Required fields are shown with yellow backgrounds and asterisks.

OMB APPROVAL
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2012 - * 33
Amendment No. (req. for Amendments *)

Proposed Rule Change by NASDAQ OMX PHLX LLC.

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * ☑ Amendment * ☐ Withdrawal ☐

Section 19(b)(2) * ☐ Section 19(b)(3)(A) * ☑ Section 19(b)(3)(B) * ☐

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☑ 19b-4(f)(6)

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Exhibit 2 Sent As Paper Document ☐

Exhibit 3 Sent As Paper Document ☐

Description

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

Proposed rule change relating to the allocation of Directed Orders

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 proposed rule change.

First Name * Richard Last Name * Rudolph
Title * Associate General Counsel
E-mail * richard.rudolph@nasdaqomx.com
Telephone * (215) 496-5074 Fax

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.

Date 03/15/2012

By Richard S. Rudolph (Name *)

Associate General Counsel (Title *)

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.

Richard Rudolph,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information (required) Add Remove View	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 (required) Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications Add Remove View 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 Add Remove View 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 Add Remove View	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
Exhibit 5 - Proposed Rule Text Add Remove View	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.
Partial Amendment Add Remove View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

NASDAQ OMX PHLX LLC ("Phlx" or "Exchange"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] proposes to amend Exchange Rule 1014, Obligations and Restrictions Applicable to Specialists and Registered Options Traders, to state that, after customer limit orders resting on the limit order book at the execution price are allocated automatically, Directed Orders (as defined below) for 5 contracts or fewer are allocated first to the Directed Specialist, where applicable.

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

Brackets indicate deletions; underlining indicates new text.

Obligations and Restrictions Applicable to Specialists and Registered Options Traders

Rule 1014. (a)- (f) No change.

(g) ***

(i) – (vii) No change.

(viii) Directed Orders (as defined in Rule 1080(l)(i)(A)) that are executed electronically shall be automatically allocated as follows:

(A) First, to customer limit orders resting on the limit order book at the execution price.

(B) Thereafter, contracts remaining in the Directed Order, if any, shall be allocated automatically as follows:

(1) Directed Orders for 5 contracts or fewer shall be allocated to the Directed Specialist, provided, however, that on a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange is comprised of orders for 5 contracts or fewer (including Directed Orders) allocated to specialists (including Directed

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b-4.

Specialists), and will reduce the size of the orders included in this provision if such percentage is over 25%. In order to be entitled to receive the 5 contract or fewer order preference set forth in this sub-paragraph (B)(1), the Directed Specialist must be quoting at the Exchange's disseminated price, and shall not be entitled to receive a number of contracts that is greater than the size that is associated with its quote. If the Directed Specialist is not quoting at the Exchange's disseminated price at the time of execution, orders for 5 contracts or fewer shall be allocated to PHLX XL Participants on parity as set forth in paragraph (2) below.

(2) Respecting Directed Orders for greater than 5 contracts, the Directed Specialist (where applicable), shall be allocated a number of contracts that is the greater of:

(a) – (d) No change.

([2]3) *****

([3]4) *****

(C) – (D) No change.

Commentary: No change.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange on August 19, 2011. Exchange staff will advise the Board of Directors of any action taken pursuant to delegated authority. No other action by the Exchange is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to Richard S. Rudolph, Associate General Counsel, at (215) 496-5074.

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

a. Purpose

Currently, Exchange Rule 1014(g)(vii)(B)(1)(a) states that orders for five contracts or fewer are allocated first to the specialist, provided, however, that on a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange is comprised of orders for five contracts or fewer allocated to specialists, and will reduce the size of the orders included in this provision if such percentage is over 25%. In order to be entitled to receive the five contract or fewer order preference set forth in Rule 1014(g)(vii)(B)(1)(a), the specialist must be quoting at the Exchange's disseminated price, and shall not be entitled to receive a number of contracts that is greater than the size that is associated with its quote. If the specialist is not quoting at the Exchange's disseminated price at the time of execution, orders for five contracts or fewer are allocated to Phlx XL Participants in accordance with the allocation algorithm set forth in the remainder of Rule 1014(g)(vii).

Rule 1014(g)(vii) applies to all orders executed electronically on the Exchange. Directed Orders[3] executed electronically on the Exchange are a subset of these orders. The purpose of the proposed rule change is to revise Exchange Rule 1014(g)(viii), concerning the automatic allocation of electronically executed Directed Orders to state that, after customer limit orders on

[3] The term "Directed Order" means any order (other than a stop or stop-limit order as defined in Rule 1066) to buy or sell which has been directed to a particular specialist, Remote Streaming Quote Trader ("RSQT"), or Streaming Quote Trader ("SQT") by an Order Flow Provider. An SQT is a Registered Options Trader ("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. See Exchange Rule 1014(b)(ii)(A). An RSQT is an ROT that is a member or member organization 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. See Exchange Rule 1014(b)(ii)(B).

To qualify as a Directed Order, an order must be delivered to the Exchange electronically. See Exchange Rule 1080(l)(i)(A). The term "Order Flow Provider" ("OFP") means any member or member organization that submits, as agent, orders to the Exchange. See Exchange Rule 1080(l)(i)(B).

the limit order book at the execution price are allocated, Directed Orders for a size of five contracts or fewer are allocated to the Directed Specialist. Thus, under the proposal, Directed Orders for five contracts or fewer that are directed to the Directed Specialist will be allocated in the same manner as non-directed orders for five contracts fewer, *i.e.*, to the specialist (after allocation to customer limit orders resting on the limit order book at the execution price).

Under proposed Rule 1014(g)(viii)(B)(1), the conditions giving rise to the Directed Specialist's entitlement to receive Directed Orders with a size of five contracts or fewer (*e.g.*, the requirement to be quoting at the Exchange's disseminated price at the time of execution, and no entitlement to receive a number of contracts that is greater than the size that is associated with its quote) would be the same as those currently applicable to all specialists under Rule 1014(g)(vii)(B)(1)(a). Additionally, Directed Orders executed on the Exchange are a subset of all orders executed on the Exchange; the proposed changes to Rule 1014(g)(viii) would state that the 25% volume test currently described in Rule 1014(g)(vii)(B)(1)(a) would include Directed Orders allocated to Directed Specialists.

Under the proposal, Directed Orders for a size of five contracts are fewer that are directed to the Directed Specialist will receive the same treatment currently afforded non-directed orders for a size of five contracts or fewer.[4]

Additionally, the Exchange notes that proposed Rule 1014(g)(viii)(B)(1) would state specifically that Directed Orders for a size of five contracts or fewer that are directed to the Directed Specialist are included in the Exchange's evaluation of the percentage of total volume on the Exchange represented by orders with a size of five contracts or fewer. Proposed Rule 1014(g)(viii)(B)(1) would restate the provision currently included in Exchange Rule

[4] Non-directed orders for a size of five contracts or fewer that are executed electronically are allocated first to the specialist (provided that the specialist is quoting at the execution price). See Exchange Rule 1014(g)(vii).

1014(g)(vii)(B)(1)(a) that, on a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange is comprised of orders for 5 contracts or fewer (including Directed Orders) allocated to specialists, and will reduce the size of the orders included in this provision if such percentage is over 25%.

b. Statutory Basis.

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,[5] in general and with Section 6(b)(5) of the Act,[6] in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest; and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers, or to regulate by virtue of any authority conferred by the Act matters not related to the purposes of the Act or the administration of the Exchange.

The Exchange believes that the proposed rule change is also consistent with Section 6(b)(8) of the Act[7] in that it does not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the proposal would not increase the overall percentage of an order that is guaranteed to the specialist beyond the currently acceptable threshold.[8]

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[5] 15 U.S.C. 78f.

[6] 15 U.S.C. 78f(b)(5).

[7] 15 U.S.C. 78f(b)(8).

[8] See supra note 4.

The proposed rule change promotes just and equitable principles of trade by informing market participants that, under certain conditions, orders (including Directed Orders) with a size of five contracts or fewer will be allocated to specialists (including Directed Specialists), thus providing transparency to market participants respecting trade allocations. The Exchange also believes that it is just and equitable to allocate electronic orders for five contracts or fewer to specialists because specialists have a wider range of market making and other obligations that other Exchange market makers do not have. For example, among other things, specialists are generally required to: (i) quote continuously[9] in more series than other market makers;[10] (ii) afford precedence to all orders on the limit order book in which such specialists is assigned;[11] and (iii) keep all matched trade tickets (resulting from trades executed in open outcry in the specialist's crowd) in their possession for a period of three years, whether or not the specialist participated or acted as agent in any such trade.[12]

This also removes impediments to and perfects the mechanism of a free and open market and a national market system by providing information to market participants who may be in the process of making quoting, order routing, and risk exposure decisions regarding the execution and allocation of proprietary orders and orders they represent as agent. The proposed rule change also preserves price competition on the Exchange by requiring specialists to be quoting at

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[9] A specialist is responsible to quote two-sided markets in the lesser of 99% of the series or 100% of the series minus one call-put pair in each option in which such specialist is assigned. To satisfy this requirement, with respect to quoting a series, the specialist must quote such series 90% of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as the Exchange may announce in advance. See Exchange Rule 1014(b)(ii)(D)(2).

[10] An SQT and an RSQT is generally responsible to quote two-sided markets in not less than 60% of the series in which such SQT or RSQT is assigned. See Exchange Rule 1014(b)(ii)(D)(1).

[11] A specialist must give precedence to orders entrusted to him as an agent in any option in which he is registered before executing at the same price any purchase or sale in the same option for an account in which he has an interest. See Exchange Rule 1019.

[12] See Exchange Options Floor Procedure Advice ("OFPA") F-2(d).

the NBBO in order to be entitled to receive any contracts pursuant to the trade allocation algorithm set forth in proposed Rule 1014(g)(viii)(B).

The proposed rule change protects investors and the public interest because it provides other market participants a reasonable opportunity to interact with Directed Orders through competitive bids and offers submitted on PHLX XL.

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.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

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

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

Pursuant to Section 19(b)(3)(A) of the Act[13] and Rule 19b-4(f)(6)[14] thereunder, the Exchange has designated this proposal as one that 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

[13] 15 U.S.C. 78s(b)(3)(A).

[14] 17 CFR 240.19b-4(f)(6).

protection of investors and the public interest. The Exchange believes that the proposed rule change is "non-controversial" and therefore appropriate for filing pursuant to Rule 19b-4(f)(6).[15]

The proposed rule change provides other market participants a reasonable opportunity to interact with Directed Orders, and the proposal does not impinge upon the incentive for market participants to post competitive quotes, because a specialist will only receive the allocation of orders for five contracts or fewer is if they are quoting at the NBBO at the time of execution. All market participants can interact with such orders if they submit a competitive bid or offer at a better price than the specialist, and such a market participant (if quoting at the NBBO) would interact with the order whereas the specialist in this circumstance would not. The Exchange believes therefore that there is substantial incentive for market makers to post competitive quotes; rather than impinging upon the incentive for market participants to post such competitive quotes, the proposal encourages and rewards them for doing so.

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.

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

Not applicable.

9. Exhibits

1. Notice of proposed rule for publication in the Federal Register.

[15] The Commission has indicated that a proposal to allow broker-dealers to execute preferenced orders on an exchange may be eligible for immediate effectiveness if the rule change provides other market participants a reasonable opportunity to interact with preferenced orders and the proposal does not impinge upon the incentive for market participants to post competitive quotes. See Securities Exchange Act Release No. 58092, 73 FR 40144 (July 11, 2008) (Commission Guidance and Amendment to the Rules Relating to Organization and Program Management Concerning Proposed Rule Changes Filed by Self-Regulatory Organizations).

Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-Phlx-2012-33)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by NASDAQ OMX PHLX LLC Relating to the Allocation of Directed Orders

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1], and Rule 19b-4[2] thereunder, notice is hereby given that on March 15, 2012, NASDAQ OMX PHLX LLC ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend Exchange Rule 1014, Obligations and Restrictions Applicable to Specialists and Registered Options Traders, to state that, after customer limit orders resting on the limit order book at the execution price are allocated automatically, Directed Orders (as defined below) for 5 contracts or fewer are allocated first to the Directed Specialist, where applicable.

The text of the proposed rule change is available on the Exchange's Website at http://www.nasdaqtrader.com/micro.aspx?id=PHLXRulefilings, at the principal office of the Exchange, and at the Commission's Public Reference Room.

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b-4.

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

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

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

1. Purpose

Currently, Exchange Rule 1014(g)(vii)(B)(1)(a) states that orders for five contracts or fewer are allocated first to the specialist, provided, however, that on a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange is comprised of orders for five contracts or fewer allocated to specialists, and will reduce the size of the orders included in this provision if such percentage is over 25%. In order to be entitled to receive the five contract or fewer order preference set forth in Rule 1014(g)(vii)(B)(1)(a), the specialist must be quoting at the Exchange's disseminated price, and shall not be entitled to receive a number of contracts that is greater than the size that is associated with its quote. If the specialist is not quoting at the Exchange's disseminated price at the time of execution, orders for five contracts or fewer are allocated to Phlx XL Participants in accordance with the allocation algorithm set forth in the remainder of Rule 1014(g)(vii).

Rule 1014(g)(vii) applies to all orders executed electronically on the Exchange. Directed Orders[3] executed electronically on the Exchange are a subset of these orders. The purpose of the proposed rule change is to revise Exchange Rule 1014(g)(viii), concerning the automatic allocation of electronically executed Directed Orders to state that, after customer limit orders on the limit order book at the execution price are allocated, Directed Orders for a size of five contracts or fewer are allocated to the Directed Specialist. Thus, under the proposal, Directed Orders for five contracts or fewer that are directed to the Directed Specialist will be allocated in the same manner as non-directed orders for five contracts fewer, *i.e.*, to the specialist (after allocation to customer limit orders resting on the limit order book at the execution price).

Under proposed Rule 1014(g)(viii)(B)(1), the conditions giving rise to the Directed Specialist's entitlement to receive Directed Orders with a size of five contracts or fewer (*e.g.*, the requirement to be quoting at the Exchange's disseminated price at the time of execution, and no entitlement to receive a number of contracts that is greater than the size that is associated with its quote) would be the same as those currently applicable to all specialists under Rule 1014(g)(vii)(B)(1)(a). Additionally, Directed Orders executed on the Exchange are a subset of all orders executed on the Exchange; the

[3] The term "Directed Order" means any order (other than a stop or stop-limit order as defined in Rule 1066) to buy or sell which has been directed to a particular specialist, Remote Streaming Quote Trader ("RSQT"), or Streaming Quote Trader ("SQT") by an Order Flow Provider. An SQT is a Registered Options Trader ("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. See Exchange Rule 1014(b)(ii)(A). An RSQT is an ROT that is a member or member organization 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. See Exchange Rule 1014(b)(ii)(B).

To qualify as a Directed Order, an order must be delivered to the Exchange electronically. See Exchange Rule 1080(l)(i)(A). The term "Order Flow Provider" ("OFP") means any member or member organization that submits, as agent, orders to the Exchange. See Exchange Rule 1080(l)(i)(B).

proposed changes to Rule 1014(g)(viii) would state that the 25% volume test currently described in Rule 1014(g)(vii)(B)(1)(a) would include Directed Orders allocated to Directed Specialists.

Under the proposal, Directed Orders for a size of five contracts are fewer that are directed to the Directed Specialist will receive the same treatment currently afforded non-directed orders for a size of five contracts or fewer.[4]

Additionally, the Exchange notes that proposed Rule 1014(g)(viii)(B)(1) would state specifically that Directed Orders for a size of five contracts or fewer that are directed to the Directed Specialist are included in the Exchange's evaluation of the percentage of total volume on the Exchange represented by orders with a size of five contracts or fewer. Proposed Rule 1014(g)(viii)(B)(1) would restate the provision currently included in Exchange Rule 1014(g)(vii)(B)(1)(a) that, on a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange is comprised of orders for 5 contracts or fewer (including Directed Orders) allocated to specialists, and will reduce the size of the orders included in this provision if such percentage is over 25%.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,[5] in general and with Section 6(b)(5) of the Act,[6] in that it is designed to promote just and equitable principles of trade, to foster cooperation

[4] Non-directed orders for a size of five contracts or fewer that are executed electronically are allocated first to the specialist (provided that the specialist is quoting at the execution price). See Exchange Rule 1014(g)(vii).

[5] 15 U.S.C. 78f.

[6] 15 U.S.C. 78f(b)(5).

and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest; and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers, or to regulate by virtue of any authority conferred by the Act matters not related to the purposes of the Act or the administration of the Exchange.

The Exchange believes that the proposed rule change is also consistent with Section 6(b)(8) of the Act[7] in that it does not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the proposal would not increase the overall percentage of an order that is guaranteed to the specialist beyond the currently acceptable threshold.[8]

The proposed rule change promotes just and equitable principles of trade by informing market participants that, under certain conditions, orders (including Directed Orders) with a size of five contracts or fewer will be allocated to specialists (including Directed Specialists), thus providing transparency to market participants respecting trade allocations. The Exchange also believes that it is just and equitable to allocate electronic orders for five contracts or fewer to specialists because specialists have a wider range of market making and other obligations that other Exchange market makers do not have. For example, among other things, specialists are generally required to: (i) quote

[7] 15 U.S.C. 78f(b)(8).

[8] See supra note 4.

continuously[9] in more series than other market makers;[10] (ii) afford precedence to all orders on the limit order book in which such specialists is assigned;[11] and (iii) keep all matched trade tickets (resulting from trades executed in open outcry in the specialist's crowd) in their possession for a period of three years, whether or not the specialist participated or acted as agent in any such trade.[12]

This also removes impediments to and perfects the mechanism of a free and open market and a national market system by providing information to market participants who may be in the process of making quoting, order routing, and risk exposure decisions regarding the execution and allocation of proprietary orders and orders they represent as agent. The proposed rule change also preserves price competition on the Exchange by requiring specialists to be quoting at the NBBO in order to be entitled to receive any contracts pursuant to the trade allocation algorithm set forth in proposed Rule 1014(g)(viii)(B).

The proposed rule change protects investors and the public interest because it provides other market participants a reasonable opportunity to interact with Directed Orders through competitive bids and offers submitted on PHLX XL.

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[9] A specialist is responsible to quote two-sided markets in the lesser of 99% of the series or 100% of the series minus one call-put pair in each option in which such specialist is assigned. To satisfy this requirement, with respect to quoting a series, the specialist must quote such series 90% of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as the Exchange may announce in advance. See Exchange Rule 1014(b)(ii)(D)(2).

[10] An SQT and an RSQT is generally responsible to quote two-sided markets in not less than 60% of the series in which such SQT or RSQT is assigned. See Exchange Rule 1014(b)(ii)(D)(1).

[11] A specialist must give precedence to orders entrusted to him as an agent in any option in which he is registered before executing at the same price any purchase or sale in the same option for an account in which he has an interest. See Exchange Rule 1019.

[12] See Exchange Options Floor Procedure Advice ("OFPA") F-2(d).

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.

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 after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act[13] and Rule 19b-4(f)(6)[14] thereunder.

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.

[13] 15 U.S.C. 78s(b)(3)(A).

[14] 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2012-33 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2012-33. 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-2012-33 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.[15]

Kevin M. O'Neill
Deputy Secretary

[15] 17 CFR 200.30-3(a)(12).