orders must be entered as IOC by ROTs and Specialists does not significantly affect the protection of investors or the public interest because the Exchange believes that this limitation is no longer necessary given the evolution of the market place and further that it hinders non-SQT ROTs and Specialists unnecessarily. No other options market has similar limitations today.<sup>136</sup> The 10 contract limitation was put in place to restrict participants, whose primary role was to provide liquidity, from using orders of small size to avoid providing liquidity using quotes which were historically required to be of a size of 10 contracts or more. The proposed new rule does not impose any limit and serves to promote just and equitable principles of trade by not limiting ROTs and Specialists, who today are the only market participants with such a restriction. The Exchange’s proposal to make clear that Opening Sweeps, COOP Sweeps, COLA Sweeps and CBOOK Sweeps are in fact orders and not quotations will bring greater clarity to the Exchange’s rules. The Exchange’s proposal to describe these

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<sup>135</sup> The Floor QCC Order is defined in Options 8, Section 30(e)

<sup>136</sup> See note 32 above.

sweeps as one-sided orders entered by a Specialist or ROT through SQF instead of as one-sided quotations will make clear the type of interest that these sweeps are for purposes of order entry. Phlx traditionally has referred to all interest within the SQF protocol as quote interest but this classification is not correct when distinguishing interest as either a quote or order. Today these sweeps are considered order interest, so no change is being made to the manner in which Phlx's System accepts or processes these sweeps. The Exchange's proposal to note the various routing strategies within Rule 1080, relocate the restrictions that are applicable today to Off-Floor Broker Dealers to new Rule 1080(e) and defining the term "Away Best Bid or Offer" or "ABBO" within Rule 1000(b)(40) are non-substantive rule changes. There are multiple references to legacy systems and terms related to those Systems. Removing obsolete and redundant rule text will bring greater clarity to the Exchange's rules. Finally, updating the cross-references, remove reserved sections and re-number/re-letter its rules will bring greater organization to the Rulebook.

The Exchange's proposal to replace the current rule text regarding order types within Rule 1080(b) with a list of current order types does not impose any significant burden on competition, rather it will bring greater transparency to the Exchange's Rules. The order types listed within Rule 1080 are available to all market participants except that All-or-None Orders are available only to customers as provided today within Rule 1078. Eliminating the rule text for the following order types, "or better," "simple cancel to reduce size (cancel leaves)," "cancel to change price" and "possible duplicate orders," does not impose any significant burden on competition because the Exchange does not offer these order types to any market participant today. The Exchange notes that it

believes market participants are aware of the current order types that are accepted by the System. Currently, the rule provides a list of order types within Options 8, Section 32 which describe the order types for trading on the floor of the Exchange. The order types available within Phlx are the same regardless of whether the order is entered electronically or through the Options Floor Broker Management System. Additionally, these order types may be entered in either the simple or complex order books. Further, the Exchange is defining terms within Rule 1080(b) which are already defined in the Rulebook for ease of reference. The new descriptions of order types will provide greater clarity regarding the operation of the System. The order types within Rule 1080(b)-(d) do not add any new functionality but instead re-organize the Exchange's order type rules to provide additional detail regarding the order type functionality currently offered by the Exchange. The Exchange's proposal to permit ROTs and Specialists to enter orders but limit a ROT or Specialist to not exceed 25 percent of the total number of all contracts executed by the ROT or Specialist in any calendar quarter does not impose any significant burden on competition, rather it provides ROTs and Specialists with the ability to enter orders subject to the same limitation that exists today on other options markets. Today, ROTs and Specialists on Phlx may not enter orders in non-appointed option series. The Exchange's proposal to permit ROTs and Specialists to enter orders in both their assigned and unassigned options series with a limits of 25% in their unassigned options series does not impose any significant burden in competition because it expands the ability of ROTs and Specialists to enter orders on Phlx while continuing to limit ROTs and Specialists to some extent so they can focus on providing liquidity on Phlx in order to "maintain a two-sided market in those options in which the electronic ROT is

registered to trade, in a manner that enhances the depth, liquidity and competitiveness of the market” pursuant to Phlx Rule 1081(a)(i). The Exchange’s proposal to remove a size limitation of 10 contracts pursuant to which certain orders must be entered as IOC by ROTs and Specialists does not impose any significant burden on competition, rather the Exchange believes the provision unnecessarily hinders non-SQT ROTs and Specialists. ROTs and Specialists are the only market participants with such a restriction. The limitation is no longer necessary given the evolution of the market place. No other options market has similar limitations today.<sup>137</sup> The 10 contract limitation was put in place to restrict participants, whose primary role was to provide liquidity, from using orders of small size to avoid providing liquidity using quotes which were historically required to be of a size of 10 contracts or more. The Exchange’s proposal to make clear that Opening Sweeps, COOP Sweeps, COLA Sweeps and CBOOK Sweeps are in fact orders and not quotations will bring greater clarity to the Exchange’s rules. The Exchange’s proposal to describe these sweeps as one-sided orders entered by a Specialist or ROT through SQF instead of as one-sided quotations will make clear the type of interest that these sweeps are for purposes of order entry. Phlx traditionally has referred to all interest within the SQF protocol as quote interest but this classification is not correct when distinguishing interest as either a quote or order. The Exchange believes its proposal does not impose any significant burden on competition because sweeps are orders today and would be uniformly considered orders for all ROTs and Specialists. All market participants may enter interest during the Opening Process. The Exchange notes that the amending these sweep descriptions will align sweeps in the proper category of

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<sup>137</sup> See note 32 above.

interest as order interest to avoid confusion. The Exchange's proposal to note the various routing strategies within Rule 1080, relocate the restrictions that are applicable today to Off-Floor Broker Dealers to new Rule 1080(e) and defining the term "Away Best Bid or Offer" or "ABBO" add greater clarity to the Exchange's Rules. The Exchange's proposal to remove references to obsolete functionality does not impose any significant burden on competition, rather it brings greater clarity to the Exchange's rules. Today, no market participant has access to the functionality which is proposed to be deleted. Removing the obsolete functionality will make clear what is offered on the Exchange. In addition, removing redundant text which is already described elsewhere in the Rulebook will bring greater clarity to the Rulebook. The Exchange's proposal to update the cross-references, remove reserved sections and re-number/re-letter its rules will bring greater organization to the Rulebook.

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

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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

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-2019-52)

November \_\_, 2019

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Order Types and Remove and Relocate Certain Rule Text Currently Located Within Rule 1080

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 26, 2019, Nasdaq PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend order types and remove and relocate certain rule text currently located within Rule 1080, titled “Electronic Acceptance of Quotes and Orders.

Further, the Exchange proposes to amend Phlx Rules 1000, titled “Applicability, Definitions and References” to add definitions for “Order Entry Firm” and “Away Best Bid or Offer or ABBO” and remove the defined term “Agency Order.” The Exchange proposes to amend Rule 1014, titled “Obligations of Market Makers,”<sup>3</sup> to permit

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

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

<sup>3</sup> ROTs include Streaming Quote Traders (“SQTs”) and Remote Streaming Quote Traders (“RSQTs”). A ROT is a regular member or a foreign currency options

Registered Options Traders (“ROTS”) and Specialists to enter orders. The Exchange proposes to update cross references within Rule 1017, titled “Opening in Options.” The rule text within Rule 1078, titled “All-or-None Orders” is being relocated to Rule 1080. The order types within Rule 1098 titled “Complex Orders on the System,” and Options 8, Section 32, titled “Certain Types of Floor-Based (Non-System) Orders Defined” are being amended to correspond to changes within Rule 1080 order types. Finally, Options 8, Section 39, at A-3 titled “All-or-None Option Orders” is being amended to update the floor applicability of this order type.

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.

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

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participant of the Exchange who has received permission from the Exchange to trade in options for his own account. An SQT is an ROT who has received permission from the Exchange to generate and submit option quotations electronically in options to which such SQT is assigned. An SQT may only submit such quotations while such SQT is physically present on the floor of the Exchange. An SQT may only trade in a market making capacity in classes of options in which the SQT is assigned. An RSQT is an ROT that is a member affiliated with an RSQT with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically in options to which such RSQT has been assigned. A qualified RSQT may function as a Remote Specialist upon Exchange approval. The Exchange notes that a Specialist, which is defined in Rule 1020, is a Registered Options Trader. For purposes of this rule the Exchange would note ROTs and Specialists, where applicable to be complete.

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 Exchange proposes to amend Rule 1080, entitled “Electronic Acceptance of Quotes and Orders” by: (1) removing and relocating certain rule text including obsolete rule text; and (2) amending order types. These amendments are detailed below.

With respect to the removal of obsolete rule text, the Exchange filed prior rule changes<sup>4</sup> which established Phlx’s System as it exists today. As the new System was amended through a series of rule changes, certain older technology such as AUTOM, AUTO-X, specialist manual handling and other functionality noted within this rule change, became obsolete. During this timeframe, the Exchange’s System was automated to prevent any manual intervention, such as specialist manual handling, and provide System-enforced functionalities. These System enhancements effectively replaced and made obsolete certain processes that Phlx proposes to delete within this rule change.

As an overview of the automation of Phlx and corresponding rule changes, in July 2004, the Exchange began trading options on Phlx XL, followed by index options in December 2004. Phlx XL was completely rolled out by February 2005.<sup>5</sup> In 2006, Phlx

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<sup>4</sup> See Securities Exchange Act Release Nos. 50100 (July 27, 2004), [69 FR 46612](#) (August 3, 2004) (SR-Phlx-2003-59); 55498 (March 20, 2007, 72 FR 14318 (March 27, 2007) (SR-Phlx-2007-15); 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32); and 72152 (May 12, 2014), 79 FR 28561 (May 16, 2014) (SR-Phlx-2014-32).

<sup>5</sup> See Securities Exchange Act Release No. 50100 (July 27, 2004), [69 FR 46612](#) (August 3, 2004) (SR-Phlx-2003-59).

commenced deleting certain obsolete provisions from its rules to reflect the automation that came about with the inception of Phlx XL.<sup>6</sup> In 2007, the Exchange filed a proposal to modernize the Exchange's System to account for technological advances that have been made in the industry since the original adoption of the rule and to provide more efficient executions for customers with marketable limit orders on the Exchange's Order Book.<sup>7</sup> In 2008, Phlx filed to permit the electronic handling of Complex Orders on Phlx XL.<sup>8</sup> In 2009, the Exchange proposed to implement several enhancements to its electronic options trading system, Phlx XL. The enhanced system was called Phlx XL II and would reflect enhancements to the opening, linkage and routing, quoting, and order management processes. The enhancements were intended to improve execution quality for Phlx users by improving a number of processes, including those related to the opening, order handling and order execution.<sup>9</sup> The Exchange proposed its Price Improvement XL auction in 2010.<sup>10</sup> The Exchange established a Qualified Contingent

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<sup>6</sup> See Securities Exchange Act Release Nos. 54312 (August 14, 2006), 71 FR 47856 (August 18, 2004) (SR-Phlx-2006-28) and 55498 (March 20, 2007), 72 FR 14318 (March 27, 2007) (SR-Phlx-2007-15).

<sup>7</sup> See Securities Exchange Act Release Nos. 55825 (May 29, 2007), 72 FR 30890 (June 4, 2007) (SR-Phlx-2007-38).

<sup>8</sup> See Securities Exchange Act Release Nos. 58361 (August 14, 2008), 73 FR 49529 (August 21, 2008) (SR-Phlx-2008-50).

<sup>9</sup> See Securities Exchange Act Release Nos. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32). At this time, the Exchange introduced a Do-Not-Route ("DNR") order, a FIND order, and a SRCH order.

<sup>10</sup> See Securities Exchange Act Release Nos. 63027 (October 1, 2010), 75 FR 62160 (October 7, 2010) (SR-Phlx-2010-108).

Cross Order in 2011.<sup>11</sup> The Exchange eliminated the Market Exhaust functionality in 2012.<sup>12</sup> The Exchange notes that its current functionalities were all filed for in various rule changes, however in filing each new functionality, the entirety of the obsolete functionality was not removed from Phlx rules. At this time, the Exchange proposes to remove those obsolete functionalities which are explained in more detail within this proposal.

Rule 1080(b) – (f) New Rule Text

The Exchange proposes to retitle Rule 1080(b) from “Eligible Orders” to “Order Types.” The current rule text provides,

**Eligible Orders** (i) The following types of orders are eligible for entry into AUTOM:

(A) Agency orders may be entered. The following types of agency orders are eligible for AUTOM: 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, 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, 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, the following order types are also permitted: DNR order, SRCH order, and FIND order; see Rule 1093.

(B) Orders for the proprietary account(s) of SQTs, RSQTs and 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.

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<sup>11</sup> See Securities Exchange Act Release Nos. 64249 (April 7, 2011), 76 FR 20773 (April 13, 2011) (SR-Phlx-2011-47).

<sup>12</sup> See Securities Exchange Act Release Nos. 66087 (January 3, 2012), 77 FR 1095 (January 9, 2012) (SR-Phlx-2012-101).

(1) The following types of orders for the proprietary account(s) of 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 non-SQT ROTs and specialists with a size of less than 10 contracts shall be submitted as IOC only.

(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, and day limit. Respecting Phlx XL II, the following order types are also permitted: DNR order, SRCH order, and FIND order; see Rule 1093.

(C) Off-floor broker-dealer limit orders, subject to the restrictions on order entry set forth in Commentary .05 of this Rule, may be entered. 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 Rule 1093. 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 for the proprietary account(s) of such market maker.

The Exchange proposes to delete the current rule text within Rule 1080(b)(i)(A) and replace it with a list of current order types and descriptions. The Exchange proposes to refer to the trading system as the defined term "System"<sup>13</sup> instead of "AUTOM" or "Phlx

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<sup>13</sup> 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 members to automatically execute transactions in System Securities; and provides members 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 ("OPRA") 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 data feeds described at Rule 1070. See Phlx Rule 1000(b)(45).

XL II” in the proposed rule text. The terms “AUTOM” and “Phlx XL II” are outdated references. The Exchange proposes to delete the following sentence currently within Rule 1080(b)(ii), “The Exchange may determine to accept additional types of orders as well as to discontinue accepting certain types of orders.” The Exchange further proposes to state within Rule 1080(b) new text, “The following order types may be submitted to the System.”

Current Rule 1080(b)(i) defines the types of orders that may be submitted by categorization: (1) agency; (2) proprietary; and (3) Off-Floor Broker Dealer.

#### *Agency Orders*

Currently, Phlx Rule 1080(b)(i)(A) defines agency. Current Rule 1080(b)(i)(A) states, “For purposes of Exchange options trading, an agency order is any order 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 direct or indirect interest.”<sup>14</sup> This rule also specifically provides order type requirements:

The following types of agency orders are eligible for AUTOM: 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, 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, 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-

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<sup>14</sup> The term “Agency Order” is described at Phlx Rule 1000(b)(49) as “The term “Agency Order” shall mean 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.

dealer has any direct or indirect interest. Respecting Phlx XL II, the following order types are also permitted: DNR order, SRCH order, and FIND order; see Rule 1093.

The Exchange notes that current Rule 1080 defines these categories as they existed some time ago. Today, the options industry has expanded capacity codes<sup>15</sup> that are utilized to determine the category of market participant for whom an order is being submitted. When members submit orders to Phlx, a capacity code is required. The Exchange notes that the definition of Agency Order within Rule 1080 is utilized to distinguish orders that are not entered for the proprietary account of a market participant. The Exchange notes that while that distinction may have been applicable at one point in time with respect to entering orders, it is not suitable to limit the entry of certain orders on that basis. The Exchange proposes to eliminate the categorization of “agency orders” and “proprietary orders” as these categorizations are unnecessary.

The current term “agency” is proposed to be deleted because the Exchange specifically identifies within the proposed rules which type of market participant may enter an order. The term “proprietary” as described within these rules refers to market participants conducting a market making business, such as ROTs (including SQTS and RSQTs) and Specialists.

The Exchange notes that today no other options market segregates the submission of order types by whether the order is an agency or proprietary order.<sup>16</sup> Rather, Phlx’s proposal as well as rules of other options exchanges impose limitations on the types of

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<sup>15</sup> Capacity codes correspond to categorizations developed by The Options Clearing Corporation for all options exchanges.

<sup>16</sup> See Nasdaq ISE, LLC (“ISE”), Nasdaq GEMX, LLC (“GEMX”), Nasdaq MRX, LLC (“MRX”) Options 3, Section 7, Miami International Securities Exchange, LLC Rule 515 and Cboe Exchange, Inc. Rule 5.6.

orders that may be entered by a market makers as described further herein, as well as other limitations related to ROTs and Specialists entering orders.<sup>17</sup> While the Exchange is eliminating the references to “agency” and proprietary” orders, the Exchange notes that there is no impact to market participants or systemic change that results from the elimination of these terms. The list of order types presented below reflects current practice. Also, the Exchange is not changing the manner in which orders are being submitted to the Exchange. The Exchange believes that by defining the rules, similar to other options markets, it will bring greater transparency to the Exchange’s Rules and permit an ease of reference when comparing rulebooks. The Exchange notes that this proposal will not amend the System except for the changes described below where the Exchange is noting a change is proposed. Other functionalities offered by Phlx remain unchanged with this proposal.

The current rule text refers to the following order types within Rule 1080(b)(i)(A), which were permitted to be entered as Agency Orders, are currently not supported by the System: “or better,”<sup>18</sup> “simple cancel to reduce size (cancel leaves),”<sup>19</sup>

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<sup>17</sup> See ISE, GEMX and MRX Options 2, Section 6. The Nasdaq Options Market LLC (“NOM”) and Nasdaq BX, Inc. (“BX”) do not have a rule which limits Market Makers from entering orders on those markets. See NOM Rules at Chapter VII, Section 5(d) and BX Options 2, Section 4(d), respectively.

<sup>18</sup> The designation “or better” indicates that the originator of the order is aware that the market is currently better than the limit price of the order; this order is not filled at a price outside of the “or better” price. The “or better” designation is used to verify the validity of the order and confirms that the order was entered on the correct side. See Securities Exchange Act Release No. 35601 (April 13, 1995), 75 FR 19616 (April 19, 1995) (SR-Phlx-95-18).

<sup>19</sup> The designation “simple cancel” indicates that an order is to be cancelled, while “cancel leaves” indicates that the size of a previous order is being reduced and “cancel to change price” cancels the price of a previous order. See Securities

“cancel to change price” and “possible duplicate orders.”<sup>20</sup> These order types have not been supported by the System since Phlx replatformed its technology to INET in 2009. The order types described herein have not been offered to Phlx participants since the Phlx XL replatform. These order types are not offered on other options markets today and have not been requested by any market participant. In 1997, Phlx filed to Rule 1080, Philadelphia Stock Exchange Automated Options Market (“AUTOM”) and Automatic Executive System (“AUTO-X”), codifying and amending the policies and procedures concerning AUTOM. The Exchange also requested permanent approval of the AUTOM pilot program.<sup>21</sup> The rule change provided

Proposed Rule 1080 describes the AUTOM System and its features, with paragraph (a) as the general introduction. AUTOM is the Exchange’s electronic order delivery and reporting system, which provides for the automatic entry and routing of Exchange-listed equity options and index options orders to the Exchange trading floor. Option orders entered by Exchange member organizations into AUTOM are routed to the appropriate specialist unit on 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 and index option specialists are required by the Exchange to participate in AUTOM and its features and enhancements. This paragraph also provides that Rule 1080 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.

The rule change further stated,

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Exchange Act Release No. 35601 (April 13, 1995), 75 FR 19616 (April 19, 1995) (SR-Phlx-95-18).

<sup>20</sup> Possible duplicate” is a status which indicates that before an AUTOM order is executed manually by the specialist, the specialist should confirm that the order has not yet been executed. See Securities Exchange Act Release No. 35601 (April 13, 1995), 75 FR 19616 (April 19, 1995) (SR-Phlx-95-18).

<sup>21</sup> See Securities Exchange Act Release No. 38683 (May 27, 1997), 62 FR 30366 (June 3, 1997) (SR-Phlx-97-24).

The following types of orders are eligible for AUTOM: day, good-till-cancelled (“GTC”), 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, market close, market on opening, limit on opening, limit close, and possible duplicate orders. The Exchange’s Options Committee may determine to accept additional types of orders as well as to discontinue accepting certain types of orders.

Phlx discontinued offering the following order types at a certain point in time before the transition to Phlx XL<sup>22</sup>: currently not supported by the System: “or better,”<sup>23</sup> “simple cancel to reduce size (cancel leaves),”<sup>24</sup> “cancel to change price” and “possible duplicate orders.”<sup>25</sup> The Exchange notes that an automated system such as Phlx XL would not have supported order types that permitted manual handling such as “or better” or “possible duplicate.” The order types “simple cancel to reduce size (cancel leaves),” “cancel to change price” can be achieved today with the cancel-replacement order. Customer orders may continue to be entered on an agency basis today, however the use of certain manual order types are no longer permitted. The Exchange no longer permits

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<sup>22</sup> The exact date the order types were no longer offered is unknown.

<sup>23</sup> The designation “or better” indicates that the originator of the order is aware that the market is currently better than the limit price of the order; this order is not filled at a price outside of the “or better” price. The “or better” designation is used to verify the validity of the order and confirms that the order was entered on the correct side. See Securities Exchange Act Release No. 35601 (April 13, 1995), 75 FR 19616 (April 19, 1995) (SR-Phlx-95-18).

<sup>24</sup> The designation “simple cancel” indicates that an order is to be cancelled, while “cancel leaves” indicates that the size of a previous order is being reduced and “cancel to change price” cancels the price of a previous order. See Securities Exchange Act Release No. 35601 (April 13, 1995), 75 FR 19616 (April 19, 1995) (SR-Phlx-95-18).

<sup>25</sup> Possible duplicate’ is a status which indicates that before an AUTOM order is executed manually by the specialist, the specialist should confirm that the order has not yet been executed. See Securities Exchange Act Release No. 35601 (April 13, 1995), 75 FR 19616 (April 19, 1995) (SR-Phlx-95-18).

market participants the ability to manually handle orders, the System automatically executes order types today and therefore the Exchange believes the elimination of these order types is consistent with the Act and serves to protect investors and the public interest by enforcing order type provisions automatically. The remainder of the order types noted in current Rule 1080(b)(i), such as day, GTC, IOC, ISO, market, limit, stop, stop-limit, all or none, simple cancel, cancel with replacement order, opening-only market order and limit on opening order are currently offered on Phlx.<sup>26</sup>

*Proprietary*

Current Rule 1080(b)(i)(B) refers to orders entered for proprietary accounts and specifically provides order type requirements for Specialists,<sup>27</sup> ROTs,<sup>28</sup> and non-SQT ROTs.<sup>29</sup> Current Rule 1080(b)(i)(B) provides,

Orders for the proprietary account(s) of SQTs, RSQTs and 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 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 non-SQT ROTs and specialists with a size of less than 10 contracts shall be submitted as IOC only.

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<sup>26</sup> The Exchange notes that “simple cancel” is not offered as an order type on Phlx, but as a functionality to simply cancel an existing order. Therefore, the Exchange is not proposing to add it back into the amended Rule 1080 as an order type.

<sup>27</sup> A Specialist is an Exchange member who is registered as an options specialist. See Phlx Rule 1020(a).

<sup>28</sup> See note 3 above.

<sup>29</sup> A Floor Market Maker is known as a non-SQT ROT in Rule 1014(b)(ii)(C). A non-SQT ROT is an ROT who is neither an SQT nor an RSQT.

(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, and day limit. Respecting Phlx XL II, the following order types are also permitted: DNR order, SRCH order, and FIND order; see Rule 1093.

Today, the Exchange limits its ROTs and Specialists from entering orders which may be entered on other markets such as Nasdaq ISE, LLC, Nasdaq GEMX, LLC and Nasdaq MRX, LLC.<sup>30</sup> Currently, Rule 1080(b)(i)(B) provides, “Orders for the proprietary account(s) of SQTs, RSQTs and 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.” Commentary .04 provides, “*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.” The Exchange notes that it will no longer refer to legacy names for the trading system such as AUTOM and will instead refer to “System” which is defined.<sup>31</sup> The Exchange proposes to continue to require orders for SQTs and RSQTs to be for a minimum of one (1) contract in Rule 1080(e). The Exchange proposes to delete the rule text at Commentary .04 to Rule 1080. The Exchange is proposing new rule text within current Rule 1014, entitled “Obligations of Market Makers” as described below.

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<sup>30</sup> See ISE, GEMX and MRX rules at Options 2, Section 6.

<sup>31</sup> See Phlx Rule 1000(b)(45).

Today, the Exchange distinguishes between contracts that non-SQT ROTs and Specialists can enter with a size of 10 contracts or greater and those that may be entered for any size. Further, for orders with a size of 10 contracts or less, non-SQT ROTs and specialists must enter those orders as IOC only. The Exchange proposes to remove the restriction 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.” Further, in deleting Commentary .04, the Exchange is removing any limitation as to the size of orders for IOC only purposes. The Exchange believes this limitation is no longer necessary given the evolution of the market place and further that it hinders non-SQT ROTs and Specialists unnecessarily. No other options market has similar limitations today.<sup>32</sup> The 10 contract limitation was put in place to restrict participants, whose primary role was to provide liquidity, from using orders of small size to avoid providing liquidity using quotes which were historically required to be of a size of 10 contracts or more.

Current Rule 1080(b)(i)(B)(1) provides, “The following types of orders for the proprietary account(s) of 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 non-SQT ROTs and specialists with a size of less than 10 contracts shall be submitted as IOC only.” The Exchange is removing current Rule 1080(b)(i)(B)(1) in its entirety. As noted above, the Exchange proposes to no longer apply the 10 contract limitation. The rule text proposed within Rule 1014(e) and Rule 1080(e) do not contain a limitation on contract size. The Exchange notes that over the years the limitations that were placed on ROTs

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<sup>32</sup> ISE, GEMX, MRX, NOM and BX do not limit orders to IOC by size.

and Specialists entering orders has changed on all options markets. The Exchange does not propose to hinder these market participants in entering orders. With respect to non-SQT ROTs, those market participants may enter the orders noted with Options 8, Section 32. Amendments to Phlx Rules at Options 8, Section 32 are described below.

Current Rule 1080(b)(i)(B)(2) provides, “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, and day limit. Respecting Phlx XL II, the following order types are also permitted: DNR order, SRCH order,<sup>33</sup> and FIND order; see Rule 1093.” The Exchange is removing current Rule 1080(b)(i)(B)(2) in its entirety.

*ROTs and Specialists Entering Orders on Phlx*

The Exchange proposes to relocate the restrictions for ROTs and Specialists within Rule 1014 which sets forth obligations of ROTs and Specialists, as noted below.<sup>34</sup> Today, SQTs and Specialists on Phlx may not enter orders in non-appointed option series.<sup>35</sup> Further, Commentary .01 to Rule 1014 provides a restriction on the amount of trading activity in classes of options to which an SQT or Specialist is assigned.

Commentary .01 to Rule 1014 states:

The Exchange has determined for purposes of paragraph (c) of this Rule that, except for unusual circumstances, at least 50% of the trading activity in any quarter (measured in terms of contract volume) of an ROT (other than an RSQT) shall ordinarily be in classes of options to which he is

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<sup>33</sup> The Exchange notes that “SRCH,” is not supported for proprietary account(s) of SQTs and RSQTs. A SRCH Order is a Public Customer order that is routable at any time. See Phlx Rule 1093(a)(iii)(C).

<sup>34</sup> Phlx Rule 1014(c) and (d) describes obligations for ROTs and Specialists in appointed and non-appointed options classes.

<sup>35</sup> Phlx Rule 1014(b)(ii), SQTs and RSQTs may only trade in a market making capacity in classes of options in which the SQT is assigned.

assigned. Temporarily undertaking the obligations of paragraph (c) at the request of a member of the Exchange in non assigned classes of options shall not be deemed trading in non assigned option contracts.

The Exchange may, in computing the percentage specified herein, assign a weighting factor based upon relative inactivity to one or more classes or series of option contracts.

These prohibitions exist to ensure that market making participants are focused on adding liquidity to Phlx. Today, the Exchange requires ROTs and Specialists to add liquidity to Phlx, for example Specialists must quote during the Opening Process<sup>36</sup> and Specialists and ROTs have intra-day quoting obligations.<sup>37</sup>

The Exchange proposes to amend its current restriction related to entering orders on Phlx to permit ROTs and Specialists to enter orders in classes of options to which they are assigned and classes of options in which they are not assigned, with certain limitations. The Exchange proposes within Rule 1014(e), which is currently reserved, to add rule text to permit ROTs and Specialists to enter Day orders, Opening Only Orders and Opening Sweeps and utilize the TIF of “GTC” when entering orders. This would be an amendment to current Rule 1080(b)(i)(B)(2), which does not currently permit these order types. As noted herein, the Exchange is proposing to remove the limit for contracts with a size of less than 10 contracts. The Exchange also proposes to permit ROTs (SQTs and RSQTs) and Specialists to enter orders in non-appointed option classes, however limit ROTs and Specialists to not exceed 25 percent<sup>38</sup> of the total number of all contracts

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<sup>36</sup> See Phlx Rule 1017(d)

<sup>37</sup> See Phlx Rule 1081.

<sup>38</sup> The Exchange proposes to remove the limitation within Commentary .01 to Rule 1014 which applies to appointed options classes and instead adopt proposed Rule 1014(e) which describes the types of orders that ROTs and Specialists may enter

executed by the ROT or Specialist in any calendar quarter. Proposed new Rule 1014(e) would provide:

**Market Maker Orders.** ROTs and Specialists may enter all order types defined in Rule 1080(b) in the options classes to which they are appointed and non-appointed, except for Market Orders as provided in Rule 1080(b)(1), Stop Orders as provided in Rule 1080(b)(4), All-or-None Orders as provided in Rule 1080(b)(5), Directed Orders as provided for in Rule 1068, and public customer-to-public customer cross orders subject to Rule 1087(a) and (f). The total number of contracts executed during a quarter by a ROT or Specialist in options series to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts executed by the ROT or Specialist in options series.

The Exchange notes that its proposal is similar to other options markets.<sup>39</sup> The Exchange is permitting ROTs and Specialists to enter all order types defined in Rule 1080(b) in the options classes to which they are appointed and non-appointed, except for Market Orders as provided in Rule 1080(b)(1), Stop Orders as provided in Rule 1080(b)(4), All-or-None Orders as provided in Rule 1080(b)(5), and Directed Orders as provided for in Rule 1068, and public customer-to-public customer cross orders subject to Rule 1087(a) and (f), so as not to restrict the ability of a ROT or Specialist from entering orders they may enter today on other options markets. Although the Exchange is amending its rules to allow ROTs and Specialists to enter orders in non-appointed classes, the Exchange will limit ROTs and Specialists to not exceed 25%<sup>40</sup> of the total

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in appointed and non-appointed options classes with the proposed 25% limitation on orders in appointed options classes.

<sup>39</sup> See ISE, GEMX and MRX at Options at Options 2, Section 6. Further, NYSE Arca, Inc. (“NYSE Arca”) and NYSE American LLC (“NYSE American”) do not limit the types of orders that can be entered by market makers. See NYSE Arca Rule 6.37B-O and NYSE American Rule 925.2NY.

<sup>40</sup> This limitation is an amendment to the current limitation within Commentary .01 to Rule 1014 which as noted herein, the Exchange proposes to eliminate. The proposed limitation of 25% would be less restrictive than the current “50% of the

number of all contracts executed by the ROT or Specialist in any calendar quarter in those non-appointed options classes. The Exchange proposes to remove the provision within Commentary .01 to Rule 1014 and replace the prohibition with proposed Rule 1014(e).

The Exchange believes its proposal is consistent with the Act. Allowing ROTs and Specialists to enter orders in both assigned and unassigned classes of options will allow market making participants to enter more orders than they are permitted to enter today. The rule text at Commentary .01 of Rule 1014 which requires at least 50% of the trading activity in any quarter only applies to assigned options classes today and therefore is not very restrictive as ROTs and Specialists can only enter quotes or orders in assigned options series.

While the Exchange is permitting ROTs and Specialists to enter more orders, particularly in assigned options classes, ROTs and Specialists continue to have obligations to quote intra-day<sup>41</sup> and in order to meet those obligations they will need to stay focused on adding liquidity to Phlx. The Exchange believes that liquidity will not be impacted on Phlx because the Exchange is permitting ROTs and Specialists to enter more orders in appointed classes as the obligations to provide liquidity remain the same. Further, permitting ROTs and Specialists to enter orders in non-appointed classes provided they do not exceed 25% of the total number of contracts executed in any quarter

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trading activity in any quarter” requirement, not only because it is a smaller percentage but because the 25% limitation only would apply to classes of options in which the ROT or Specialist is not appointed and the 50% limitation applied to classes of options in which the ROT or Specialist is appointed, and are the only types of orders which can be submitted by these participants today.

<sup>41</sup> See Phlx Rule 1081.

is consistent with the Act because the proposed rule will allow ROTs and Specialists to continue to provide liquidity on Phlx, as is the case today, while not restricting their business activity in a manner that is no other market participants is restricted to transact. Phlx's proposal will allow market making participants the same flexibility as exists today on other options markets.

With respect to proposed Rule 1014(e), the Exchange proposes to permit ROTs and Specialists to enter Day orders, Opening Only Orders and Opening Sweeps and utilize the TIF of "GTC." This would be an amendment as current Rule 1080(b)(i)(B)(2), which does not currently permit these order types. As noted herein, the Exchange is removing the limit for contracts with a size of less than 10 contracts. The Exchange is excluding order types that today may not be entered by a Specialist or ROT, as is the case today, such as All-or-None Orders,<sup>42</sup> Directed Orders,<sup>43</sup> and public customer-to-public customer cross orders subject to Rule 1087(a) and (f).<sup>44</sup> The Exchange proposes to prohibit SQTs and RSQTs from entering Market Orders and Stop Orders. Today, the Exchange requires SQTs and RSQTs to "maintain a two-sided market in those options in

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<sup>42</sup> All-or-None Orders may only be entered by a Public Customer.

<sup>43</sup> Rule 1068(a)(i)(B) provides, "The term "Order Flow Provider" ("OFP") means any member or member organization that submits, as agent, orders to the Exchange." ROTs and Specialists do not submit orders on an agency basis and therefore are excluded from entering Directed Orders. See Securities Exchange Act Release No. 62320 (June 17, 2010), 75 FR 36132 (June 24, 2010)(SR-Phlx-2010-83). In this rule change, Phlx noted that Directed Orders can be broker-dealer orders as well as public customer orders. The term public customer included professionals.

<sup>44</sup> A PIXL Order is an order submitted for electronic execution into the PIXL Auction Mechanism pursuant to Rule 1087. Current PIXL Rule 1087(a) and (f) provides that a PIXL Order may be a public customer-to-public customer cross order, which is comprised of a Public Customer order to buy and a Public Customer to sell at the same price and for the same quantity.

which the electronic ROT is registered to trade, in a manner that enhances the depth, liquidity and competitiveness of the market” pursuant to Phlx Rule 1081(a)(i). The Exchange believes that continuing the practice of prohibiting SQTs and RSQTs from entering Market Orders is consistent with the Act because Market Orders are designed to remove liquidity from the Order Book. Further, Stop Orders are non-displayed order types until they are triggered which does not benefit the role of an SQT or RSQT in displaying liquidity on the Order Book.

*Off-Floor Broker-Dealer*

Current Phlx Rule 1080(b)(i)(C) provides that 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 for the proprietary account(s) of such market maker. This rule also provides, in part:

Off-floor broker-dealer limit orders, subject to the restrictions on order entry set forth in Commentary .05 of this Rule, may be entered. 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 Rule 1093.

Current Phlx Rule 1080(b)(i)(C) applies to Off-Floor Broker Dealers limit orders and provides that 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. Current Rule

1080(b)(i)(C) and Commentary .05 to Rule 1080<sup>45</sup> describe restrictions for Off-Floor Broker Dealers. The Exchange proposes to amend and relocate text from current Rule 1080(b)(i)(C) to proposed Rule 1080(e). The Exchange proposes to state, at new Rule 1080(e),

An off-floor broker-dealer order may be entered for a minimum size of one contract. Off-floor broker-dealers may enter all order types defined in Rule 1080(b) except for All-or-None Orders, Market Orders, Stop Market Orders, and public customer-to-public customer cross orders subject to Rule 1087(a) and (f).

The Exchange proposes that Off-Floor Broker Dealers may continue to enter day, GTC, IOC, ISO, stop, stop-limit, cancel with replacement order and limit on opening order as specified within current Rule 1080(b)(i)(C). The Exchange notes that stop market and market orders, SRCH Orders,<sup>46</sup> simple cancel to reduce size (cancel leaves) and cancel to change price are either no longer offered on the System or not offered to Off-Floor Broker Dealers. With this new proposed rule, the Exchange proposes to reflect the order types that an Off-Floor Broker Dealer may enter by noting that all order types within Rule 1080(b) may be entered, except as noted. The Off-Floor Broker Dealer order restrictions remain unchanged except that the types of orders that Off-Floor Broker

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<sup>45</sup> Commentary .05 to Rule 1080 states, “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).”

<sup>46</sup> SRCH Orders are only offered to Public Customers pursuant to Rule 1093(a)(iii)(C).

Dealers may enter are being amended to exclude order types that are no longer offered such as simple cancel to reduce size (cancel leaves) and cancel to change price and to also exclude Stop Market Orders, which are not available to Off-Floor Broker Dealers today, so this is not changing. The Exchange notes that Stop Limit Orders are permitted to be entered today by Off-Floor Broker Dealers. The Exchange notes that only Market Orders and Stop Market Orders are restricted, as is the case today. The restrictions afforded to Off-Floor Broker Dealers remain the same. This amendment is not substantive.

The Exchange notes that the term “Off-Floor Broker-Dealer Order” is currently defined within Rule 1000(b)(50) and therefore is not necessary to reiterate within Rule 1080(b). The Exchange proposes to delete Commentary .05 of Rule 1080, which references the outdated term “AUTOM.”<sup>47</sup> This provision is no longer necessary as the minimum size for Off-Floor Broker Dealer orders is noted in new proposed Rule 1080(e). The rule text in Commentary .05(i) is also being deleted as unnecessary as all members are subject to the rule text in Rule 1080(j), not just broker-dealers. The Exchange believes that this rule text is confusing. The Exchange proposes to delete Commentary .05(ii) to Rule 1080 because priority rules continue to be contained in Options 8, Section 25 (Floor Allocation). The priority rules have not changed and Off-Floor Broker Dealer Limit Orders continue to be bound by those rules. Exchange Rules 119 and 120 direct members in the establishment of priority of orders on the floor. This language within Commentary .05(ii) to Rule 1080 indicates that Off-Floor Broker Dealers may establish priority and the Specialist may match the priority, but these rules are subject to Rules

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<sup>47</sup> The Exchange notes that AUTOM no longer exists. This legacy system was replaced by Phlx XL.

119, 120 and Options 8, Section 25 for allocation. There are other rules which address priority to all members, not just Off-Floor Broker Dealers. Rather, at the time AUTOM was available, this priority could be established, but is no longer the case. Finally, Off-Floor Broker Dealer Limit Orders are no longer entered via AUTOM.<sup>48</sup> This exception to cited Rule 1014(g)(i)(A) is no longer possible. The AUTOM order delivery system grew over the years into the current fully automated Phlx options trading system XL II. AUTOM and AUTO-X were replaced by the Phlx XL System, such that references to both terms refer to Phlx XL.<sup>49</sup> The Exchange notes that today all orders would be represented in the trading crowd pursuant to Options 8, Section 25(a)(1)(A).

As noted above, Phlx proposes to remove the agency/proprietary order distinction from its rules. Instead, the Exchange proposes to note a list of order types available on Phlx and separately provide restrictions for ROTs, Specialists and Off-Floor Broker Dealers as already described herein. The Exchange notes that in separately limiting those market participants the Exchange is not substantively changing the format of the order types, it is eliminating the categories of “agency” and “proprietary”. No other options markets segregates order types into those categories.

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<sup>48</sup> AUTOM was a legacy electronic order delivery and reporting system which provided for the automatic entry and routing of Exchange-listed equity options and index options orders to the Exchange trading floor. Option orders entered by Exchange member organizations into AUTOM were routed to the appropriate specialist unit on the Exchange trading floor. Orders delivered through AUTOM could be executed manually, or certain orders were eligible for AUTOM's automatic execution feature, AUTO-X. Equity option and index option specialists were required by the Exchange to participate in AUTOM and its features and enhancements. See Securities Exchange Act Release No. 38792 (June 30, 1997), 62 FR 36602 (July 8, 1997) (SR-Phlx-97-24).

<sup>49</sup> See Securities Exchange Act 72152 (May 12, 2014), 79 FR 28561 (May 16, 2014) (SR-Phlx-2014-32).

Notwithstanding the restrictions for ROTs, Specialists and Off-Floor Broker Dealers within proposed Rule 1080(e) and Rule 1014(e), the Exchange proposes to replace the order types listed within Rule 1080(b) with the below order types and descriptions to be added to Rule 1080(b).

(1) **Market Order.** A Market Order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. Specialists, ROTs and Off-Floor Broker-Dealers may not submit Market Orders.

(2) **Limit Order.** A Limit Order is an order to buy or sell a stated number of options contracts at a specified price or better.

(3) **Intermarket Sweep Order.** An Intermarket Sweep Order (ISO) is a Limit Order that meets the requirements of Rule 1083. Orders submitted to the Exchange as ISO are not routable and will ignore the ABBO and trade at allowable prices on the Exchange. ISOs may be entered on the regular order book or into the Price Improvement XL Mechanism (“PIXL”) pursuant to Rule 1087(b)(11). ISO Orders may not be submitted during the Opening Process pursuant to Rule 1017.

(4) **Stop Order.** A Stop Order is a Limit Order or Market Order to buy or sell at a limit price when interest on the Exchange for a particular option contract reaches a specified price. A Stop Order shall be cancelled if it is immediately electable upon receipt. 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. Specialists and ROTs may not submit a Stop Order. Off-Floor Broker-Dealers may not enter a Stop Market Order.

(a) 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.

(b) A Stop Market Order is similar to a stop-limit except it becomes a Market Order when the option contract reaches a specified price.

(5) **All-or-None Order.** An All-or-None Order is a limit order or market order that is to be executed in its entirety or not at all. An All-or None Order may only be submitted by a Public Customer. All-or-None Orders are non-displayed and non-routable. All-or-None Orders are executed in price-time priority among all

Public Customer orders if the size contingency can be met. The Acceptable Trade Range protection in Rule 1099(a) is not applied to All-Or-None Orders.

(i) **Non-Displayed Contingency Orders.** A Non-Displayed Contingency Order shall be defined to include the following non-displayed order types: (1) Stop Orders; and (2) All-or-None Orders.

(6) **Opening Sweep.** An Opening Sweep is a one-sided order entered by a Specialist or ROT through SQF for execution against eligible interest in the System during the Opening Process. This order type is not subject to any protections listed in Rule 1099, except for Automated Quotation Adjustments. The Opening Sweep will only participate in the Opening Process pursuant to Rule 1017 and will be cancelled upon the open if not executed.

(7) **Cancel-Replacement Order.** A Cancel-Replacement Order is 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 result in a loss of priority.

(8) **Qualified Contingent Cross Order or QCC Order.** A QCC Order is as that term is defined in Rule 1088.

(9) **PIXL Order.** A PIXL Order is as described in Rule 1087.

(10) **Legging Order.** A Legging Order is as the term is specified in Rule 1098(f)(iii)(C).

(11) **Directed Orders.** A Directed Order is as described in Rule 1068.

All members may enter a Market Order, except Specialists and ROTs, as noted in the exclusion of Market Orders from current Rule 1080(b)(i)(B)(2). Current Rule 1080(b)(i)(B)(1) did not permit Specialists or ROTs to enter Market Orders and current Rule 1080(b)(i)(C)(1) did not permit Off-Floor Broker-Dealers to enter Market Orders. Proposed Rule 1080(e), which is discussed below, also notes the Off-Floor Broker-Dealer restriction for Market Orders. The Exchange proposes to describe a Market Order<sup>50</sup> at

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<sup>50</sup> Market Orders are described within Options 8, Section 32(a).

proposed 1080(b)(1) as, “an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. Specialists and ROTs may not submit a Market Order.” This is the same description as in Options 8, Section 32(a). The Exchange has historically defined its order types within Options 8, Section 32 which are related to floor trading and has filed rule changes noting this description of a Market Order.<sup>51</sup> The Exchange is not substantively amending this order type.

Today, all members may enter a Limit Order,<sup>52</sup> which the Exchange proposes to describe at proposed Rule 1080(b)(2) as “an order to buy or sell a stated number of options contracts at a specified price or better.” The description of a Limit Order is currently identically described within Options 8, Section 32(b). The Exchange is not substantively amending this order type.

An Intermarket Sweep Order is a Limit Order that meets the requirements of Rule 1083.<sup>53</sup> The Exchange proposes to state within proposed Rule 1080(b)(3), “An Intermarket Sweep Order (ISO) is a Limit Order that meets the requirements of Rule 1083. Orders submitted to the Exchange as ISO are not routable and will ignore the ABBO and trade at allowable prices on the Exchange. ISOs may be entered on the regular order book or into the Price Improvement XL Mechanism (“PIXL”) pursuant to

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<sup>51</sup> See Securities Exchange Act Release No. 83141 (May 1, 2018), 83 FR 20123 (May 7, 2018 (SR-Phlx-2018-32)). The Exchange drafted the description to be similar to the description in Options 8, Section 32. Although it is substantially similar to the footnote 4 in the aforementioned rule change which provides, “Market Orders are orders to buy or sell at the best price available at the time of execution.”

<sup>52</sup> Limit Orders are described within Options 8, Section 32(b).

<sup>53</sup> Rule 1083 currently describes an ISO Order.

Rule 1087(b)(11). ISO Orders may be submitted during the Opening Process pursuant to Rule 1017.” The Exchange notes that all members are eligible to enter an ISO.<sup>54</sup> The Exchange notes that ISO behavior, while described within Phlx Rules today as mentioned above, are being centralized within Rule 1080(b)(3). No substantive changes are being made to this order type which is currently described in various rules mentioned herein.

The Exchange proposes to describe a Stop Order<sup>55</sup> at proposed Rule 1080(b)(4), as “a Limit Order or Market Order to buy or sell at a limit price when interest on the Exchange for a particular option contract reaches a specified price. A Stop Order shall be cancelled if it is immediately electable upon receipt. 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. Specialists and ROTs may not submit a Stop Order. An Off-Floor Broker-Dealers may not enter a Stop Market Order.” The Exchange further proposes to describe a Stop-Limit Order at proposed Rule 1080(b)(4)(A) as follows “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

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<sup>54</sup> See Phlx Rule 1083.

<sup>55</sup> Stop Orders are described within Options 8, Section 32(c)(1)-(2). The Exchange has reworded the Stop Order description to make clear that a Stop Order can be either a limit or market order in the first sentence and also more clearly describe the contingency. The Exchange does not believe that the descriptions differ substantively. Further, the Exchange has defined a stop order within a rule change. See Securities Exchange Act Release No. 85519 (April 5, 2019), 84 FR 14686 (April 11, 2019) (SR-Phlx-2019-07). The description in this rule change at footnote 14 is substantially similar in stating, “A stop order is a limit or market 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-market or stop-limit order shall not be triggered by a trade that is reported late or out of sequence or by a complex order trading with another complex order.”

when the option contract trades or is offered on the Exchange at or below the stop-limit price.” The Exchange proposes to describe a Stop Market Order at proposed Rule 1080(b)(4)(B) as follows, “A Stop Market Order is similar to a stop-limit except it becomes a Market Order when the option contract reaches a specified price.” Today, all members except Specialists, ROTs and Off-Floor Broker-Dealers may enter a Stop Order.<sup>56</sup> Proposed Rule 1080(e), which is discussed below, also notes the Off-Floor Broker-Dealer restriction for Stop Market Orders. With this proposal, the terms stop and stop-limit are both provided for within the proposed term “Stop Order.” No substantive changes are being made to this order type.

An All-or-None Order is currently described within Rule 1078. The Exchange proposes to relocate Rule 1078, without amendment, into Rule 1080(b)(5) and reserve Rule 1078.<sup>57</sup> The Exchange also proposes to amend the definition of All-or-None Order currently within Options 8, Section 32(b)(3) which applies to the trading floor.<sup>58</sup> The Exchange notes that unlike Rule 1080(b)(5), which applies to electronic trading, All-or-

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<sup>56</sup> See Phlx Rule 1080(b)(i)(B)(1) and (2).

<sup>57</sup> An All-or-None Order is a limit order or market order that is to be executed in its entirety or not at all. An All-or None Order may only be submitted by a Public Customer. All-or-None Orders are non-displayed and non-routable. All-or-None Orders are executed in price-time priority among all Public Customer Orders if the size contingency can be met. The Acceptable Trade Range protection in Rule 1099(a) is not applied to All-Or-None Orders. See Rule 1078.

<sup>58</sup> Options 8, Section 32(c)(3) provides, “(3) *All or None Order*. An all-or-none order is a market or limit order which is to be executed in its entirety or not at all.” The Exchange notes that other revisions are being made to Options 8, Section 32(b)(3) that were made in a prior rule change. See Securities Exchange Act Release No. 85262 (March 7, 2019), 84 FR 9192 (SR-Phlx-2019-03) and were inadvertently reversed in a subsequent filing that did not capture the amended text. See Securities Exchange Act Release No. 85740 (April 29, 2019), 84 FR 19136 (SR-Phlx-2019-17). The Exchange is reinstating the changes that were made in SR-Phlx-2019-03.

None Orders entered into open outcry would not be subject to Acceptable Trade Range protection in Rule 1099(a), which covers only those orders submitted electronically into the System. No substantive changes are being made to this order type.

The Exchange proposes to define the term “Non-Displayed Contingency Orders” at proposed new Rule 1080(b)(5)(i) as follows: “A Non-Displayed Contingency Order shall be defined to include the following non-displayed order types: (1) Stop Orders; and (2) All-or-None Orders.”

The Exchange proposes to define the Opening Sweep functionality within proposed Rule 1080(b)(6) for ease of reference to order types. The Opening Sweep is currently described within Rule 1017(b)(i).<sup>59</sup> Current Rule 1080(b)(i) notes the Exchange offers an opening-only-market order and a limit on opening order. The Exchange is amending the definition of Opening Sweep within Rule 1017(b)(i) by removing the language and simply referring to proposed Rule 1080(b)(6). The Exchange is amending and relocating the description of Opening Sweep within proposed Rule 1080(b)(6). Further, the Exchange proposes a change to the current rule to state it is an order and not a quote. This change will not amend the order type other than to make clear the manner it will be categorized. Phlx traditionally has referred to all interest within the SQF protocol as quote interest. The Exchange proposes to amend the references to “quotation” to “order” to make clear the type of interest that is being entered. An Opening Sweep is a one-sided order that only may be entered into the Opening Process. Further, the Exchange proposes to make clear that an Opening Sweep

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<sup>59</sup> Rule 1017(b)(i) provides, “An Opening Sweep is a one-sided electronic quotation submitted for execution against eligible interest in the system during the Opening Process.”

may only be entered by a Specialist or ROT as this order type is submitted through the SQF protocol.<sup>60</sup> Other market participants tag orders for the Opening Process by placing a TIF of “OPG” on the order as explained below. The Exchange notes that all members may submit interest into the Opening Process. The Exchange also proposes to add two new sentences to the Opening Sweep description which provide, “This order type is not subject to any protections listed in Rule 1099, except for Automated Quotation Adjustments. The Opening Sweep will only participate in the Opening Process pursuant to Rule 1017 and will be cancelled upon the open if not executed.” The Exchange notes that the Automated Quotation Adjustments protections applies to quotes entered into SQF but would not apply to an Opening Sweep which is an order entered into SQF. The Exchange notes that the second sentence is not new as Opening Sweeps are described within Rule 1017 today and apply only during the Opening Process. This sentence provides additional context to the Opening Sweep.

The Exchange proposes to memorialize a cancel-replacement order within proposed Rule 1080(b)(7). A Cancel-Replacement Order is currently defined within Options 8, Section 32(c)(4) as “a contingency order consisting of two or more parts which require the immediate cancellation of a previously received order prior to the replacement of 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 such number.” The Exchange proposes to amend this description to state, “a Cancel-Replacement Order is a single message for the immediate cancellation

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<sup>60</sup> See Phlx Rule 1080(a)(i)(B), which notes that the “Specialized Quote Feed” or “SQF” is an interface that allows Specialists, SQTs and RSQTs to submit Immediate-or-Cancel Orders through SQF.

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 Exchange notes it is proposing to add the following language, which is not currently described within existing rules, “The replacement order will result in a loss in priority.” The Exchange believes that as amended the Exchange provides additional detail to the order type. The additional language concerning priority is intended to provide market participants with additional detail about the retention of priority when amending a Cancel-Replacement Order and makes clear that it will not retain priority. The Exchange is memorializing the manner in which a Cancel-Replacement Order is handled today by the System. The Exchange notes that the order would be prioritized anew if it partially filled and the remainder of the unfilled order was returned to the Exchange.<sup>61</sup>

The Exchange proposes to include a Qualified Contingent Cross or “QCC” Order within proposed Rule 1080(b)(8) for ease of reference, which directs one to Rule 1088, which provides the detailed explanation of this order type. A QCC Order is described in detail within Rule 1088 today. While this order type is not currently listed within Rule 1080, the Exchange believes that it is useful to market participants to have all order types centralized. No substantive changes are being made to this order type.

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<sup>61</sup> See Phlx Rule 1091(a)(i), “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 System, unless any portion of the original order remains on the System, in which case the routed order shall retain its timestamp and its priority.”

The Exchange proposes to include a definition of a PIXL Order within proposed Rule 1080(b)(9) for ease of reference. A PIXL Order is described in greater detail within Rule 1087 today and that description is being referenced within Rule 1080(b)(9). While this order type is not currently listed within Rule 1080, the Exchange believes that it is useful to market participants to have all order types centralized. No substantive changes are being made to this order type.

The Exchange proposes to include a definition of a Legging Order within proposed Rule 1080(b)(10) for ease of reference. A Legging Order is as described in greater detail within Rule 1098(f)(iii)(C). While this order type is not currently listed within Rule 1080, the Exchange believes that it is useful to market participants to have all order types centralized. No substantive changes are being made to this order type.

The Exchange proposes to include a definition of a Directed Order within proposed Rule 1080(b)(11) for ease of reference. A Directed Order is described in greater detail within Rule 1068 today. While this order type is not currently listed within Rule 1080, the Exchange believes that it is useful to market participants to have all order types centralized. No substantive changes are being made to this order type.

The Exchange proposes to add Time in Force or “TIF” types within proposed new Rule 1080(c). Today these TIFs are noted within current Rule 1080(b)(i)(A)-(C) by category. The Exchange proposes to add descriptions to provide greater detail for these existing TIFs. The term “Time in Force” shall mean the period of time that the System will hold an order for potential execution, and shall include:

- (1) **Day.** If not executed, an order entered with a TIF of “Day” expires at the end of the day on which it was entered. All orders by their terms are Day Orders unless otherwise specified. Day orders may be entered through FIX.

(2) **Immediate-or-Cancel or IOC.** An Immediate-or-Cancel (“IOC”) Order entered with a TIF of “IOC” is a Market Order or Limit Order to be executed in whole or in part upon receipt. Any portion not so executed is cancelled.

(A) Orders entered with a TIF of IOC are not eligible for routing.

(B) IOC orders may be entered through FIX or SQF, provided that an IOC Order entered by a ROT or Specialist through SQF is not subject to the Order Price Protection or the Market Order Spread Protection in Rule 1099(a).

(C) Orders entered into the Price Improvement XL Mechanism and Qualified Contingent Cross Mechanism are considered to have a TIF of IOC. By their terms, these orders will be: (1) executed either on entry or after an exposure period, or (2) cancelled.

(3) **Opening Only.** An Opening Only (“OPG”) order is entered with a TIF of “OPG”. This order can only be executed in the Opening Process pursuant to Rule 1017. This order type is not subject to any protections listed in Rule 1099, except for Automated Quotation Adjustments. Any portion of the order that is not executed during the Opening Process is cancelled.

(4) **Good Til Cancelled.** A Good Til Cancelled (“GTC”) Order entered with a TIF of GTC, if not fully executed, will 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 until market close.

The Exchange proposes to describe an order with a TIF of “Day” at proposed new Rule 1080(c)(1) as an order that if not executed, an order entered with a TIF of “Day” expires at the end of the day on which it was entered. All orders by their terms are Day Orders unless otherwise specified. Day Orders may be entered through FIX.<sup>62</sup> The Exchange

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<sup>62</sup> Financial Information eXchange” or “FIX” is an interface that allows members and their Sponsored Customers to connect, send, and receive messages related to orders and auction orders and responses to and from the Exchange. Features

believes that describing a Day Order with greater specificity will add detail to how Day Orders are treated in the System. The Exchange notes that orders are permitted to be entered with a TIF of “day” as noted in proposed Rule 1080(b). The Exchange notes that Options 8, Section 32 does not describe a “Day” order. The Exchange proposes to include the definition of a “Day” Order in proposed Options 8, Section 32(c)(2).

The Exchange proposes to describe an order with a TIF of “Immediate-or-Cancel” or “IOC” at proposed new Rule 1080(c)(2) as a Market Order or Limit Order to be executed in whole or in part upon receipt. Any portion not so executed is cancelled. Current Options 8, Section 32(c)(5) describes an IOC Order as “An Immediate-or-Cancel (“IOC”) order is a limit order that is to be executed in whole or in part upon receipt. Any portion not so executed shall be cancelled. IOC Orders are not routable and shall not be subject to any routing process described in these Rules.” The Exchange is including a definition of an IOC Order within proposed Rule 1080(c)(2) similar to that in Options 8, Section 32(c)(5) with no substantive changes. Proposed Rule 1080(c)(2)(A) notes that Orders entered with a TIF of IOC are not eligible for routing. Further the Exchange proposes to add new details to this rule that are applicable specifically to the electronic market by stating that “IOC orders may be entered through FIX<sup>63</sup> or SQF, provided that an IOC Order entered by a ROT or Specialist through SQF is not subject to the Order Price Protection or the Market Order Spread Protection in Rule 1099(a).” Today, orders that are entered as IOC by a ROT or Specialist through SQF<sup>64</sup> are subject to the

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include the following: (1) execution messages; (2) order messages; and (3) risk protection triggers and cancel notifications. See Rule 1080(a)(i)(A).

<sup>63</sup> See Rule 1080(a)(i)(A).

<sup>64</sup> See Rule 1080(a)(i)(B).

protections listed in Rule 1099,<sup>65</sup> except for Order Price Protection and Market Order Spread Protection. The Order Price Protection and Market Order Spread Protection, while available for orders, are not available on SQF. The Exchange notes these exceptions within this rule to make clear that this information is available to market participants within the description of IOC. The Exchange notes ROTs and Specialists utilize IOC Orders to trade out of accumulated positions and manage their risk when providing liquidity on the Exchange. Proper risk management, including using these IOC Orders to offload risk, is vital for ROTs and Specialists, and allows them to maintain tight markets and meet their quoting and other obligations to the market. The Exchange believes that allowing ROTs and Specialists to submit IOC Orders through their preferred protocol increases their efficiency in submitting such orders and thereby allow them to maintain quality markets to the benefit of all market participants that trade on the Exchange. Further, unlike other market participants, ROTs and Specialists provide liquidity to the market place and have obligations.<sup>66</sup> The Exchange believes not offering Order Price Protection and Market Order Spread Protection for IOC Orders entered through SQF is consistent with the Act because ROTs and Specialists have more sophisticated infrastructures than other market participants and are able to manage their risk, particularly with respect to quoting, using tools that are not available to other market participants.<sup>67</sup>

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<sup>65</sup> Phlx Rule 1099 is titled, “Risk Protections.”

<sup>66</sup> Specialists have quoting obligations during the Opening Process as specified in Rule 1017(d) and ROTs and Specialists have intra-day quoting obligations as specified in Rule 1093.

<sup>67</sup> ROTs and Specialists quotes are subject to various protections listed in Rule 1099(c). These additional quoting protections permit ROTs and Specialists to

Also, the proposed rule would also specify that orders entered into the Price Improvement XL (“PIXL”) Mechanism and Qualified Contingent Cross (“QCC”) Mechanism are considered to have a TIF of IOC. By their terms, these orders will be: (1) executed either on entry or after an exposure period, or (2) cancelled.<sup>68</sup> The Exchange believes that adding these new details to the manner in which IOC Orders are handled within the System will bring greater transparency to these order types.

The Exchange proposes to describe an order with a TIF of “Opening Only” or “OPG” at proposed new Rule 1080(c)(3) as an order can only be executed in the Opening Process pursuant to Rule 1017. The proposed rule also provides that “Any portion of the order that is not executed during the Opening Process is cancelled.” The Exchange also proposes to note “This order type is not subject to any protections listed in Rule 1099, except for Automated Quotation Adjustments.” This limitation is already provided for within Rule 1099. The Exchange currently refers to this TIF as limit on opening order and proposes to rename this TIF “Opening Only” or “OPG.” The Exchange notes that the terms “opening-only market order” and “limit on opening” are market and limit orders with a TIF of OPG. The Exchange believes that memorializing OPG as a TIF explains the manner in which these orders are entered into the Opening Process for handling pursuant to Rule 1017.

An order with a TIF of “Good Til Cancelled” or “GTC” is described at proposed new Rule 1080(c)(4) and is also being included in Options 8, Section 32(c)(3) as an order

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manage their exposure at the Exchange. Other market participants would not be subject to these risk protections because they do not submit quotes on Phlx and do not utilize SQF.

<sup>68</sup> The TIF of IOC is applied to all PIXL and QCC Orders today.

that if not fully executed, will 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 until market close. The Exchange has noted this TIF within the current Rule 1080(b), however it did not describe the TIF. The Exchange proposes to define it within both Rules 1080 and Options 8, Section 32, according to the manner in which the TIF is applied today within the System.

Proposed Rule 1080(d) notes that DNR, SRCH and FIND are described within Rule 1093. Specifically, the proposed rule text provides, “Routing Strategies. Orders may be entered on the Exchange with a routing strategy of FIND, SRCH or Do-Not-Route (“DNR”) as provided in Rule 1093 through FIX only.” Rule 1093 describes DNR, SRCH and FIND Orders in greater detail. The Exchange is noting the limitation of FIX for additional information on the entry of routed orders. FIX is the only order entry protocol offered on Phlx today for FIND, SRCH, or DNR orders.<sup>69</sup> The current rule text of Rule 1080(b)(i) includes this routing strategies in the list of order types. The Exchange proposes to separate out these FIX-only routing strategies within proposed Rule 1080(d) for clarity.

#### Rule 1080(f) Unbundling of Orders

The Exchange proposes to amend the rule text within Rule 1080(b)(iii)<sup>70</sup> which concerns the unbundling of orders to simply re-number this provision as proposed new

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<sup>69</sup> See Phlx Rule 1080(a)(i)(A).

<sup>70</sup> Current Rule 1080(b)(iii) provides, “Orders may not be unbundled for the purposes of eligibility for AUTOM and AUTO-X, nor may a firm solicit a customer to unbundle an order for this purpose.

Rule 1080(f) and remove references to outdated systems (AUTOM and AUTO-X).

Rule 1080(c)

Rule 1080(c) currently states,

Phlx XL automatically executes eligible orders using the Exchange 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, respecting situations in which the Quote Exhaust feature is engaged, the 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.

The Exchange proposes to delete all of the aforementioned rule text. The first sentence, "Phlx XL automatically executes eligible orders using the Exchange 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" while true is explained in other rules. The Exchange notes in

Options 8, Section 25 the manner in which orders are allocated today at the either the NBBO or the Phlx Best Bid or Offer. The Exchange also notes that Rule 1082 provide for the manner in which the Exchange does not trade-through the NBBO. This sentence is not providing the detail contained in those other rules.

With respect to the next three sentences, which provide, “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”<sup>71</sup> and “Book Sweep”<sup>72</sup> are subsumed under the term “AUTO-X” for purposes of these rules,” the Exchange proposes to delete these sentences. As noted above AUTOM no longer exists so references to AUTOM orders are obsolete.

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<sup>71</sup> Book Match was an automatic execution feature of the Exchange's systems that automatically executes inbound marketable orders against limit orders 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. See Securities Exchange Act Release No. 54312 (August 14, 2006), 71 FR 47856 (August 18, 2006) (SR-Phlx-2006-28).

<sup>72</sup> Book Sweep was an automatic execution feature of the Exchange's systems that, respecting non-Streaming Quote Options, allowed certain orders resting on the limit order book to be automatically executed when the bid or offer generated by the Exchange's system or by the specialist's proprietary quoting system locks (*i.e.*, \$1.00 bid, \$1.00 offer) or crosses (*i.e.*, \$1.05 bid, \$1.00 offer) the Exchange's best bid or offer in a particular series as established by an order on the limit order book. Orders in non-Streaming Quote Options executed by the Book Sweep feature were allocated among crowd participants participating on the Wheel. Book Sweep is being retained for Streaming Quote Options. See Securities Exchange Act Release No. 54312 (August 14, 2006), 71 FR 47856 (August 18, 2006) (SR-Phlx-2006-28).

Also, specialist manual handling no longer exists.<sup>73</sup> The explanation of manual order handling is not relevant in today's System. The Exchange notes that all executions occur within the match engine as explained in Options 8, Section 25. Partial manual execution is not possible within the System. As all AUTO-X functionality was overridden by the initiation of Phlx XL fully automated technology, the references to the terms "Book Match" and "Book Sweep" are no longer necessary. The rule text referring to legacy systems should have been removed at the time that Phlx XL was implemented. The Exchange is proposing to remove Rule 1080(c) rules related to a legacy system to avoid confusion.

There is a reference to Phlx XL within Rule 1080(c), "In Phlx XL II, respecting situations in which the Quote Exhaust feature is engaged, the system will automatically execute transactions as set forth in Rule 1082." The Exchange notes that the Quote Exhaust feature is described within Rule 1082(a)(3) and therefore this reference is not necessary within Rule 1080. The aforementioned rule text is being deleted in its entirety.

For similar reasons, the Exchange is removing the remainder of 1080(c).

Rule 1080(c)(i)

The Exchange proposes to delete Rule 1080(c)(i)(A) and (B) in their entirety; the rule text states:

(i) NBBO Calculation

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<sup>73</sup> Manual execution by a specialist could occur in AUTOM. Specialist manual handling, 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). Rule 1080(c)(iv)(G) notes that no orders will be executed manually on Phlx XL which is the current System.

(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 the NBBO based on the best bid or offer in markets whose quotes are not subject to 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.

The SEC Quote Rule is referenced in current Rule 1082(a)(iii).<sup>74</sup> The Exchange proposes to remove this rule text as Rule 1082 provides for Firm Quotations as does Rule 1019(b)(5). The Exchange describes NBBO Price Protection within Rule 1096(b). The Exchange notes that the references to AUTOM processes do not exist today.

Rule 1080(c)(ii)

The Exchange proposes to delete Rule 1080(b)(ii)(A) and (B) which provides,

**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.
- (2) The term "User" means any person or firm that obtains access to AUTO-X through an Order Entry Firm.

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

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

Rule 1080(c)(ii)(A)(1) currently defines an "Order Entry Firm" as a member organization of the Exchange that is able to route orders to AUTOM. The Exchange proposes to amend the definition of Order Entry Firm and relocate it to Rule 1000(b)(38) to provide, "An Order Entry Firm or "OEF" is a member organization that submits orders, as agent or principal, on the Exchange." The Exchange believes that this new description more accurately describes these market participants. The Exchange notes that Rule

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<sup>74</sup> See Phlx Rule 1082(a)(iii) The term "SEC Quote rule" shall mean rule 602 of Regulation NMS under the Securities Exchange Act of 1934, as amended.

1080(c)(ii)(A)(2) currently defines a “User” as any person or firm that obtains access to AUTO-X through an Order Entry Firm. The Exchange proposes to delete this term. The term User is an obsolete definition intended to refer to the outdated AUTOM system. The Exchange uses the terms “member” and “member organization” in its rules to apply to entities and persons that may access the System. The Exchange only permits members and member organizations to access it System.

The Exchange currently provides for obligations of Order Entry Firms within current Rule 1080(c)(ii)(B). The rule text provides that “Obligations of Order Entry Firms. Order Entry Firms shall: (1) Comply with all applicable Exchange options trading rules and procedures; (2) Provide written notice to all Users regarding the proper use of AUTO-X.” The Exchange proposes to delete Rule 1080(c)(ii)(B) and eliminate the requirement that Order Entry Firms<sup>75</sup> comply with all applicable Exchange options trading rules and procedures and provide written notice to all Users regarding the proper use of AUTO-X. The Exchange notes that all members and member organizations are subject to its rules. An Order Entry Firm would be required to be a member or member organization to access the System. The AUTO-X procedures are irrelevant and therefore this sentence is being deleted. AUTO-X no longer exists, it was part of AUTOM as explained herein.

Rule 1080(c)(iii)

The Exchange proposes to delete the rule text at Rule 1080(c)(iii)(A) and (B), titled “Quotations Interacting with Limit Orders on the Book” which provides,

(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

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<sup>75</sup> See Rule 1080(c)(ii)(A)(1).

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.

The Exchange proposes to delete this rule text within Rule 1080(c)(iii)(A) because it reflects an outdated Auto-Quote system which no longer exists. The functionality described in subparagraph (iii)(A) no longer exists, including Auto-Quote<sup>76</sup> and the Book Sweep feature, as previously mentioned. These features initially existed within Phlx XL. Phlx XL was later replaced by Phlx XL II in 2009.<sup>77</sup> With respect to Rule 1080(c)(iii)(B), the Exchange notes that the Phlx XL functionality described herein

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<sup>76</sup> Auto-Quote was the Exchange's electronic options pricing system, which enabled specialists, Streaming Quote Traders ("SQTs") and Remote Streaming Quote Traders ("RSQTs"), to automatically monitor and instantly update and submit electronic quotations for equity option and index option contracts. Auto-Quote was eliminated in 2007. See Securities Exchange Act Release No. 55498 (March 20, 2007, 72 FR 14318 (March 27, 2007) (SR-Phlx-2007-15) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Delete the Exchange's Auto-Quote Options Pricing Functionality). This filing inadvertently did not remove all references to Auto-Quote.

<sup>77</sup> See Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32).

was renamed "Market Sweep." The Market Sweep description within current Rule 1080(c)(iii)(B) describes an IOC order. Today, ROTs and Specialists may enter IOC orders through SQF. This functionality is already included as part of the SQF functionality and also the IOC description is proposed within new Rule 1080(c)(2). The Exchange therefore proposes the deletion of Rule 1080(c)(iii)(B).

Rule 1080(c)(iv)

The Exchange proposes to delete Rule 1080(c)(iv) which provides,

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.

The Exchange proposes to delete Rule 1080(c)(iv) because it refers to the possibility of executions being manually handled by the specialist, which cannot occur anymore, as described above.<sup>78</sup> Rule 1080(c)(iv)(A) is currently reserved, and is being deleted. Rule 1080(c)(iv)(B) describes AUTOM, which is now obsolete and proposed to be deleted. Phlx Rule 1017 describes the timeframe interest will be accepted for the Opening Process. Similarly, Rule 1080(c)(iv)(C) describes a process for opening and reopening which is described in Phlx Rule 1017; the rule text is not necessary. A trading halt will result in a reopening pursuant to Rule 1017. Rule 1080(c)(iv)(D) and (E) is proposed to be deleted because it is not a possibility for manual handling today. As noted in Rule 1080(c)(iv)(G) no orders are handled manually on Phlx XL, which the Exchange is simply referring to as System. The Exchange also proposes to delete Rule 1080(c)(iv)(F) which is reserved.

#### Rule 1080(c)(v) and vi

The Exchange proposes to delete Rule 1080(c)(v) which provides,

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

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<sup>78</sup> Manual execution by a specialist could occur in AUTOM. Specialist manual handling, 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). Rule 1080(c)(iv)(G) notes that no orders will be executed manually on Phlx XL which is the current System.

order against such resting limit order or quotation, or against such inbound limit order or quotation, at or better than the NBBO price.

The Exchange proposes to delete the rule text at Rule 1080(c)(v) because it references obsolete functionality related to AUTOM and specialist manual handling. Phlx XL II contained no such functionality and replaced specialist manual handling with automated functionality.

The Exchange also proposes to delete Rule 1080(b)(vi) which is currently reserved.

#### Rule 1080(d), Hours

The Exchange proposes to delete Rule 1080(d), “Hours.” AUTOM is no longer a relevant system. The Exchange’s trading hours for quotes is provided for in Rule 1019(b)(4)<sup>79</sup> and the trading hours for orders is provided for in Rule 1093(a)(2).<sup>80</sup> The Exchange does not believe that this information is necessary.

#### Rule 1080(e), Extraordinary Circumstances

The Exchange proposes to delete Rule 1080(e). “Extraordinary Circumstances,” which provides,

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

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<sup>79</sup> The System accepts quotes for the Opening Process as specified in Rule 1017.

<sup>80</sup> The System accepts orders beginning at a time specified by the Exchange and communicated on the Exchange’s web site.

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.

Rule 1080(e), Extraordinary Circumstances, is proposed to be deleted because it refers to the obsolete functionality of Phlx XL and AUTO-X (AUTO-X was part of AUTOM and is no longer in existence). This also involves the deletion of subparagraph (i), because the Emergency Committee no longer exists;<sup>81</sup> emergencies related to the System or trading floor are handled pursuant to various other provisions.<sup>82</sup>

#### Rule 1080(f) Specialist Obligations

The Exchange proposes to delete Rule 1080(f), “Specialist Obligations,” which provides,

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.

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<sup>81</sup> See Securities Exchange Act Release No. 71906 (April 8, 2014), 79 FR 20949 (April 14, 2014) (SR-Phlx-2014-20).

<sup>82</sup> See By-Law Article VII, Section 7-5, Authority to Take Action Under Emergency or Extraordinary Market Conditions.

(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.

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. Specialist obligations are noted within Phlx Rule 1020, “Registration and Functions of Options Specialists” as well as Rule 1014, “Obligations of Market Makers.”

Rule 1080(g), Contra-Party Participation

The Exchange proposes to delete Rule 1080(g), “Contra-Party Participation,” which provides,

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.

The Exchange proposes to delete Rule 1080(g), Contra-Party Participation, because Book Match is obsolete. As noted in the last sentence of the text, with Phlx XL, Rule 1082(a)(ii)(B)(3)(c) discusses new interest in the opposite side of the market.

Rule 1080(h), Responsibility for AUTOM Orders

The Exchange proposes to delete Rule 1080(h), Responsibility for AUTOM Orders, which provides,

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.

The Exchange proposes to delete Rule 1080(h), Responsibility for AUTOM Orders, 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 delete Rule 1080(i), (m), and (n) which are currently reserved. The Exchange also proposes to delete the following extraneous sentence: "Such orders will be automatically placed on the limit order book in price-time priority."

Commentary .01

The Exchange proposes to delete Commentary .01 to Rule 1080 which provides,

**.01 Reserved**

(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.

The Exchange notes that the language contained in Commentary .01 to Rule 1080 refers to legacy functionality that existed prior to the INET transition and does not reflect current functionality. Today, the System automatically throttles and provides equal access to the Order Book across all interfaces.

Commentary .02

The Exchange proposes to delete Commentary .02 which provides,

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.

As explained herein, AUTOM is an outdated system. The Exchange notes its order types within Phlx Rules 1080(b) and Options 8, Section 32, including Limit Orders. Other rules govern trading on the floor, including, but not limited to Options 8, Sections 25, 29 and 30. Also, as discussed above, specialist manual execution no longer exists.

#### Commentary .03

The Exchange proposes to delete Commentary .03 to Rule 1080 which provides,

“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.

The Exchange relocated an updated description of ISO Orders to proposed Rule 1080(b)(3). The Exchange notes that it removed references to Phlx XL and added greater detail about ISO in the PIXL Auction and during the Opening Process. Rule 1083 contains more information with respect to ISO Orders which is referenced within the rule.

#### Commentary .04 and .05

The Exchange proposed the deletion of these commentaries within the discussion of Rule 1080(b) as these commentaries related to text within that section.

#### Rule 1000, Applicability, Definitions and References

The Exchange proposes to amend Rule 1000(b)(40) which is currently reserved, to define the term “Away Best Bid or Offer” or “ABBO” to mean the displayed National Best Bid or Offer not including the Exchange’s Best Bid or Offer. The Exchange believes that this term will bring greater clarity to the Exchange’s rules. The Exchange proposes to delete Rule 1000(b)(49) to remove the definition of “Agency Order,” as it is no longer using this categorization of orders, as discussed above.

Rule 1014, Obligations and Restrictions Applicable to Specialists and Registered Options Traders

The Exchange explained above the proposed addition of rule text to Rule 1014(e), which is currently reserved, to explain what types of orders a ROT or Specialist may not enter.

Rule 1017

The term “All-or-None” is being capitalized within Rule 1017(b). The description of the Opening Sweep in Rule 1017(b)(i) is being deleted, and a cross-reference to the new definition for Opening Sweep, in 1080(b)(6), is being added within the rule.

Rule 1078, All-or-None

As noted above, the Exchange is relocating the text of this rule into Rule 1080(b)(5) and reserving this rule.

Rule 1098, Complex Orders on the System

The Exchange proposes to update Rule 1098 to note that certain order types are described in proposed Rule 1080(b) and (c). The Exchange is removing the descriptions of order types within Rule 1098(b)(v) and instead referencing back to Rule 1080. The order types entered as complex orders do not differ in description from those entered on the simple market. This proposal will conform order types across the electronic market, as well as the floor, with the proposed changes to Options 8, Section 32. The Exchange is adding Directed Orders to Rule 1098(b)(v) as Directed Orders are proposed to be added to Rule 1080(b).

The Exchange also proposes to amend Rule 1098(d)(B), 1098(e)(iv) and 1098(f)(ii) to redefine certain sweeps as “orders” instead of “quotations.” Specifically,

similar to the amendment for Opening Sweeps defined above, the Exchange is proposing to amend the references to COOP Sweep, COLA Sweep and CBOOK Sweep to describe them as a “one-sided electronic order entered by a Specialist or ROT through SQF” instead of “a one-sided electronic quotation.” Phlx traditionally has referred to all interest within the SQF protocol as quote interest. There is no systemic change as a result of this amendment. The Exchange is simply re-categorizing these “quotes” as “orders” as they are identical to IOC orders. The Exchange proposes to amend the references to “quotation” to “order” to make clear the type of interest that is being entered. Further, the Exchange proposes to make clear that these sweeps may only be entered by a Specialist or ROT through SQF.<sup>83</sup> This is the case today.

The Exchange offers ROTs and Specialists the ability to expeditiously submit IOC orders through SQF, without having to utilize the FIX protocol. This allows ROTs and Specialists to manage risk utilizing a single protocol, SQF. Unlike other market participants, ROTs and Specialists are required to provide liquidity to the market and are subject to certain obligations, including a requirement to provide continuous two-sided quotes on a daily basis.<sup>84</sup> ROTs and Specialists utilize IOCs (today sweeps) to trade out of accumulated positions and manage their risk when providing liquidity on the Exchange. Proper risk management, including using these IOCs to offload risk, is vital for ROTs and Specialists, and allows them to maintain tight markets and meet their quoting and other obligations to the market. The Exchange believes that unlike other market participants, ROTs and Specialists have obligations and risks, which are mitigated

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<sup>83</sup> Market Makers on Phlx include Specialists and ROTs. See note 3.

<sup>84</sup> See Phlx Rule 1081.

by providing these market participants with the ability to increase their efficiency in submitting such orders and thereby allow them to maintain quality markets to the benefit of all market participants that trade on the Exchange. The Exchange notes that other exchanges offer similar capabilities to market makers.<sup>85</sup> Furthermore, other exchanges do not offer order protections on order submitted through a quoting protocol. MIAX's Price Protection on Non-Market Maker Orders is not available for orders submitted by a Market Maker.<sup>86</sup> The Price Protection on Non-Market Maker Orders prevents an order from being executed at a price beyond the price designated in the order's price protection instructions, and is a similar protection to the Exchange's Limit Order Price Protection. The Exchange similarly believes that it is consistent with the Act to not apply certain protections to Market Maker Immediate-or-Cancel Orders submitted through SQF.

ROTs and Specialists handle a large amount of risk when quoting on the Exchange and in addition to the risk protections required by the Exchange, ROTs and Specialists utilize their own risk management parameters when entering orders, minimizing the likelihood of a ROTs and Specialist order resulting from an error from being entered. The Exchange believes that ROTs and Specialists, unlike other market participants, have the ability to manage their risk when submitting IOC Orders through SQF and should be permitted to elect this method of order entry to obtain efficiency and speed of order entry, particularly in light of the continuous quoting obligations the Exchange imposes on these participants.

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<sup>85</sup> Miami International Securities Exchange LLC ("MIAX") utilizes its MIAX Express Interface (MEI), a quoting interface, for market makers to enter immediate-or-cancel orders.

<sup>86</sup> See MIAX Rule 515(c)(1).

Options 8, Section 32

The Exchange is proposing to amend Options 8, Section 32 to add an “(a)” before the rule text. The Exchange proposes to amend the “a” and “b” before Market Order<sup>87</sup> and Limit Order<sup>88</sup> to a “1” and “2” respectively.

Options 8, Section 32 governs the trading floor while Rule 1080 governs electronic trading. A member enters orders through FBMS, directly into the System shall be governed by Rule 1080 with respect to order types. The Exchange proposes to re-letter Contingency Order from “c” to “b.” The Exchange proposes to replace the current All or None Order<sup>89</sup> description within Options 8, Section 32(b)(3) with the rule text currently within Rule 1078 with the exception of the description of the Acceptable Trade Range Protection, which is not applied when submitting orders in open outcry.

The Exchange proposes to add a new Options 8, Section 32(c) which provides, “Time in Force or “TIF.” The term “Time in Force” shall mean the period of time that the System will hold an order for potential execution, and shall include:”. This sentence will provide more contextual information. The Exchange will renumber the Immediate or Cancel Order from Options 8, Section 32(b)(5) to new Options 8, Section 32(c)(1). The Exchange proposes to add two additional TIFs, “Day” and “Good Til Cancelled” at proposed new Options 8, Section 32(c)(2) and (3). The Exchange proposes to utilize the

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<sup>87</sup> *Market Order.* A market order is an order to buy or sell a stated number of option contracts and is to be executed at the best price obtainable when the order reaches the post.

<sup>88</sup> *Limit Order.* A limit order is an order to buy or sell a stated number of option contracts at a specified price, or better.

<sup>89</sup> *All or None Order.* An all-or-none order is a market or limit order which is to be executed in its entirety or not at all.

descriptions proposed within new Rule 1080(c)(1) and (4). The Exchange proposes to add a description for Floor Qualified Contingent Cross Orders within new proposed Options 8, Section 32(e). The description is copied from Rule 1064(e) with a title, “Floor Qualified Contingent Cross Order or Floor QCC Order.”<sup>90</sup> The Exchange proposes to re-letter the remainder of the rule.

#### Options 8, OFPA A-3

The Exchange proposes to add a cross-reference to the definition of All-or-None Orders in proposed new Rule 1080(b)(5) within Options Floor Procedure Advice A-3.

The Exchange notes that other revisions are being made to Options 8, Section 32(b)(3) that were made in a prior rule change<sup>91</sup> and inadvertently removed by a subsequent rule change. The subsequent rule change did not capture the amended text.<sup>92</sup> The Exchange is reinstating the changes that were made in SR-Phlx-2019-03 within this rule change.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>93</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>94</sup> in particular,

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<sup>90</sup> The Exchange proposes, “A Floor Qualified Contingent Cross Order is comprised of an originating order to buy or sell at least 1,000 contracts, as provided in Options 8, Section 30(e), that is identified as being part of a qualified contingent trade, as that term is defined in subsection Options 8, Section 30(e)(3), coupled with a contra-side order or orders totaling an equal number of contracts.”

<sup>91</sup> See Securities Exchange Act Release No. 85262 (March 7, 2019), 84 FR 9192 (SR-Phlx-2019-03).

<sup>92</sup> See Securities Exchange Act Release No. 85740 (April 29, 2019), 84 FR 19136 (SR-Phlx-2019-17).

<sup>93</sup> 15 U.S.C. 78f(b).

in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest by amending Rule 1080 to amend the order types descriptions and eliminate references and descriptions of outdated functionality.

### Order Types

The Exchange's proposal to remove the distinction between "agency and "proprietary" is consistent with the Act because this distinction is not necessary to describe the types of orders available on Phlx. The Exchange notes that while that distinction may have been applicable at one point in time with respect to entering orders, it is not suitable to limit the entry of certain orders on that basis. Phlx captures capacity of market participants when they submit orders to the System. Further, the Exchange notes within proposed Rule 1080(b) any limitations that impact a market participant's ability to submit an order. Finally, proposed Rule 1014(e) will provide limitations for ROTs and Specialists submitting orders.

The Exchange notes that today no other options market segregates the submission of order types by whether the order is an agency or proprietary order. Rather, Phlx's proposal as well as rules of other options exchanges impose limitations on the types of orders that may be entered by ROTs and Specialists as described further herein, as well as other limitations related to market ROTs and Specialists makers entering orders.<sup>95</sup> While the Exchange is eliminating the references to "agency" and "proprietary" orders, the Exchange notes that there is no impact to market participants or systemic change that results from the elimination of these terms. The list of order types presented below

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<sup>94</sup> 15 U.S.C. 78f(b)(5).

<sup>95</sup> See ISE, GEMX and MRX Options 3, Section 7, Miami International Securities Exchange, LLC Rule 515 and Cboe Exchange, Inc. Rule 5.6.

reflect current practice. The Exchange is not changing the manner in which orders are being submitted to the Exchange. The Exchange believes that by defining the rules, similar to other options markets, it will bring greater transparency to the Exchange's Rules and permit an ease of reference when comparing rulebooks. The Exchange notes that this proposal will not amend the System except for the changes described below where the Exchange is noting a change is proposed. Other functionalities offered by Phlx remains unchanged with this proposal.

The Exchange's proposal to replace the current rule text regarding order types within Rule 1080(b) with a list of current order types will bring greater transparency to the Exchange's Rules. Today, Rule 1080(b)(i) lists certain order types that have not been available on Phlx since Phlx replatformed its technology to INET in 2009. Specifically, the Exchange believes that eliminating order types that are not available, which include "or better," "simple cancel to reduce size (cancel leaves)," "cancel to change price" and "possible duplicate orders," is consistent with the Act because the revised rule will make clear the order types that are available and will clarify the rules. The Exchange notes that these order types have not been available for some time. The Exchange believes market participants are aware of the current order types that are accepted by the System because they review the Exchange's specifications. Proposed Rule 1080(b) would make clear what order types are available and provide a description of each order type.

Current Options 8, Section 32 describes the order types available for trading on the Trading Floor of the Exchange. The order types available within Phlx are the same regardless of whether the order is entered electronically or through the Options Floor

Broker Management System.<sup>96</sup> Additionally, these order types may be entered in either the simple or complex order books. For these reasons, the Exchange is simultaneously updating the descriptions of the order types into Options 8, Section 32, and Rules 1080 and 1098 to ensure conformity among these rules. The description of Market Order within proposed Rule 1080(b)(1) is substantially similar to the description of Options 8 Section 32(a). The description of a Limit Order within proposed 1080(b)(2) is identical to the description within Options 8, Section 32(b). The ISO description within proposed Rule 1080(b)(3) refers to current Rule 1083 and references the current behavior within PIXL pursuant to Rule 1087. Finally, ISO behavior for the Opening Process is referenced within Rule 1017. The Exchange believes that describing the behavior of the ISO Order within Rule 1080(b) is consistent with the Act because this functionality exists today and is being centralized within one description for ease of reference for members. The Stop Order description proposed within Rule 1080(b)(4) is being modified from the definition within Options 8, Section 32(c)(1) but the Exchange believes the description is substantially similar.

#### Adding a description for Non-Displayed Contingency Orders within Rule

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<sup>96</sup> Options Floor Based Management System or (“FBMS”) is a component of the System designed to enable members and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. The FBMS also is designed to establish an electronic audit trail for options orders negotiated, represented and executed by members on the Exchange, to the extent permissible under Rule 1000(f), such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order. The features of FBMS are described in Rules 1063(e) and 1085. In addition, a non-member or member may utilize an FBMS FIX interface to create and send an order into FBMS to be represented by a Floor Broker for execution. See Phlx Rule 1080(a)(i)(C).

1080(b)(5) will enhance the Rulebook and allow the Exchange to readily refer to these categories of orders within its rules. In addition, this description will apprise members of the order types on Phlx that are Non-Displayed in one location within the Rulebook. The All-or-None description within proposed Rule 1080(b)(6) is identical to Rule 1078. The Opening Sweep description is being revised to describe this order type as an order and not a quote. The Exchange notes that the categorization of the Opening Sweep is not a substantial change to the manner in which the order type functions. The System is not being amended. The Opening Sweep is currently described within Rule 1017(b)(i).<sup>97</sup> Current Rule 1080(b)(i) notes the Exchange offers an opening-only-market order and a limit on opening order. The Exchange is amending the definition of Opening Sweep within Rule 1017(b)(i) by removing the language and simply referring to proposed Rule 1080(b)(6). Phlx traditionally has referred to all interest within the SQF protocol as quote interest. The Exchange proposes to amend the references to “quotation” to “order” to make clear the type of interest that is being entered. The Opening Sweep is an IOC Order that only may be entered into the Opening Process. Further, the Exchange proposes to make clear that an Opening Sweep may only be entered by a Specialist or ROT as this order type is submitted through the SQF protocol.<sup>98</sup> Other market participants tag orders for the Opening Process by placing a TIF of “OPG” on the order as explained below. The Exchange notes that all members may submit interest into the

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<sup>97</sup> Rule 1017(b)(i) provides, “An Opening Sweep is a one-sided electronic quotation submitted for execution against eligible interest in the system during the Opening Process.”

<sup>98</sup> See Phlx Rule 1080(a)(i)(B) notes that (B) “Specialized Quote Feed” or “SQF” is an interface that allows Specialists, SQTs and RSQTs may submit Immediate-or-Cancel Orders through SQF.

Opening Process. The Exchange believes that this rule change is consistent with the Act because the categorization has no impact on the functionality on the manner in which members utilize the Opening Sweep functionality. From the member prospective there is no functional change. The Exchange believes that this amendment will conform the categorization of this order type to that of order types that are Immediate-or-Cancel Orders despite the protocol. The Exchange's proposal to add two new sentences to the Opening Sweep description which provide, "This order type is not subject to any protections listed in Rule 1099, except for Automated Quotation Adjustments. The Opening Sweep will only participate in the Opening Process pursuant to Rule 1017 and will be cancelled upon the open if not executed" are consistent with the Act. Automated Quotation Adjustments protections applies to quotes entered into SQF but would not apply to an Opening Sweep which is an order entered into SQF. The Exchange notes that the second sentence is not new as Opening Sweeps are described within Rule 1017 today and apply only during the Opening Process. Both of sentences bring greater transparency to this rule.

The Exchange offers ROTs and Specialists the ability to expeditiously submit IOC orders through SQF, without having to utilize the FIX protocol. This allows ROTs and Specialists to manage risk utilizing a single protocol, SQF. Unlike other market participants, ROTs and Specialists are required to provide liquidity to the market and are subject to certain obligations, including a requirement to provide continuous two-sided quotes on a daily basis.<sup>99</sup> ROTs and Specialists utilize IOCs (today sweeps) to trade out

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<sup>99</sup> Specialists have quoting obligations during the Opening Process as specified in Rule 1017(d) and ROTs and Specialists have intra-day quoting obligations as specified in Rule 1093.

of accumulated positions and manage their risk when providing liquidity on the Exchange. Proper risk management, including using these IOCs to offload risk, is vital for ROTs and Specialists, and allows them to maintain tight markets and meet their quoting and other obligations to the market. The Exchange believes that unlike other market participants, ROTs and Specialists have obligations and risks, which are mitigated by providing these market participants with the ability to increase their efficiency in submitting such orders and thereby allow them to maintain quality markets to the benefit of all market participants that trade on the Exchange. The Exchange notes that other exchanges offer similar capabilities to market makers.<sup>100</sup> Furthermore, other exchanges do not offer order protections on orders submitted through a quoting protocol. MIAX's Price Protection on Non-Market Maker Orders is not available for orders submitted by a Market Maker.<sup>101</sup> The Price Protection on Non-Market Maker Orders prevents an order from being executed at a price beyond the price designated in the order's price protection instructions, and is a similar protection to the Exchange's Limit Order Price Protection. The Exchange similarly believes that it is consistent with the Act to not apply certain protections to Market Maker Immediate-or-Cancel Orders submitted through SQF.

ROTs and Specialists handle a large amount of risk when quoting on the Exchange and in addition to the risk protections required by the Exchange, ROTs and Specialists utilize their own risk management parameters when entering orders, minimizing the likelihood of a ROTs and Specialist order resulting from an error from

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<sup>100</sup> Miami International Securities Exchange LLC ("MIAX") utilizes its MIAX Express Interface (MEI), a quoting interface, for market makers to enter immediate-or-cancel orders.

<sup>101</sup> See MIAX Rule 515(c)(1).

being entered. The Exchange believes that ROTs and Specialists, unlike other market participants, have the ability to manage their risk when submitting IOC Orders through SQF and should be permitted to elect this method of order entry to obtain efficiency and speed of order entry, particularly in light of the continuous quoting obligations the Exchange imposes on these participants.

The Exchange's proposal to describe the Cancel-Replacement Order within proposed Rule 1080(b)(7) is similar to the order type currently described within Options 8, Section 32(c)(7). The Exchange is amending this description in a manner that is similar to Options 8, Section 32(7) except the Exchange is adding additional rule text that is not currently described within the existing Rules. The Exchange proposes to make clear when a loss of priority would occur when submitting a Cancel-Replacement Order. The Exchange believes that memorializing the current System practice in which the System determines how to prioritize a Cancel-Replacement Order is consistent with the Act because when an order is routable, the System would need to re-check the order to determine if it is marketable and therefore routable. Phlx Rule 1093 describes routing functionality.

With respect to QCC Orders, PIXL Orders, Legging Orders and Directed Orders, the Exchange's proposal to note the rule where a detailed explanation of the Order Type may be found will add greater transparency to the Exchange's Rules. The Exchange's proposal to include all order types within proposed Rule 1080(b) is consistent with the Act and the protection of investors and the general public because it will provide members with a complete list of order types thereby adding greater transparency to the Exchange's Rules.

The Exchange's proposal to add TIFs to proposed Rule 1080(c) will also enhance the Exchange's Rulebook by including these order types to the proposed set of Rules and providing additional transparency. The Exchange proposes to add at Rule 1080(c)(1) a description of a Day Order. The Exchange's proposed description of a Day Order memorializes the manner in which the System currently treats a TIF of "Day." Exchange members today are familiar with a Day Order which is described in the specifications. The Exchange believes that this description is consistent with the Act in that the TIF of Day simply clarifies that an order with a TIF of day will be cancelled at the end of the day if not executed and serves to provide greater clarity to the Exchange's Rules. The Exchange's proposal to describe an IOC Order at proposed Rule 1080(c)(2) similar to Options 8 Section 32(c)(8) except that the Exchange also proposes to note that the IOC Order may be a Market Order. This is not the case for Market Orders on the trading floor as a price is required to be specified in the trading crowd. Today, Market Orders may be marked with a TIF of "IOC", this is not a System change. The Exchange is also proposing to include new rule text to further describe that in an electronic market the types of protocols that may be utilized on Phlx to submit IOC Orders. Further the Exchange proposes to note that IOC orders submitted through SQF are not subject to the order protections within Phlx Rule 1099, except for Automated Quotation Adjustments.

The Exchange notes that SQF is utilized by ROTs and Specialists. These market participants are required to provide liquidity to the market and are subject to certain obligations, including requirements to provide two-sided quotes on a daily basis.<sup>102</sup> ROTs and Specialists use IOC Orders to trade out of accumulated positions and manage

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<sup>102</sup> See Phlx Rule 1091.

their risk when providing liquidity on the Exchange. Proper risk management, including using IOC Order to offload risk, is vital for these market participants, and allows them to maintain tight markets and meet their quoting obligations to the market. ROTs and Specialists handle a large amount of risk when quoting and in addition to the risk protections required by the Exchange, ROTs and Specialists utilize their own risk management parameters when entering orders, minimizing the likelihood of a ROT or Specialist order resulting from an error from being entered. The Exchange believes that ROTs and Specialists, unlike other market participants, have the ability to manage their risk when submitting IOC Orders through SQF and should be permitted to elect this method of order entry to obtain efficiency and speed of order entry, particularly in light of the quoting obligations the Exchange imposes on these participants. The Exchange noted in a another rule change that market makers on Phlx may enter Immediate-or-Cancel Orders through SQF and are similarly not subject to certain risk protections.<sup>103</sup>

The Exchange's proposal to define an order with a TIF of "Opening Only" within Rule 1080(c)(3) as an IOC Order that can be entered during the Opening Process is consistent with the Act. The limitation of order protections within the Opening Process is noted within Rule 1099. The Exchange notes that this TIF exists today but is being renamed. Today, orders that are entered as IOC by a ROT or Specialist through SQF<sup>104</sup>

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<sup>103</sup> See Securities Exchange Act Release No. 81034 (June 27, 2017), 82 FR 30923 (July 3, 2017) (SR-ISE-2017-58). See also Securities and Exchange Release No. 76295 (October 29, 2015), [80 FR 68338](#) at 68339 (November 4, 2015) (SR-Phlx-2015-83) (Phlx noted in footnote 8 that while SQF permits the receipt of quotes, sweeps are not included for purposes of the Percentage Based risk protection in Rule 1095(i)). Phlx Rule 1080(c)(iii)(B) provides that, "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."

<sup>104</sup> See Rule 1080(a)(i)(B).

are subject to the protections listed in Rule 1099,<sup>105</sup> except for Order Price Protection and Market Order Spread Protection. The Order Price Protection and Market Order Spread Protection, while available for orders, are not available on SQF. The Exchange's proposal to note these exceptions within this rule is consistent with the Act because it brings greater transparency with respect to the availability of order protections. The Exchange notes ROTs and Specialists utilize IOC Orders to trade out of accumulated positions and manage their risk when providing liquidity on the Exchange. Proper risk management, including using these IOC Orders to offload risk, is vital for ROTs and Specialists, and allows them to maintain tight markets and meet their quoting and other obligations to the market. The Exchange believes that allowing ROTs and Specialists to submit IOC Orders through their preferred protocol increases their efficiency in submitting such orders and thereby allow them to maintain quality markets to the benefit of all market participants that trade on the Exchange. Further, unlike other market participants, ROTs and Specialists provide liquidity to the market place and have obligations.<sup>106</sup> The Exchange believes not offering Order Price Protection and Market Order Spread Protection for IOC Orders entered through SQF is consistent with the Act because ROTs and Specialists have more sophisticated infrastructures than other market participants and are able to manage their risk, particularly with respect to quoting, using tools that are not available to other market participants.<sup>107</sup>

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<sup>105</sup> Phlx Rule 1099 is titled, "Risk Protections."

<sup>106</sup> Specialists have quoting obligations during the Opening Process as specified in Rule 1017(d) and ROTs and Specialists have intra-day quoting obligations as specified in Rule 1093.

<sup>107</sup> ROTs and Specialists quotes are subject to various protections listed in Rule 1099(c). These additional quoting protections permit ROTs and Specialists to

Finally, the Exchange's proposal to memorialize a GTC Order within proposed Rule 1080(c)(4) is consistent with the Act and will provide a description for a GTC Order that does not exist today. The TIF is noted within current Rule 1080(b)(i) without a description. Similar to a Day Order, the Exchange believes that it is consistent with the Act to describe a GTC Order, which is eligible as an order until cancelled, within Rule 1080(c) to provide members with greater transparency as to the TIFs which are available on Phlx.

The Exchange's proposal to note the various routing strategies within Rule 1080(d) is consistent with the Act because it will also add greater transparency to the Exchange's rules. These routing strategies are already described within Rule 1093 and will add greater transparency to this rule. The Exchange is simply relocating the restrictions that are applicable today to Off-Floor Broker Dealers to new Rule 1080(e) without any substantive changes.

The order types description within proposed Rule 1080(b) should promote just and equitable principles of trade and perfect the mechanisms of a free and open market and the national market system by providing greater clarity concerning certain aspects of the System's operations. The order types proposed within Rule 1080(b) do not add any new functionality, rather, they provide descriptions for each available order type currently offered by the Exchange. The proposed rules provide additional detail related to functionality for certain order types and the handling of orders which offers greater transparency with respect to the Exchange's order type functionality.

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manage their exposure at the Exchange. Other market participants would not be subject to these risk protections because they do not submit quotes on Phlx and do not utilize SQF.

Proposed Rule 1014(e) would permit ROTs and Specialists to enter orders in both their assigned and unassigned options, but it would also limit a ROT or Specialist to not exceed 25 percent of the total number of all contracts executed by the ROT or Specialist in unassigned options in any calendar quarter. This limitation is similar to limitations on other options markets.<sup>108</sup> Today, ROTs and Specialists on Phlx may not enter orders in non-appointed option series.<sup>109</sup> The Exchange's proposal to permit a ROT or Specialist to enter a limited amount of orders is consistent with the Act because ROTs and Specialists may enter orders for purposes of providing liquidity on the Exchange in certain circumstances. Further, the Exchange still proposes to limit ROTs and Specialists. The Exchange is excluding order types that today may not be entered by a Specialist or ROT today. Today, Specialists and ROTs may not enter All-or-None Orders, and public customer-to-public customer cross orders subject to Rule 1087(a) and (f), which orders may only be entered by a Public Customer. The Exchange proposes to prohibit SQTs and RSQTs from entering Market Orders and Stop Orders as well because the Exchange requires SQTs and RSQTs to "maintain a two-sided market in those options in which the electronic ROT is registered to trade, in a manner that enhances the depth, liquidity and competitiveness of the market" pursuant to Phlx Rule 1081(a)(i). The Exchange believes that permitting SQTs and RSQTs to enter Market Orders does not achieve this objective as Market Orders are designed to remove liquidity from the Order

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<sup>108</sup> See ISE, GEMX and MRX Options 2, Section 6, NOM Rules at Chapter VII, Section 6(e), and BX Rules at Options 2, Section 5(e). Further, NYSE Arca, Inc. ("NYSE Arca") and NYSE American LLC ("NYSE American") do not limit the types of orders that can be entered by market makers. See NYSE Arca Rule 6.37B-O and NYSE American Rule 925.2NY.

<sup>109</sup> Phlx Rule 1014(b)(ii), SQTs and RSQTs may only trade in a market making capacity in classes of options in which the SQT is assigned.

Book. Further, the Exchange does believe that Stop Orders similarly are designed to remove liquidity from the Order Book and are non-displayed order types until they are triggered which does not benefit the role of an SQT or RSQT in displaying liquidity on the Order Book. Finally, Directed Orders may not be entered by Specialists and ROTs today pursuant to Rule 1068.

The Exchange believes its proposal is consistent with the Act. No longer limiting the amount of orders that may be executed by ROTs and Specialists to simply appointed classes will allow market making participants to enter more orders than they are permitted to enter today. The current restriction imposed by Commentary .01 to Rule 1014 to execute at least 50% of the trading activity in any quarter is only possible today in assigned options series and therefore is not very restrictive. Allowing ROTs and Specialists to enter order in assigned series is in addition to their current obligations to quote intra-day.<sup>110</sup> In order to meet those obligations ROTs and Specialists will need to stay focused on adding liquidity to Phlx. Further, permitting ROTs and Specialists to enter orders in non-appointed classes provided they do not exceed 25% of the total number of contracts executed in any quarter is consistent with the Act because the proposed rule will allow ROTs and Specialists to continue to provide liquidity on Phlx, as is the case today, while not restricting their business activity in a manner that is no other market participants is restricted to transact. Phlx's proposal will allow market making participants the same flexibility as exists today on other options markets.

The Exchange's proposal to amend current Rule 1080(b)(i)(B) and (C) to remove the current size limitation of 10 contracts pursuant to which certain orders must be

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<sup>110</sup> See Phlx Rule 1081.

entered as IOC by ROTs and Specialists is consistent with the Act because the Exchange believes that this limitation is no longer necessary given the evolution of the market place and further that it hinders non-SQT ROTs and Specialists unnecessarily. No other options market has similar limitations today.<sup>111</sup> The 10 contract limitation was put in place to restrict participants, whose primary role was to provide liquidity, from using orders of small size to avoid providing liquidity using quotes which were historically required to be of a size of 10 contracts or more. Proposed Rule 1080(b) does not impose any limit and serves to promote just and equitable principles of trade by not limiting ROTs and Specialists, who today are the only market participants with such a restriction.

Similar to the rule change proposed for Opening Sweeps within proposed Rule 1080(b)(6) the Exchange proposes to amend Rule 1098 to amend the descriptions of COOP Sweeps, COLA Sweeps and CBOOK Sweeps to change the description of these IOC Orders from a quote to an order. The Exchange's proposal to describe these sweeps as one-sided orders entered by a Specialist or ROT through SQF instead of as one-sided quotations will make clear the type of interest that these sweeps are for purposes of order entry. Phlx traditionally has referred to all interest within the SQF protocol as quote interest but this classification is not correct when distinguishing interest as either a quote or order. Today these sweeps are considered order interest, so no change is being made to the manner in the System accepts or processes these sweeps. The Exchange believes its proposal is consistent with the Act because the proposal will align sweeps in the proper category of interest as order interest to avoid confusion and protect investors and the general public.

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<sup>111</sup> See note 32 above.

### Outdated Systems

The Exchange proposes to remove references to obsolete functionality within Rule 1080(c)-(h). There are multiple references to legacy systems and terms related to those Systems. The AUTOM order delivery system grew over the years into the current fully automated Phlx options trading system XL II. AUTOM and AUTO-X were replaced by the Phlx XL System, such that references to both terms refer to Phlx XL.<sup>112</sup> Also, specialist manual handling no longer exists.<sup>113</sup> The explanation of manual order handling is not relevant in today's System. The Exchange notes that all executions occur within the match engine as provided for within Options 8, Section 25. Partial manual execution is not possible within the current System. Rule 1080(c)(iv)(G) provides that no orders are handled manually on Phlx XL, which the Exchange is simply referring to as System. As all AUTO-X functionality was overridden by the initiation of Phlx XL fully automated technology, the references to the terms "Book Match" and "Book Sweep" are no longer necessary. The rule text referring to legacy systems should have been removed at the time that Phlx XL was implemented. The functionality described in Rule 1080(c)(iii)(A) no longer exists, including Auto-Quote<sup>114</sup> and the Book Sweep feature, as

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<sup>112</sup> See Securities Exchange Act 72152 (May 12, 2014), 79 FR 28561 (May 16, 2014) (SR-Phlx-2014-32).

<sup>113</sup> Manual execution by a specialist could occur in AUTOM. Specialist manual handling, 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). Rule 1080(c)(iv)(G) notes that no orders will be executed manually on Phlx XL which is the current System.

<sup>114</sup> Auto-Quote was the Exchange's electronic options pricing system, which enabled specialists, Streaming Quote Traders ("SQTs") and Remote Streaming Quote Traders ("RSQTs"), to automatically monitor and instantly update and submit electronic quotations for equity option and index option contracts. Auto-Quote

previously mentioned. These features initially existed within Phlx XL. Phlx XL was later replaced by Phlx XL II in 2009.<sup>115</sup> Rule 1080(e), Extraordinary Circumstances, is proposed to be deleted, because it refers to the obsolete functionality of Phlx XL and AUTO-X (AUTO-X was part of AUTOM and is no longer in existence). This also involves the deletion of subparagraph (i), because the Emergency Committee no longer exists;<sup>116</sup> emergencies related to the System or trading floor are handled pursuant to various other provisions.<sup>117</sup> The Exchange believes that removing obsolete rule text and functionality will protect investors and the public interest because it will avoid confusion within the rules.

Additionally, certain redundant rule text is being removed. With respect to Rule 1080(c)(iii)(B), the Exchange notes that the Phlx XL functionality described herein was renamed “Market Sweep.” Today this functionality is referred to within the Specialized Quote Feed functionality within Rule 1080(a)(i)(B) and will also be referred to within proposed Rule 1080(c)(2)(B) which describes IOC Orders. The Exchange notes that the Quote Exhaust feature is described within Rule 1082(a)(3) and therefore this reference is not necessary within Rule 1082. The SEC Quote Rule is referenced in current Rule

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was eliminated in 2007. See Securities Exchange Act Release No. 55498 (March 20, 2007, 72 FR 14318 (March 27, 2007) (SR-Phlx-2007-15).

<sup>115</sup> See Securities Exchange Act Release No. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009) (SR-Phlx-2009-32).

<sup>116</sup> See Securities Exchange Act Release No. 71906 (April 8, 2014), 79 FR 20949 (April 14, 2014) (SR-Phlx-2014-20).

<sup>117</sup> See By-Law Article VII, Section 7-5, Authority to Take Action Under Emergency or Extraordinary Market Conditions.

1082(a)(iii).<sup>118</sup> Rule 1080(c)(ii)(A)(1) defines an “Order Entry Firm” as a member organization of the Exchange that is able to route orders to AUTOM. The term Order Entry Firm is not necessary to describe order types or other functionality. Rule 1080(c)(ii)(A)(2) defines a “User” as any person or firm that obtains access to AUTO-X through an Order Entry Firm. The term User is an obsolete definition intended to refer to the outdated AUTOM system. The Exchange uses the terms member and member organization in its rules to apply to entities and persons that may access the System. The Exchange only permits members and member organizations to access its System. 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. Specialist obligations are noted within Phlx Rule 1020, “Registration and Functions of Options Specialists” as well as Rule 1014, “Obligations of Market Makers.” The Exchange proposes to delete Rule 1080(g), Contra-Party Participation, because Book Match is obsolete. As noted in the last sentence of the text, with Phlx XL, Rule 1082(a)(ii)(B)(3)(c) discusses new interest in the opposite side of the market. Removing obsolete and redundant rule text will bring greater clarity to the Exchange’s rules. With respect to Commentary .01(b) of Rule 1080, the Exchange notes that it does not throttle as described in this rule text. The Exchange notes that the language contained in Commentary .01 to Rule 1080 refers to legacy functionality that existed prior to the INET transition and does not reflect current functionality. Today, the System automatically throttles and provides equal access to the Order Book across all interfaces.

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<sup>118</sup> See Phlx Rule 1082(a)(iii) The term “SEC Quote rule” shall mean rule 602 of Regulation NMS under the Securities Exchange Act of 1934, as amended.

Rule 1000

The Exchange's proposal to memorialize the defined term "Order Entry Firm" within proposed Rule 1000(b)(38) will permit the term to be utilized throughout the Rulebook.

The Exchange's proposal to amend Rule 1000(b)(40) which is currently reserved, to define the term "Away Best Bid or Offer" or "ABBO" to mean the displayed National Best Bid or Offer not including the Exchange's Best Bid or Offer will add greater clarity to the Exchange's rules.

The Exchange's proposal to remove the term "Agency Order" from Rule 1000(b)(49) is consistent with the Act because this term is not necessary or utilized elsewhere in the Rulebook other than without Rule 1080(b). The Exchange is revising Rule 1080(b) such that this term is no longer required.

Rule 1017

The Exchange's proposal to capitalize the term "All-Or-None" and revise the defined term "Opening Sweep" to refer to Rule 1080(b)(6) are non-substantive amendments.

Rule 1078

The Exchange's proposal to delete Rule 1078 is non-substantive.

Rule 1098

The Exchange's proposal to cross-reference proposed Rule 1080(c) refer to the defined terms within Rule 1080(b) is consistent with the Act because as noted herein both simple and complex orders are similar for the order types defined within proposed Rule 1080(b). This amendment merely continues to conform those terms.

Options 8, Section 32

The Exchange's proposal to re-number/re-letter Options 8, Section 32 is non-substantive. The Exchange's proposal to amend proposed Rule 1080(b)(3) to add further information to the All-or-None Order to align the rule with proposed Rule 1080(b)(5), except with respect to the last sentence of proposed Rule 1080(b)(5) which does not apply with respect to Floor Trading is consistent with the Act. The additional clarity will serve to align the rules and bring greater transparency to the distinctions between electronic and Floor Trading where those distinctions exist.

Adding a new TIF section to proposed Options 8, Section 32(c) similar to proposed Rule 1080(c) will align those rules. Memorializing a Day Order and a GTC Order will also make clear that those TIFs are available today on the Trading Floor. Those TIFs are available today and are not included within Options 8, Section 32.

Finally, the Exchange seeks to memorialize the Floor QCC Order which is described within Options 8, Section 30(e) within Options 8, Section 32 to bring greater transparency to the order types available on the Trading Floor. This amendment is non-substantive as this order type exists today.

The Exchange notes that this proposal does not amend the System or the manner in which Floor Trading members may submit orders to the Trading Floor.

Options 8, Section 39

The Exchange proposes to amend the All-or-None Order to refer to Rule 1080(b)(5). As described herein, the remaining changes are intended to conform the rule

to a prior rule change that was inadvertently amended.<sup>119</sup>

#### Technical Amendments

The Exchange's proposal to update the cross-references, remove reserved sections and re-number/re-letter its rules will bring greater organization to the Rulebook.

#### 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.

#### Order Types

The Exchange's proposal to remove the distinction between "agency" and "proprietary" will apply uniformly to all market participants in that it will not cause an undue burden on competition. The change will not impact the manner in which member submit orders into the System. The Exchange is not changing the manner in which orders are being submitted to the Exchange. The Exchange notes that today no other options market segregates the submission of order types by whether the order is an agency or proprietary order.

The Exchange's proposal to replace the current rule text regarding order types within Rule 1080(b) with a list of current order types will not impose an undue burden on competition, rather it will bring greater transparency to the Exchange's Rules. The order

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<sup>119</sup> The Exchange notes that other revisions are being made to Options 8, Section 32(b)(3) that were made in a prior rule change. See Securities Exchange Act Release No. 85262 (March 7, 2019), 84 FR 9192 (SR-Phlx-2019-03) and were inadvertently reversed in a subsequent filing that did not capture the amended text. See Securities Exchange Act Release No. 85740 (April 29, 2019), 84 FR 19136 (SR-Phlx-2019-17). The Exchange is reinstating the changes that were made in SR-Phlx-2019-03.

types listed within Rule 1080 are available to all market participants except that All-or-None Orders are available only to customers as provided today within Rule 1078. Current Options 8, Section 32 describes the order types available for trading on the Trading Floor of the Exchange. The order types available within Phlx are the same regardless of whether the order is entered electronically or through the Options Floor Broker Management System.<sup>120</sup> Additionally, these order types may be entered in either the simple or complex Order Book. For these reasons, the Exchange is simultaneously updating the descriptions of the order types into Options 8, Section 32, 1080 and 1098 to ensure conformity among these rules.

Eliminating the rule text for the following order types, “or better,” “simple cancel to reduce size (cancel leaves),” “cancel to change price” and “possible duplicate orders,” does not create an undue burden on competition because the Exchange does not offer these order types to any market participant today. The Exchange notes that it believes market participants are aware of the current order types that are accepted by the System. Currently, the rule provides a list of order types within Options 8, Section 32 which describe the order types for trading on the floor of the Exchange. The order types available within Phlx are the same regardless of whether the order is entered electronically or through the Options Floor Broker Management System. Additionally, these order types may be entered in either the simple or complex order books.

Further, the Exchange is defining terms within Rule 1080(b) which are already defined in the Rulebook, in some cases, for ease of reference.<sup>121</sup> The new descriptions of

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<sup>120</sup> See note 96 above.

<sup>121</sup> Opening Sweep is defined in Rule 1017(b)(i). QCC Order is defined within Rule 1080(o). The PIXL Order is defined within Rule 1087. All-or-None Orders are

order types will provide greater clarity regarding the operation of the System. The order types within Rule 1080(b) do not add any new functionality but instead re-organize the Exchange's order type rules to provide additional detail regarding the order type functionality currently offered by the Exchange.

The description of Market Order within proposed Rule 1080(b)(1) is substantially similar to the description of Options 8 Section 32(a). The description of a Limit Order within proposed 1080(b)(2) is identical to the description within Options 8, Section 32(b). The ISO description within proposed Rule 1080(b)(3) refers to current Rule 1083 and references the current behavior within PIXL pursuant to Rule 1087. Finally, ISO behavior for the Opening Process is referenced within Rule 1017. The Exchange believes that describing the behavior of the ISO Order within Rule 1080(b) does not impose an undue burden on competition because this functionality exists today and is being centralized within one description for ease of reference for members. The Stop Order description proposed within Rule 1080(b)(4) is being modified from the definition within Options 8, Section 32(c)(1) but the Exchange believes the description is substantially similar.

Adding a description for Non-Displayed Contingency Orders within Rule 1080(b)(5) will enhance the Rulebook and allow the Exchange to readily refer to these categories of orders within its rules. The All-or-None Order description within proposed Rule 1080(b)(6) is identical to Rule 1078.

The Opening Sweep description is being revised to describe this order type as an

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defined within Rule 1078. A Legging Order is defined within Rule 1098(f)(iii)(C). Directed Orders if defined with Rule 1068. Do No Route Orders are defined within Rule 1093.

order and not a quote. The Exchange does not believe this change imposes an undue burden on competition because an Opening Sweep may only be entered by a Specialist or ROT as this order type is submitted through the SQF protocol.<sup>122</sup> Other market participants tag orders for the Opening Process by placing a TIF of “OPG” on the order as explained below. The Exchange notes that all members may submit interest into the Opening Process. Further, the categorization has no impact on the functionality on the manner in which members utilize the Opening Sweep functionality.

The Exchange’s proposal to describe the Cancel-Replacement Order within proposed Rule 1080(b)(7) is similar to the order type currently described within Options 8, Section 32(c)(7). The Exchange’s proposal to add rule text that is not currently described within the existing Rules to make clear when a loss of priority would occur when submitting a Cancel-Replacement Order does not impose an undue burden on competition.

The Exchange’s proposal to add TIFs to proposed Rule 1080(c) will enhance the Exchange’s Rulebook by including these order types to the proposed set of Rules and providing additional transparency. The Exchange proposal to add at Rule 1080(c)(1) of a Day Order does not impose an undue burden on competition, rather it memorializes the manner in which the System currently treats a TIF of “Day” thereby adding transparency. The Exchange’s proposal to describe an IOC Order at proposed Rule 1080(c)(2) similar to Options 8 Section 32(c)(8), with the addition of Market Order, and include new rule text to further describe that in an electronic market the types of protocols that may be

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<sup>122</sup> See Phlx Rule 1080(a)(i)(B) notes that (B) “Specialized Quote Feed” or “SQF” is an interface that allows Specialists, SQTs and RSQTs may submit Immediate-or-Cancel Orders through SQF.

utilized on Phlx to submit IOC Orders does not impose an undue burden on competition. Further the Exchange proposes to note that IOC orders submitted through SQF are not subject to the order protections within Phlx Rule 1099, except for Automated Quotation Adjustments. The Exchange notes that SQF is utilized by ROTs and Specialists, which market participants are required to provide liquidity to the market and are subject to certain obligations, including requirements to provide two-sided quotes on a daily basis.<sup>123</sup> ROTs and Specialists utilize their own risk management parameters when entering orders, minimizing the likelihood of a ROT or Specialist order resulting from an error from being entered. The Exchange believes that ROTs and Specialists, unlike other market participants, have the ability to manage their risk when submitting IOC Orders through SQF and should be permitted to elect this method of order entry to obtain efficiency and speed of order entry, particularly in light of the quoting obligations the Exchange imposes on these participants.

The Exchange's proposal to define an order with a TIF of "Opening Only" within Rule 1080(c)(3) as an IOC Order that can be entered during the Opening Process and note as new language to this order type that this order type is not subject to the risk protection within Rule 1099, except for Automated Quotation Adjustment does not impose an undue burden on competition as the limitation of order protections within the Opening Process is noted within Rule 1099. The Exchange notes that this TIF exists today but is being renamed. Finally, the Exchange's proposal to memorialize a GTC Order within proposed Rule 1080(c)(4) will provide a description for a GTC Order that does not exist today. The TIF is noted within current Rule 1080(b)(i) without a

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<sup>123</sup> See Phlx Rule 1091.

description. This amendment will provide members with greater transparency as to the TIFs which are available on Phlx.

The Exchange's proposal to note the various routing strategies within Rule 1080(d) will also add greater transparency to the Exchange's rules. These routing strategies are already described within Rule 1093 and will add greater transparency to this rule. The Exchange is simply relocating the restrictions that are applicable today to Off-Floor Broker Dealers to new Rule 1080(e) without any substantive changes.

The Exchange's proposal at Rule 1014(e) would permit ROTs and Specialists to enter orders in their assigned and unassigned options series, but limit a ROT or Specialist to not exceed 25 percent of the total number of all contracts executed by the ROT or Specialist in their unassigned options series in any calendar quarter, does not impose an undue burden on competition, rather it provides ROTs and Specialists with the ability to enter orders subject to the same limitation that exists today on other options markets.<sup>124</sup> Today, ROTs and Specialists on Phlx may not enter orders in non-appointed option series<sup>125</sup> and further the Exchange requires, pursuant to Commentary .01 to Rule 1014 that at least 50% of the trading activity in any quarter (measured in terms of contract volume) of an ROT (other than an RSQT) shall ordinarily be in classes of options to which he is assigned. Proposed Rule 1014(e) does not impose an undue burden on competition because unlike other market participants, ROTs and Specialists continue to have obligations to quote intra-day<sup>126</sup> and in order to meet those obligations they will

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<sup>124</sup> See note 109 above.

<sup>125</sup> Phlx Rule 1014(b)(ii), SQTs and RSQTs may only trade in a market making capacity in classes of options in which the SQT is assigned.

<sup>126</sup> See Phlx Rule 1081.

need to stay focused on adding liquidity to Phlx. The Exchange believes that liquidity will not be impacted on Phlx because the Exchange is permitting ROTs and Specialists to enter more orders in appointed classes because ROTs and Specialists may enter orders in non-appointed classes provided they do not exceed 25% of the total number of contracts executed in any quarter. The proposal will allow ROTs and Specialists to continue to provide liquidity on Phlx, as is the case today, while not restricting their business activity in a manner that is no other market participants is restricted to transact.

The Exchange's proposal to remove a size limitation of 10 contracts within current Rule 1080(b)(i)(B) and (C) pursuant to which certain orders must be entered as IOC by ROTs and Specialists does not impose an undue burden on competition, rather the Exchange believes the provision unnecessarily hinders non-SQT ROTs and Specialists. ROTs and Specialists are the only market participants with such a restriction. The limitation is no longer necessary given the evolution of the market place. No other options market has similar limitations today.<sup>127</sup> The 10 contract limitation was put in place to restrict participants, whose primary role was to provide liquidity, from using orders of small size to avoid providing liquidity using quotes which were historically required to be of a size of 10 contracts or more.

The Exchange's proposal to make clear that Opening Sweeps within Rule 1080(b)(6), COOP Sweeps, COLA Sweeps and CBOOK Sweeps within Rule 1098 are in fact orders and not quotations will bring greater clarity to the Exchange's rules. The Exchange's proposal to describe these sweeps as one-sided orders entered by a Specialist or ROT through SQF instead of as one-sided quotations will make clear the type of

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<sup>127</sup> See note 32 above.

interest that these sweeps are for purposes of order entry. Phlx traditionally has referred to all interest within the SQF protocol as quote interest but this classification is not correct when distinguishing interest as either a quote or order. The Exchange believes its proposal does not impose any burden on competition because sweeps are orders today and would be uniformly considered orders for all ROTs and Specialists. All market participants may enter interest during the Opening Process. The Exchange notes that the amending these sweep descriptions will align sweeps in the proper category of interest as order interest to avoid confusion.

The Exchange's proposal to note the various routing strategies within Rule 1080, and relocate the restrictions that are applicable today to Off-Floor Broker Dealers to new Rule 1080(e) do not impose an undue burden on competition, rather these changes add greater clarity to the Exchange's Rules.

#### Outdated Systems

Removing references to obsolete functionality within Rule 1080(c)-(h) does not impose an undue burden on competition, rather it brings greater clarity to the Exchange's rules. Today, no market participant has access to the functionality which is proposed to be deleted. Removing the obsolete functionality will make clear what is offered on the Exchange. In addition, removing redundant text which is already described elsewhere in the Rulebook will bring greater clarity to the Rulebook. Removing obsolete and redundant rule text will bring greater clarity to the Exchange's rules. With respect to Commentary .01(b) of Rule 1080, the Exchange notes that it does not throttle as described in this rule text. The Exchange notes that the language contained in Commentary .01 to Rule 1080 refers to legacy functionality that existed prior to the INET

transition and does not reflect current functionality. Today, the System automatically throttles and provides equal access to the Order Book across all interfaces.

#### Rule 1000

The Exchange's proposal to memorialize the defined term "Order Entry Firm" within proposed Rule 1000(b)(38) will permit the term to be utilized throughout the Rulebook.

The Exchange's proposal to amend Rule 1000(b)(40) which is currently reserved, to define the term "Away Best Bid or Offer" or "ABBO" to mean the displayed National Best Bid or Offer not including the Exchange's Best Bid or Offer will add greater clarity to the Exchange's rules.

The Exchange's proposal to remove the term "Agency Order" from Rule 1000(b)(40) is consistent with the Act because this term is not necessary or utilized elsewhere in the Rulebook other than without Rule 1080(b). The Exchange is revising Rule 1080(b) such that this term is no longer required.

#### Rule 1098

The Exchange's proposal to cross-reference proposed Rule 1080(c) refer to the defined terms within Rule 1080(b) does not impose an undue burden on competition because as noted herein both simple and complex orders are similar for the order types defined within proposed Rule 1080(b). This amendment merely continues to conform those terms.

#### Options 8, Section 32

The Exchange's proposal to re-number/re-letter Options 8, Section 32 is non-substantive. The Exchange's proposal to amend proposed Rule 1080(b)(3) to add further

information to the All-or-None Order to align the rule with proposed Rule 1080(b)(5), except with respect to the last sentence of proposed Rule 1080(b)(5) which does not apply with respect to Floor Trading does not impose an undue burden on competition, rather the amendment adds clarity to the Rule and brings greater transparency to the distinctions between electronic and Floor Trading where those distinctions exist.

Adding a new TIF section to proposed Options 8, Section 32(c) similar to proposed Rule 1080(c) will align those rules. Memorializing a Day Order and a GTC Order will also make clear that those TIFs are available today on the Trading Floor. Those TIFs are available today and are not included within Options 8, Section 32.

Finally, the Exchange seeks to memorialize the Floor QCC Order which is described within Options 8, Section 30(e) within Options 8, Section 32 to bring greater transparency to the order types available on the Trading Floor. This amendment is non-substantive as this order type exists today. The Exchange notes that this proposal does not amend the System or the manner in which Floor Trading members may submit orders to the Trading Floor.

#### Options 8, Section 39

The Exchange proposes to amend the All-or-None Order to refer to Rule 1080(b)(5). As described herein, the remaining changes are intended to conform the rule to a prior rule change that was inadvertently amended.<sup>128</sup>

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<sup>128</sup> The Exchange notes that other revisions are being made to Options 8, Section 32(b)(3) that were made in a prior rule change. See Securities Exchange Act Release No. 85262 (March 7, 2019), 84 FR 9192 (SR-Phlx-2019-03) and were inadvertently reversed in a subsequent filing that did not capture the amended text. See Securities Exchange Act Release No. 85740 (April 29, 2019), 84 FR 19136 (SR-Phlx-2019-17). The Exchange is reinstating the changes that were made in SR-Phlx-2019-03.

### Technical Amendments

The Exchange's proposal to update the cross-references, remove reserved sections and re-number/re-letter its rules will bring greater organization to the Rulebook.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>129</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>130</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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<sup>129</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>130</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

#### IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2019-52 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-Phlx-2019-52. 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-2019-52 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>131</sup>

Jill M. Peterson  
Assistant Secretary

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<sup>131</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

*New text is underlined and deleted text is in brackets.*

**NASDAQ PHLX Rules**

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**Rule 1000. Applicability, Definitions and References**

(a) No change.

(b) **Definitions.** The following terms as used in the Rules shall, unless the context otherwise indicates, have the meanings herein specified:

\* \* \* \* \*

38. [Reserved.] Order Entry Firm or “OEF”. An Order Entry Firm or “OEF” is a member organization that submits orders, as agent or principal, on the Exchange.

\* \* \* \* \*

40. [Reserved.] Away Best Bid or Offer or ABBO. The term “Away Best Bid or Offer” or “ABBO” shall mean the displayed National Best Bid or Offer not including the Exchange’s Best Bid or Offer.

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[(49) The term “Agency Order” shall mean 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.]

\* \* \* \* \*

**Rule 1014. Obligations of Market Makers**

(a) No change.

([i]b) Each ROT electing to engage in Exchange options transactions shall be assigned by the Exchange one or more classes of options, and Exchange options transactions initiated by such ROT on the Floor for any account in which he had an interest shall to the extent prescribed by the Exchange be in such assigned classes. The obligations of an ROT with respect to those classes of options to which he is assigned shall take precedence over his other ROT activities.

([A]1) The off-floor orders for which an ROT receives specialist margin treatment shall be subject to the obligations of Rule 1014(a) and, in general, be effected for the purpose of hedging, reducing risk of, or rebalancing positions of the ROT. An ROT is responsible for evidencing compliance with these provisions. The Exchange may exempt one or more classes of options.

([ii]2) An RSQT may only submit quotations electronically from off the floor of the Exchange. An RSQT shall not submit option quotations in eligible options to which such RSQT is assigned to the extent that the RSQT is also approved as a Remote Specialist in the same options. An RSQT may only trade in a market making capacity in classes of options in which he is assigned or approved as a Remote Specialist.

([iii]3) The Exchange shall assign SQTs and RSQTs in accordance with Rule 507 and allocate one or more options to Remote Specialists in accordance with Rule 501. An SQT or RSQT may be assigned to and a Remote Specialist may be allocated (and thus submit quotes electronically in) any option for which they are approved by the Exchange.

([iv]4) An RSQT shall be required to maintain information barriers that are reasonably designed to prevent the misuse of material, non-public information with any affiliates that may conduct a brokerage business in options assigned to the RSQT or act as a specialist or market maker in any security underlying options assigned to the RSQT, and otherwise comply with the requirements of Rule 1020 regarding restrictions on the flow of privileged information between the affiliate and the specialist organization.

([v]5) An RSQT electing to engage in Exchange options transactions is designated as a specialist on the Exchange for all purposes under the Securities Exchange Act of 1934 and the rules and regulations thereunder with respect to options transactions initiated and effected by him in his capacity as an ROT.

(c) and (d) No change.

(e) [Reserved.] **Market Maker Orders.** ROTs and Specialists may enter all order types defined in Rule 1080(b) in the options classes to which they are appointed and non-appointed, except for Market Orders as provided in Rule 1080(b)(1), Stop Orders as provided in Rule 1080(b)(4), All-or-None Orders as provided in Rule 1080(b)(5), Directed Orders as provided for in Rule 1068, and public customer-to-public customer cross orders subject to Rule 1087(a) and (f). The total number of contracts executed during a quarter by a ROT or Specialist in options series to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts executed by the ROT or Specialist in options series.

••• *Commentary:* -----

[.01 The Exchange has determined for purposes of paragraph (c) of this Rule that, except for unusual circumstances, at least 50% of the trading activity in any quarter (measured in terms of contract volume) of an ROT (other than an RSQT) shall ordinarily be in classes of options to which he is assigned. Temporarily undertaking the obligations of paragraph (c) at the request of a member of the Exchange in non assigned classes of options shall not be deemed trading in non assigned option contracts.

The Exchange may, in computing the percentage specified herein, assign a weighting factor based upon relative inactivity to one or more classes or series of option contracts.]

**.0[2]1** A Specialist acting in the course of his specializing function, as agent or principal, on the Exchange is prohibited from charging a commission or fee for the execution of an order. A Specialist shall also not charge a commission or fee for the handling, execution or processing of an order delivered through the Exchange's System, whether the Specialist is acting as principal or agent for the order.

\* \* \* \* \*

**Rule 1017. Openings In Options**

(a) No change.

(b) Eligible interest during the Opening Process includes Valid Width Quotes, Opening Sweeps and orders. Quotes other than Valid Width Quotes will not be included in the Opening Process. Non-SQT Registered Options Traders ("ROTs") may submit orders. All-or-[n]None interest that can be satisfied is considered for execution and in determining the Opening Price throughout the Opening Process.

(i) Opening Sweep. An Opening Sweep is [a one-sided electronic quotation submitted for execution against eligible interest in the system during the Opening Process]defined at Rule 1080(b)(6).

\* \* \* \* \*

**Rule 1078. Reserved. [All-or-None Orders**

An All-or-None Order is a limit order or market order that is to be executed in its entirety or not at all. An All-or None Order may only be submitted by a public customer. All-or-None Orders are non-displayed and non-routable. All-or-None Orders are executed in price-time priority among all public customer orders if the size contingency can be met. The Acceptable Trade Range protection in Rule 1099(a) is not applied to All-Or-None Orders. ]

\* \* \* \* \*

**Rule 1080. Electronic Acceptance of Quotes and Orders**

(a) No change.

(b) **[Eligible Orders**

- (i) The following types of orders are eligible for entry into AUTOM:
- (A) Agency orders may be entered. The following types of agency orders are eligible for AUTOM: 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, 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, 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, the following order types are also permitted: DNR order, SRCH order, and FIND order; see Rule 1093.

(B) Orders for the proprietary account(s) of SQTs, RSQTs and 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 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 non-SQT ROTs and specialists with a size of less than 10 contracts shall be submitted as IOC only.

(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, and day limit. Respecting Phlx XL II, the following order types are also permitted: DNR order, SRCH order, and FIND order; see Rule 1093.

(C) Off-floor broker-dealer limit orders, subject to the restrictions on order entry set forth in Commentary .05 of this Rule, may be entered. 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 Rule 1093. 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 for the proprietary account(s) of such market maker.]

**Order Types.** The following order types may be submitted to the System:

**(1) Market Order.** A Market Order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange. Specialists, ROTs and Off-Floor Broker-Dealers may not submit Market Orders.

**(2) Limit Order.** A Limit Order is an order to buy or sell a stated number of options contracts at a specified price or better.

**(3) Intermarket Sweep Order.** An Intermarket Sweep Order (ISO) is a Limit Order that meets the requirements of Rule 1083. Orders submitted to the Exchange as ISO are not routable and will ignore the ABBO and trade at allowable prices on the Exchange. ISOs may be entered on the regular order book or into the Price Improvement XL Mechanism (“PIXL”) pursuant to Rule 1087(b)(11). ISO Orders may not be submitted during the Opening Process pursuant to Rule 1017.

**(4) Stop Order.** A Stop Order is a Limit Order or Market Order to buy or sell at a limit price when interest on the Exchange for a particular option contract reaches a specified price. A Stop Order shall be cancelled if it is immediately electable upon receipt. 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. Specialists and ROTs may not submit a Stop Order. Off-Floor Broker-Dealers may not enter a Stop Market Order.

**(A) 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.**

**(B) A Stop Market Order is similar to a stop-limit except it becomes a Market Order when the option contract reaches a specified price.**

**(5) All-or-None Order.** An All-or-None Order is a limit order or market order that is to be executed in its entirety or not at all. An All-or None Order may only be submitted by a Public Customer. All-or-None Orders are non-displayed and non-routable. All-or-None Orders are executed in price-time priority among all Public Customer orders if the size contingency can be met. The Acceptable Trade Range protection in Rule 1099(a) is not applied to All-Or-None Orders.

(i) **Non-Displayed Contingency Orders.** A Non-Displayed Contingency Order shall be defined to include the following non-displayed order types: (1) Stop Orders; and (2) All-or-None Orders.

(6) **Opening Sweep.** An Opening Sweep is a one-sided order entered by a Specialist or ROT through SQF for execution against eligible interest in the System during the Opening Process. This order type is not subject to any protections listed in Rule 1099, except for Automated Quotation Adjustments. The Opening Sweep will only participate in the Opening Process pursuant to Rule 1017 and will be cancelled upon the open if not executed.

(7) **Cancel-Replacement Order.** A Cancel-Replacement Order is 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 result in a loss of priority.

(8) **Qualified Contingent Cross Order or QCC Order.** A QCC Order is as that term is defined in Rule 1088.

(9) **PIXL Order.** A PIXL Order is as described in Rule 1087.

(10) **Legging Order.** A Legging Order is as the term is specified in Rule 1098(f)(iii)(C).

(11) **Directed Orders.** A Directed Order is as described in Rule 1068.

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

(1) **Day.** If not executed, an order entered with a TIF of “Day” expires at the end of the day on which it was entered. All orders by their terms are Day Orders unless otherwise specified. Day orders may be entered through FIX.

(2) **Immediate-or-Cancel.** An Immediate-or-Cancel (“IOC”) Order entered with a TIF of “IOC” is a Market Order or Limit Order to be executed in whole or in part upon receipt. Any portion not so executed is cancelled.

(A) Orders entered with a TIF of IOC are not eligible for routing.

(B) IOC orders may be entered through FIX or SQF, provided that an IOC Order entered by a ROT or Specialist through SQF is not subject to the Order Price Protection or the Market Order Spread Protection in Rule 1099(a).

(C) Orders entered into the Price Improvement XL (“PIXL”) Mechanism and Qualified Contingent Cross (“QCC”) Mechanism are considered to have a TIF of IOC. By their terms, these orders will be: (1) executed either on entry or after an exposure period, or (2) cancelled.

(3) **Opening Only.** An Opening Only (“OPG”) order is entered with a TIF of “OPG”. This order can only be executed in the Opening Process pursuant to Rule 1017. This order type is not subject to any protections listed in Rule 1099, except for Automated Quotation Adjustments. Any portion of the order that is not executed during the Opening Process is cancelled.

(4) **Good Til Cancelled.** A Good Til Cancelled (“GTC”) Order entered with a TIF of GTC, if not fully executed, will 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 until market close.

(d) Routing Strategies. Orders may be entered on the Exchange with a routing strategy of FIND, SRCH or Do-Not-Route (“DNR”) as provided in Rule 1093 through FIX only.

(e) **Off-Floor Broker-Dealer Order.** An off-floor broker-dealer order may be entered for a minimum size of one contract. Off-floor broker-dealers may enter all order types defined in Rule 1080(b) except for All-or-None Orders, Market Orders, Stop Market Orders, and public customer-to-public customer cross orders subject to Rule 1087(a) and (f).

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

(iii)]

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

[(c) Phlx XL automatically executes eligible orders using the Exchange 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, respecting situations in which the Quote Exhaust feature is engaged, the 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 the NBBO based on the best bid or offer in markets whose quotes are not subject to 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.
- (2) The term "User" means any person or firm that obtains access to AUTO-X through an Order Entry Firm.

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

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

**(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 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) Reserved.

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

(m) Reserved

(n) Reserved

•• *Commentary:* -----

.01 Reserved.

(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** 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.

**.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.

**.05** 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).]

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### **Rule 1098. Complex Orders on the System**

(a) No change.

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

(i) Public Customers and Professionals and non-market\_maker off-floor broker-dealers may enter the Complex Orders listed in paragraph (a) above as Day, Good Til Cancelled ("GTC") or Immediate or Cancel ("IOC") as those terms are defined in Rule 1080(c).

(ii) – (iv) No change.

(v) Complex Orders may be submitted as: All-or-None Orders, Cancel-  
Replacement Orders, Directed Orders, Limit Orders or Market Orders as those  
terms are defined in Rule 1080(b).

[All-or-none orders - to be executed in its entirety or not at all. These orders can only be submitted for Public Customers.

Cancel-replacement orders - require the immediate cancellation of a previously received order prior to the replacement of 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 such number.

Limit orders - to be executed at a specified price or better.

Market orders - to be executed at the best price available at the time of execution.]

(c) No change.

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

(i) No change.

(ii) No change.

(A) No change.

(B) Responses. In response to a Complex Order Opening Auction Notification, participants may bid and/or offer on either or both side(s) of the market during the COOP Timer by submitting one or more Complex Orders in increments of \$0.01 ("Complex Order Response").

Phlx electronic market makers may also bid and/or offer on either or both side(s) of the market during the COOP Timer by submitting one or more bids and/or offers known as COOP Sweeps. A COOP Sweep is a one-sided electronic [quotation]order (IOC) entered by a Specialist or ROT through SQF at a particular price submitted for execution against opening trading interest in a particular Complex Order Strategy.

(1) – (3) No change.

(C) No change.

(e) Process for Complex Order Live Auction ("COLA"). Complex Orders on the Complex Order Book ("CBOOK," as defined below) may be subject to an automated auction process.

(i) – (iii) No change.

(iv) Bidding and Offering in Response to a COLA. Participants may bid and/or offer on either or both side(s) of the market during the COLA Timer by submitting one or more Complex Orders in increments of \$0.01. Electronic market makers may also bid and/or offer on either or both side(s) of the market during the COLA Timer by submitting one or more bids or offers, known as a "COLA Sweep." A COLA Sweep is a one-sided electronic [quotation]order (IOC) entered by a Specialist or ROT through SQF submitted for execution against other trading interest in a particular Complex Order Strategy. Any COLA Sweeps which remain unexecuted at the end of the COLA Timer once all executions are complete will expire.

(A) – (D) No change.

(v) – (ix) No change.

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

(i) No change.

(ii) Phlx electronic market makers may submit one or more bids and/or offers known as Sweeps. A Sweep is a one-sided electronic [quotation]order (IOC) entered by a Specialist or ROT through SQF at a particular price submitted for execution against existing interest in a particular Complex Order Strategy, including against interest on the CBOOK ("CBOOK Sweep"). Any CBOOK Sweeps which do not execute immediately will expire.

(iii) No change.

(g) – (j) No change.

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**Nasdaq PHLX LLC Rules**

**General Equity and Options Rules**

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**Options Rules**

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**Options 8 Floor Trading**

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**Section 32. Certain Types of Floor-Based (Non-System) Orders Defined**

(a) These order types are eligible for entry by a member for execution through the Options Floor Based Management System ("FBMS").

([a]1) *Market Order*. A market order is an order to buy or sell a stated number of option contracts and is to be executed at the best price obtainable when the order reaches the post.

([b]2) *Limit Order*. A limit order is an order to buy or sell a stated number of option contracts at a specified price, or better.

([c]b) *Contingency Order*. A contingency order is a limit or market order to buy or sell that is contingent upon a condition being satisfied while the order is at the post.

(1) *Stop-Limit Order*. A stop-limit order is a contingency order to buy or sell at a limited 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.

(2) *Stop (stop-loss) Order*. A stop order is 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.

Notwithstanding the foregoing, a stop or stop-limit order shall not be elected by a trade that is reported late or out of sequence.

(3) *All or None Order*. An [a]All-or-[n]None order is a market or limit order which is to be executed in its entirety or not at all. An All-or None Order may only be submitted by a Public Customer. All-or-None Orders are non-displayed and non-routable. All-or-None Orders are executed in price-time priority among all Public Customer orders if the size contingency can be met.

(4) *Cancel-Replacement Order*. A cancel-replacement order is a contingency order consisting of two or more parts which require the immediate cancellation of a previously received order prior to the replacement of 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 such number.

(c) **Time in Force** or "TIF." The term "Time in Force" shall mean the period of time that the System will hold an order for potential execution, and shall include:

([5]1) Immediate or Cancel Order. An immediate-or-cancel ("IOC") order is a limit order that is to be executed in whole or in part upon receipt. Any portion not so executed shall be cancelled. IOC Orders are not routable and shall not be subject to any routing process described in these Rules.

(2) Day. If not executed, an order entered with a TIF of "Day" expires at the end of the day on which it was entered. All orders by their terms are Day Orders unless otherwise specified. Day orders may be entered through FIX.

(3) Good Til Cancelled. A Good Til Cancelled ("GTC") Order entered with a TIF of GTC, if not fully executed, will 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 until market close.

(d) *Not Held Order.* A not held order is an order marked "not held", "take time" or which bears any qualifying notation giving discretion as to the price or time at which such order is to be executed.

(e) Floor Qualified Contingent Cross Order or Floor OCC Order. A Floor Qualified Contingent Cross Order is comprised of an originating order to buy or sell at least 1,000 contracts, as provided in Rule 1064(e), that is identified as being part of a qualified contingent trade, as that term is defined in subsection Rule 1064(e)(3), coupled with a contra-side order or orders totaling an equal number of contracts.

([e]f) *Multi-leg Orders.* A multi-leg order is any spread type order (including a spread, straddle and combination order) for the same account or tied hedge order as defined below:

(1) - (8) No change.

([f]g) *Routing order types.* In the System, the following order types will be available and governed by Rule [1080(m)]1093: DNR (do not route), FIND and SRCH.

([g]h) For options on foreign currencies, a multi-spread transaction consisting of spread, straddle or combination orders may be executed. A multi-spread transaction combines any two spread type orders for the same account as defined in Options 8, Section 32(e), a permissible multi-spread transaction combines any of the following: a two-way transaction with another two-way transaction of the same spread type; a three-way transaction with another three-way transaction of the same spread type; or a two-way transaction with a three-way transaction of the same spread type. In addition, a multi-spread transaction includes the combination of a spread type order with a ratio spread type order. The ratio between the spread type order and the ratio spread type order comprising the multi-spread transaction may range from one-to-one to three-to-one, which will be determined by the Exchange.

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**Section 39. Option Minor Rule Violations and Order and Decorum Regulations****A. SPECIALISTS**

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**A-3 All-or-None Option Orders**

An ~~[a]All-or-[n]None~~ ~~[option o]Order~~ is described in Rule 1080(b)(5). This rule shall apply to All-or-None Orders submitted on the trading floor. An All-or-None Order has no standing respecting executions in the trading crowd except with respect to other All-or-None Orders. When represented in the trading crowd, All-or-None Orders are not included as part of the bid or offer. ~~[a limit order which is to be executed in its entirety, or not at all. Unlike a fill-or-kill order, an all-or-none order is not cancelled if it is not executed as soon as it is represented in the trading crowd. An all-or-none order has no standing respecting executions in the crowd except with respect to other all-or-none orders.]~~

When represented in the crowd, all-or-none orders are not included as part of the bid or offer.

When entered electronically pursuant to Rule 1080 or into Options Floor Based Management System pursuant to Options 8, Sections 28 and 29, an all-or-none order has standing and is eligible for execution in time priority with all other customer orders and all-or-none professional orders (as specified in Rule 1000(b)(14)) at that price if the all-or-none contingency can be met.]

**FINE SCHEDULE**

Fine not applicable

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