OMB APPROVAL
OMB Number: 3235-0045 Estimated average burden hours per response............38

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

File No.* SR - 2013 - * 09
Amendment No. (req. for Amendments *)

Filing 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) *
☑	☐	☐	☑	☐	☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

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)

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

Section 806(e)(1) ☐ Section 806(e)(2) ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) ☐

Exhibit 2 Sent As Paper Document ☐ Exhibit 3 Sent As Paper Document ☐

Description

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

A Proposed Rule Change to enhance the functionality offered on its Options Floor Broker Management System (“FBMS”).

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 * Edith Last Name * Hallahan
Title * Principal Associate General Counsel
E-mail * edith.hallahan@nasdaqomx.com
Telephone * (215) 496-5179 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.

Date 01/25/2013
By Edward S. Knight
(Name *)

(Title *)
Executive Vice President and General Counsel

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.

Edward S Knight,

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information * 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 * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies 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, 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 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

(a) Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] NASDAQ OMX PHLX LLC ("Phlx" or "Exchange") proposes to enhance the functionality offered on its Options Floor Broker Management System ("FBMS") in a number of ways, described in detail below. As a result of these enhancements, Floor Brokers will no longer execute most trades on the Exchange's options trading floor, resulting in changes to a number of rules, also described below.

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The Board of Directors of the Exchange approved the submission of this proposed rule change on October 5, 2012. 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 Edith Hallahan, Principal Associate General Counsel, The NASDAQ OMX Group, Inc., at 215-496-5179.

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

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

2 17 CFR 240.19b-4.

a. Purpose

The purpose of the proposal is to enhance the Exchange's options regulatory program by expanding the tools available to Floor Brokers in order to reduce the potential for violations of various Exchange rules by Floor Brokers. Specifically, under the proposal, most Floor Broker transactions will be executed through FBMS rather than verbally by Floor Brokers in the trading crowd, which should result in fewer priority rule and trade-through rule violations, because FBMS will check the Exchange's market and/or the National Best Bid/Offer ("NBBO") to help prevent violations, as described further below.

Today, Floor Brokers use FBMS for a number of reasons. Historically, Floor Brokers were not connected to the order entry portals like order flow providers are, because their business was focused on receiving orders at the Floor Broker booths on the trading floor and executing such orders in person, manually. As options trading has become more electronic, this has continued to change over time, such that the Exchange began to provide technology to Floor Brokers, as did other options exchanges.[3] The main driving force behind the creation of FBMS was the Consolidated Options Audit Trail System ("COATS"), mandated in 2000.[4] The COATS requirements created the need for

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3 See e.g., Securities Exchange Act Release Nos. 41524 (June 14, 1999)(SR-Phlx-99-11); 50070 (July 23, 2004)(SR-Phlx-2004-46); 50996 (January 7, 2005)(SR-CBOE-2004-77); and 64057 (March 8, 2011)(SR-CBOE-2011-019) at note 4.

4 See subparagraph IV.B.e(v) of the Order Instituting Public Administrative Proceedings Pursuant to Section 19(h)(1) of the Securities Exchange Act of 1934, Making Findings and Imposing Remedial Sanctions. See Securities Exchange Act Release No. 43268 (September 11, 2000) (Requiring options exchanges to design and implement COATS to "incorporate into the audit trail all non-electronic orders such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on such respondent

tools to assist Floor Brokers[5] in complying with the requirement to capture certain options order information, including the time of order receipt and execution, contemporaneously with receipt and execution.

In addition, today, Floor Brokers can use FBMS to submit orders, including Complex Orders, to Phlx XL, the Exchange's trading system rather than executing the order in the trading crowd. Those orders are processed just like any other electronic order on the Exchange, subject to the rules governing Phlx XL, such as Rule 1080. Floor Brokers may do so for a variety of reasons, including that the order is far away from the market such that the Floor Broker would prefer to place it on the electronic book or that there is a contra-side order on the book with which the order can trade.

At this time, the Exchange proposes to expand upon FBMS functionality with several enhancements.

Complex Calculator

The Exchange proposes to provide Floor Brokers with a feature called a complex calculator. Floor Brokers entering multi-leg option orders up to 15 legs on a net debit or net credit basis via FBMS would receive suggested prices for each component of the multi-leg order that would achieve the desired net debit or net credit price. Such prices would then be displayed on FBMS. The Floor Broker would not be required to submit the multi-leg order at the suggested prices; the new FBMS functionality is intended to function as a tool to assist Floor Brokers in calculating the component prices and expedite

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exchange, beginning with the receipt of an order by such respondent exchange and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order..." ("Phase V")).

5 COATS is not just applicable to Floor Brokers but was particularly challenging for them because of the number of orders they executed manually.

the process of handling multi-leg orders in the trading crowd.[6] Accordingly, the Floor Broker can override the prices and attempt to achieve the net price using different prices. The net debit/credit price can also be expressed as an overall cash value. For example, a multi-leg order to purchase 100 of option A and sell 100 of option B could be entered with a net debit price of $5,000. If the option legs were trading $0.90-$1.10 and $0.45 - $0.55, respectively, the complex calculator could generate suggested prices of $1.00 and $0.50 [(($1.00-$0.50)*100 times)*100 options premium multiplier = $5,000], which would satisfy the $5,000 net debit.

When a Floor Broker enters a trading crowd with a multi-leg order, often he or she will simply request a market for that order and announce a net debit or credit price, rather than separate prices for each component. For example, a Floor Broker representing a two-legged spread order to buy 10 XYZ Mar 50 calls and sell 10 XYZ Jun 60 calls may announce the price as a net debit of, for example, $1.00. This means that the purchase price for 10 XYZ Mar 50 calls is $1.00 greater than the selling price of 10 XYZ Jun 60 calls.[7] Conversely, a net credit price of $1.00 would indicate that the purchase price of 10 XYZ Mar 50 calls is $1.00 less than the selling price of 10 XYZ Jun 60 calls.[8]

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[6] The complex calculator functionality will not execute orders.

[7] The Floor Broker might pay, for example, $5.00 to purchase 10 XYZ Mar 50 calls, and would receive $4.00 for the sale of 10 XYZ Jun 60 calls. This leaves the Floor Broker with a net debit of $1.00.

[8] In this example, the Floor Broker might pay $4.00 to purchase 10 XYZ Mar 50 calls, and would receive $5.00 for the sale of 10 XYZ Jun 60calls. This leaves the Floor Broker with a net credit of $1.00.

Currently, when a Floor Broker receives a single order that has multiple components with instructions to execute such order on a net debit or credit basis, the Floor Broker must first consider prices on various different markets, all as close to contemporaneously as possible. He must calculate the bid and ask of the total net debit and credit. If the Floor Broker is able to achieve the specified net debit or credit based upon the then-current market conditions, the Floor Broker will enter the trading crowd (after entering all of the required electronic audit trail information onto the FBMS in accordance with Exchange rules[9]) and request a market. The members of the trading crowd would then make their own calculations and respond with a net debit or credit price.[10] Next, the Floor Broker must ascertain the current market price of each component of the order to determine whether or not the order can be executed at the specified net debit or credit price. Taking all of this into account, he must then execute the trade verbally in open outcry at the net debit or credit price. Following the verbal execution, he must consider whether the markets for the legs of the order are still the same as they were when he traded the order in open outcry. Often, those markets have changed in the small amount of time, perhaps one second, it took to announce and execute the trade in open outcry. If so, when the Floor Broker submits the trade for trade reporting, the trade report is marked as late or out of sequence to indicate that the trade

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9 See Rules 1063(e) and (f).

10 The trading crowd will continue to have a reasonable time period to respond, but, over time, that time period has become shorter, as trading becomes more electronic, and the Exchange expects that to be the case following these changes as well. The Exchange will continue to provide guidance to trading crowds regarding what is a reasonable time period to respond, depending on a number of factors, including market conditions and the type of order.

report is at a price outside of the current market, even though the trade occurred within the market at the time.

This process can be time-consuming, especially when the order consists of a large number of components. It sometimes results in missed opportunities to trade at the market prices that would support the specified net debit or credit. Overall, the Floor Broker has significant manual order handling and post-trade responsibilities today.

The new functionality proposed herein is intended to expedite this process by providing a calculation tool in the FBMS. The tool is intended to significantly reduce and potentially eliminate out of sequence or late trade reporting that often results due to the current protracted open outcry trade execution process. Specifically, once the Floor Broker has submitted the required electronic audit trail information into FBMS, FBMS will enable the Floor Broker to "query" the prices of each component of such an order such that the specified net debit or credit can be achieved. The System will then calculate the prices of each component and display those suggested prices. Initially, multi-leg orders with up to 15 legs will be accepted.[11] The new feature will be in Rule 1063(e)(ii).[12]

In this way, the Floor Broker can quickly: (i) expose the order to the trading crowd; (ii) ascertain whether the order can be executed at the specified net debit or credit, and (iii) if so, submit the prospective prices of the components of the order that will achieve the specified net debit or credit to FBMS for execution. The Exchange believes

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11 Today, without a complex calculator feature, FBMS accepts up to 20 legs. The Exchange believes that 15 legs should be sufficient for Floor Brokers' current business needs.

12 The Exchange is proposing to delete the existing language of Rule 1063(e)(ii),which is obsolete.

that the new calculation functionality will substantially increase the speed with which Floor Brokers can ascertain the marketability of multi-leg orders at a specified net debit or credit price, and should result in more efficient executions in the trading crowd.

Today, Floor Brokers can enter Complex Orders[13] consisting of two option legs into FBMS for execution using the Complex Order functionality of Phlx XL, pursuant to Rule 1080.08(b)(iii). The Exchange is proposing to permit orders up to six legs (one of which may be stock) to be entered through FBMS.[14] One-sided (not crosses) Complex Orders are then subject to the Exchange' Complex Order processing, including an auction, placement on the Complex Order Book and/or execution by the System. The new complex calculator functionality assists Floor Brokers with pricing multi-leg orders for representation in the trading crowd as one-sided orders as well as with pricing multi-leg orders for submission for execution as a two-sided order, as discussed further below.

Execution of Two-Sided Orders

Phlx proposes to provide enhanced order handling functionality to its Floor Brokers as part of its various enhancements to FBMS. Orders represented in the trading crowd by a Floor Broker must now, under this proposal, be submitted to FBMS for execution. Specifically, Floor Brokers will submit orders represented in the trading

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13 As distinguished from multi-leg orders under Rule 1066, Complex Orders are the specific types of orders accepted into Phlx XL's Complex Order process. See Phlx Rule 1080.08.

14 The Exchange is also proposing to permit Do Not Auction ("DNA") orders to be entered into FBMS as one of the new enhancements to FBMS. DNA orders are Complex Orders that are prevented from triggering a Complex Order Live Auction or joining one that is in progress. See Phlx Rule 1080.08(a)(viii) and (e).

crowd as two-sided orders (or crosses).[15] This is described in proposed Rule 1063(e)(iii) and Advice C-2 (and cross-referenced in Rule 1080.06) as follows: FBMS is designed to execute two-sided orders entered by Floor Brokers for execution, including multi-leg orders, after representation in the trading crowd.[16] When a Floor Broker submits a two-sided order for execution by FBMS, the order will be executed based on existing markets and Exchange rules. If the order cannot be executed due to, for example, change in the market, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Floor Broker on the FBMS. The Floor Broker may resubmit the two-sided order for execution, as long as the quotes/orders that comprise the order have not been withdrawn.[17] Floor Brokers are responsible for handling all orders in accordance with Exchange priority and trade-through rules, including Rules 1014, 1033 and 1084.

The new FBMS functionality will thereby perform automatically the functions previously handled manually by Floor Brokers, such as checking the Phlx book.[18] Accordingly, FBMS will now assist Floor Brokers with this function by "clearing the

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15 The reason they are two-sided orders is either that the order came in to the Floor Broker with both sides and was handled pursuant to Rule 1064 or that the Floor Broker represented the order to the trading crowd, thereby finding the second side.

16 This proposal does not permit executions in a Floor Broker booth or elsewhere, nor does it affect how Qualified Contingent Cross orders are handled.

17 See discussion surrounding proposed Rule 1000(g) below.

18 Checking the Phlx book refers to making sure that an order is not executed outside of Phlx's priority provisions which generally give priority to the best price, and then customers at a given price.

book." For example, if a Floor Broker enters a two-sided order through the new FBMS and there is an order on the book at a price that prevents the Floor Broker's order from executing, FBMS will indicate to the Floor Broker how many contracts need to be satisfied before the Floor Broker's order can execute at the agreed-upon price. If the Floor Broker agrees to satisfy that order, consistent with the order placed in his care, he can cause FBMS to send a portion of one of his orders to Phlx XL to trade against the order on the book, thereby clearing it and permitting the remainder of the Floor Broker's order to trade. This functionality is optional in the sense that the Floor Broker can decide not to trade against the book, consistent with order instructions he has been given,[19] and therefore not execute his two-sided order at that particular price. Today, the Floor Broker employs the same process, albeit in two separate steps, to clear the book, including considering whether one side of his two-sided order can, in effect, give up a certain number of contracts in order for the rest of the order to trade at that price.[20] FBMS will not similarly assist the Floor Broker with checking and clearing away markets if the NBBO is better at another market, but FBMS will prevent the order from executing through the NBBO, consistent with Exchange rules, as described below.

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19 For example, the Floor Broker may have been instructed to trade a certain minimum amount.

20 Of course, the Floor Broker must exercise due diligence in the execution of the order pursuant to Rule 155. Presumably, Floor Brokers' clients send them orders (rather than entering them electronically into Phlx XL), because they desire the order handling that a Floor Broker provides; if the client wanted a portion of their order to trade against the book, they could submit their order to do so. Nothing requires the book to be cleared if the client or Floor Broker determines not to pursue the execution of their order at that time.

FBMS will not execute an order that violates the priority of orders on the book[21] or trades through the NBBO for an option.[22] Thus, sometimes, when a Floor Broker submits an order for execution, the order will not be executed. One reason could be that the price of the trade would result in a trade through of the NBBO for that option, which is prohibited by Rule 1084(a). There is an exception from the trade through prohibition for "Complex Trades."[23] If an order meets the requirements of a Complex Trade, FBMS will execute such order.

Another reason why an order might not be executable by FBMS is if the Exchange's priority rules would not permit an execution at a certain price, because, for example, there is an order on the book at that price and certain priority rules apply.[24] FBMS, before executing an order, will validate that a multi-leg order meets the definition of Complex Order in Rule 1080.08[25] and will apply a new spread priority provision, which is the same in Rule 1080.08(c)(iii) applicable to the Exchange's complex order functionality in Phlx XL. The new provision will be in Rule 1033(i)[26] and state that, in FBMS, an order can be executed at a total net credit or debit with priority over either the bid or the offer established in the marketplace that is not better than the bids or offers

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21 See Rules 1014 and 1033.

22 See Rule 1084(a).

23 Rule 1084(b)(viii).

24 Like executions of all electronic orders on Phlx XL, all-or-none orders do not have standing and are not taken into consideration. See Advice A-9.

25 Complex Orders must have a conforming ratio.

26 The current language of Rule 1033(i) is being deleted, as explained below.

comprising such total credit or debit, provided that (i) at least one option leg is executed at a better price than established bid or offer for that option contract, and (ii) no option leg is executed at a price outside of the established bid or offer for that option contract. For example, a multi-leg order to purchase option A and sell option B for a net debit of $0.50 would not be permitted to trade if option A was quoted as $1.00 – $1.05 and option B was quoted as $0.50 - $0.55 because there are no prices which satisfy the net debit. However, if option A was quoted as $0.95 bid instead of $1.00 as stipulated above, FBMS would allow a $0.50 debit in this strategy to trade with option prices of $1.00 and $0.50.

If a multi-leg order does not comply with the definition of Complex Order because it has more than six legs, its execution in FBMS will nevertheless be subject to new Rule 1033(i) if it is an order with a conforming ratio. Today, for executions on the trading floor, Rule 1033(d), (e), (g) and (h) effectively require one leg of a spread to be improved for every two legs of a multi-leg order. Under this proposal, a different priority provision will apply to multi-leg orders executed through FBMS with more than six legs than does today on the trading floor. Rather than requiring one leg out of every two legs in a multi-leg order to be improved, only one total leg needs to be improved. This is the same as for Complex Orders traded on Phlx XL pursuant to Rule 1080.08(c)(iii). For example, assuming all of these options do not trade in penny increments, and assume that the market for option A is $1.00 - $1.05, option B is $0.50 - $0.55, option C is $0.60 - $0.80 and option D is $0.20 - $0.25. Based on these markets, the combined market for an order to buy option A, sell option B, buy option C, and sell option D is $0.80 - $1.15. An order to buy option A, sell option B, buy option C, and sell option D could trade at $1.10

with option A trading at $1.05, option B trading at $0.50, option C trading at $0.75 (this is the leg improving the market), and option D trading at $0.20. The Exchange believes that extending the spread priority provision that exists for Complex Orders to orders with more than six legs executed through FBMS is consistent with the Act, as described further below. The Exchange notes that other options exchanges, such as the ISE, have similar complex order priority provisions for Complex Orders that do not limit the number of legs and require only one leg to be improved.

In addition, an order may be subject to special priority treatment pursuant to Rule 1014.05. If an order is for 500 contracts or more or if one leg of a multi-leg order is for 500 contracts or more, then such order or individual leg of a multi-leg order has priority over bids/offers other than customers on the book and crowd participants (including other Floor Brokers representing orders in the trading crowd). FBMS will prevent an execution if there is a customer order at that price; the Floor Broker must ensure that there is no bid/offer in the trading crowd. In the aforementioned example where the order is to buy option A and sell option B for a net debit of $0.50 and the market for option A is $1.00 - $1.05 and option B is $0.50-$0.55, if each leg of the spread is for 500 contracts or more, then pursuant to Rule 1014.05, each leg has priority over existing bids/offers at that price, except customer interest and crowd participants. Thus, if each leg was for 500 contracts, option A and option B would be permitted to trade at a net debit of $0.50 with execution prices of $1.00 and $0.50, respectively. The execution would not be allowed to occur if there was customer interest at either $1.00 in option A or $.50 in option B.

Similarly, whether or not an order complies with the definition of a Complex Order, FBMS will execute orders at split prices like can be done on the trading floor today, consistent with Rule 1014(g)(i)(B). Rule 1014(g)(i)(B) provides that if a member purchases (sells) 50 or more option contracts of a particular series at a particular price or prices, he shall, at the next lower (higher) price have priority in purchasing (selling) up to the equivalent number of option contracts of the same series that he purchased (sold) at the higher (lower) price or prices, but only if his bid (offer) is made promptly and the purchase (sale) so effected represents the opposite side of a transaction with the same order or offer (bid) as the earlier purchase or purchases (sale or sales). When the market has a bid/ask differential of one minimum trading increment and the bid and/or offer represent the quotation of an out-of-crowd SQT or an RSQT, such member shall have priority over such SQT and/or RSQT with respect to both the bid and the offer. For example, a Floor Broker may purchase 100 options for $5.25 when the quoted market is $5.20 - $5.30 by executing 50 contracts at $5.30 and 50 contracts at $5.20.

Exchange rules also govern the execution prices for multi-leg orders where one leg is the underlying security (stock). Rule 1033(e) provides that a synthetic option order may be executed at a total net credit or debit, provided that, the member executes the option leg at a better price than the established bid or offer for that option contract, in accordance with Rule 1014. If there is more than one option leg and stock, Rule 1033(d) applies. Synthetic option orders in open outcry, in which the option component is for a size of 100 contracts or more, have priority over bids (offers) of crowd participants who are bidding (offering) only for the option component of the synthetic option order, but not over bids (offers) of public customers on the limit order book, and not over crowd participants that are willing to participate in the synthetic option order at the net debit or credit price. FBMS will validate that an order complies with these requirements.[27]

As discussed above, today, when a Floor Broker executes an order in the trading crowd verbally, that order is deemed executed; when the Floor Broker is entering the execution price into FBMS to complete the processing of the trade, including trade reporting to the tape, markets can change. Because the trade has already occurred, the fact that the Exchange's best bid/offer changes before the trade is reported does not matter, as long as the trade was at a valid price when the trade occurred. However, the trade may *appear* to have violated priority or trade through rules to someone looking at a time-sequenced audit trail. The Exchange's surveillance programs endeavor to ascertain whether such a violation occurred. From the Floor Broker's perspective, the time stamp on the order ticket is intended to capture the time of order execution and is the relevant time to determine whether a violation occurred, rather than the time of trade reporting. Determining whether or not a violation occurred and whether a disciplinary process should ensue is currently a manually-driven event; this proposal seeks to introduce better time sequencing and certainty about when a trade occurred, and, to the extent possible, cause executions through FBMS to comply with the applicable exchange rules.

In short, the proposed execution functionality of FBMS should help ensure the certainty about when a trade occurred and what the market was at the time, consistent with Exchange rules.

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27 The stock portion of such orders is handled by the Floor Broker, not on the Exchange (off Exchange). The Floor Broker must validate, after representing the order in the trading crowd, whether there are crowd participants bidding/offering.

No Floor-Based Executions

One of the most significant changes proposed herein is that most orders handled by Floor Brokers (limited exceptions apply) will now be executed through FBMS and not verbally by Floor Brokers in the trading crowd. Accordingly, the Exchange is proposing to amend a variety of rules applicable to Floor Brokers to make clear that Floor Brokers handle orders, rather than execute them. These include Rule 155, Rule 1033(d), (e), (f), (h) and (i), Rule 1060, Rule 1063(c) and .02, and Advices C-1 and C-3.

In addition, the Exchange proposes to adopt Rule 1000(f) to expressly state that all Exchange options transactions shall be executed in one of the following ways, once the Exchange's new FBMS functionality has been operating for a certain period to be established by the Exchange: (i) automatically by the Exchange Trading System, Phlx XL, pursuant to Rule 1080 and other applicable options rules; (ii) by and among members in the Exchange's options trading crowd neither of whom is a Floor Broker; or (iii) through the FBMS for trades involving at least one Floor Broker. The rule will further state that although Floor Brokers represent orders in the trading crowd, Floor Brokers are not permitted to execute orders in the Exchange's options trading crowd, except when the Exchange determines to permit manual executions in the event of a problem with Exchange systems, except with respect to accommodation transactions pursuant to Rule 1059 and FLEX trades pursuant to Rules 1079 or 1079A, and except where there are more than 15 legs of an order. Accordingly, certain executions will still occur manually in the trading crowd and not through FBMS. Specifically, FLEX orders will continue to be executable by Floor Brokers in the trading crowd pursuant to Rule 1079 and 1079A, rather than through FBMS. This is because FBMS will not be able to accept FLEX orders, which have varied and complicated terms. Similarly, accommodation transactions (also known as cabinet trades) will continue to be executable by Floor Brokers in the trading crowd pursuant to Rule 1059. Neither FLEX nor accommodation transactions are executed through Exchange systems today. Floor Brokers will also be permitted to execute orders in the trading crowd if they are handling an order with more than 15 legs, because the Exchange determined to limit the complexity of FBMS functionality and does not believe that many orders fall into this category or that Floor Brokers will be adversely affected.

Trades not involving a Floor Broker will still be executable verbally in the trading crowd.[28] For example, a specialist trading with a Registered Options Trader (" ROT") will continue to be able to do so; specialists and ROTs do not have FBMS, because it is a tool for Floor Brokers. The Exchange does not expect that the number of trades occurring manually will be significant.

The Exchange proposes to amend the following rules to make clear that certain orders must be executed through the FBMS: Rule 1064(a), (b), (c) and 1064.04(h).[29] Specifically, such orders are not deemed executed upon agreement and verbalization in the trading crowd, but rather once entered and processed as two-sided orders through FBMS. The language will provide: all such orders are not deemed executed until entered into and executed by FBMS; bids and offers can be withdrawn pursuant to Rule 1000(g).

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28 The restriction from manual trading in Rule 1000(f) is limited to trades involving at least one Floor Broker. See proposed Rule 1000(f)(ii).

29 Rather than making changes to Advice B-11, which generally tracks the language of Rule 1064, the Exchange proposes to delete it. Some Advices have fine schedules adopted pursuant to the Exchange's minor rule enforcement and reporting plan, such that they are necessary, but this one does not.

As explained above, it will be possible that FBMS will not execute an order because market conditions have changed, preventing the execution from occurring, in which case FBMS "returns" the order to the Floor Broker,[30] who can then determine to resubmit it. The Exchange also proposes to amend Rule 1014(g)(vi) and Advice F-2, which pertain to how trades are allocated, matched and time stamped. In order to facilitate timely tape reporting of trades, it is the duty of certain persons identified in these provisions to allocate, match and time stamp trades executed in open outcry and to submit the matched trade tickets to an Exchange Data Entry Technician ("DET") located on the trading floor immediately upon execution. Trades executed electronically via the XL System are automatically trade reported without further action required by executing parties; these provisions will now also state that trades executed electronically through FBMS are also automatically trade reported.

The Exchange also proposes to amend Rule 1066, Certain Types of Orders Defined, and rename it "Certain Types of Floor-Based (Non-Phlx XL) Orders Defined" to make clear that the order types in the rule reflect what can be traded on the floor. The order types that are handled and executed automatically by Phlx XL appear in Rule 1080. The Exchange is also proposing introductory language specifically stating that these order types are eligible for entry by a Floor Broker for execution through FBMS and, respecting transactions where there is no Floor Broker involved, for execution by members in the trading crowd. Rule 1066 is also proposed to be amended to delete the

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30 The System will first attempt to execute the order a number of times for a certain number of seconds.

following order types, because FBMS will not accept these order types:[31] multi-part order, delta order, market-on-close order, and one-cancels-the-other order.[32] These order types are being deleted because they are not easily automated and are rarely used. Once the proposal is in full effect, these deleted order types will not be available on the Exchange, neither through the PHLX XL nor on the trading floor (including by non-Floor Brokers such as ROTs and specialists). The Exchange does not believe that this is a significant change, because these are not common order types.

The Exchange proposes to rename "Hedge Order" in Rule 1066(f) to "Multi-leg Order," and make corresponding changes in Rule 1033, 1063(e) and Advices C-2 and F-14. A synthetic options order will also be re-categorized as a type of multi-leg order in Rule 1066(f)(5), rather than a separate order type in Rule 1066(g). The definition and description of an Intermarket Sweep Order will be moved from Rule 1066(i) to Rule 1080.03 because it is (and will continue to be) only available on Phlx XL. The definition is not changing. Rule 1066(f) will also be amended to add three new definitions – Spread Type Order, and Complex Order, to help distinguish between the multi-leg orders that also meet the definition of Complex Order in Rule 1080.08 from those that do not,[33] and DNA Order which will now be accepted through FBMS for all orders, not just Complex Orders. In sum, Rule 1066, as revised, will contain all of the order types available for

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31 The Exchange is also proposing to delete Rule 1033(i), Inter-Currency Spread Priority, because FBMS will not handle order multi-leg orders involving two different underlying currencies; these trades rarely occur.

32 This order type is also being deleted from Rule 1063(b).

33 A spread type order, which can only be entered through FBMS, can have up to 15 legs, while a Complex Order entered for handling through PHLX XL can have up to six legs, each including the underlying security.

open outcry trading on the trading floor and through FBMS; Rule 1080 will continue to govern the order types available through PHLX XL.

Lastly, the Exchange proposes to adopt new Rule 1000(g) to codify how bids and offers are made and maintained on the trading floor, because the Exchange believes that eliminating most Floor Broker verbal executions will place additional emphasis on how long a bid/offer is in effect. Today, Rule 110[34] provides, in pertinent part, that bids and offers must be made in an audible tone of voice. A member shall be considered "in" on a bid or offer, while he remains at the post, unless he shall distinctly and audibly say "out." A member bidding and offering in immediate and rapid succession shall be deemed "in" until he shall say "out" on either bid or offer. The Exchange proposes to add this language to new Rule 1000(g), Manner of Bidding and Offering, as well as additional language to address how a member can be "out" of a bid/offer when dealing with a Floor Broker using FBMS. Specifically, a member must say "out" before the Floor Broker submits the order into the FBMS for execution (and before each time the Floor Broker resubmits the order). Otherwise, once such order is submitted and electronically executed, the quoting member cannot withdraw his/her bid/offer. To more fully address this aspect of floor trading, the Exchange proposes to state that once the trading crowd has provided a quote, it will remain in effect until: (A) a reasonable amount of time has passed, or (B) there is a significant change in the price of the underlying security, or (C) the market given in response to the request has been improved. In the case of a dispute, the term "significant change" will be interpreted on a case-by-case basis by an Options

[34] Rule 110 is also proposed to be renamed from "Bids and Offers- Precedence" to Bids and Offers – Manner," to better cover its content.

Exchange Official[35] based upon the extent of the recent trading in the option and, in the case of equity and index options, in the underlying security, and any other relevant factors. This language is currently used in Rule 1064.02(v) to emphasize when bids/offers are in effect, which will be helpful to emphasize with these new FBMS enhancements. The concepts are not new; they are merely being codified into the options portion of the rules.

The changes proposed herein will be incorporated into any applicable fine schedules under the Exchange's minor rule violation plan. Although the Exchange is not adding any new fine schedules or changing any fines, the Exchange is proposing to add the new electronic trading requirement to Advice C-2, Options Floor Broker Management System, which will continue to be subject to the existing fine schedule. The changes to Advices C-1, C-3 and F-14, which also have a fine schedule, are minor. Advice C-1 is being amended to require that a Floor Broker ascertain the presence of at least one ROT in the trading crowd where an option is traded (rather than executed). Advice C-3(c), regarding opening orders of ROTs, is being amended to reflect that Floor Brokers will handle rather than execute orders. Advice F-14 is being amended to replace the term "hedge order" with "multi-leg order." The change to Advice F-2, Allocation, Time Stamping, Matching and Access to Matched Trades, results in fewer trades being subject to it, because electronic trades, which there will be more of, are automatically matched and reported.

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[35] See Rule 124.

Implementation

The Exchange proposes to implement the enhancements with a trial period of two to four weeks, to be determined by the Exchange, during which the new FBMS enhancements and related rules will operate along with the existing FBMS and rules. The Exchange seeks to begin implementation in February 2013 and complete it in March 2013. Thus, Floor Brokers and their personnel will be able to get accustomed to the new features over a period of time, before the old FBMS is no longer available. During this period, Floor Brokers will still be able to execute orders verbally in the trading crowd and submit the execution reports through FBMS, like they do today. Floor Brokers will also be able to use the new FBMS to execute trades. The Exchange is adopting new rule language into Rule 1000(f) to address this trial period. The Exchange believes that this trial period is reasonable and should assist Floor Brokers and their staff in learning the new features.

Conclusion

The Exchange believes that the proposed enhancements to FBMS (and resulting changes in priority rules) will strengthen its regulatory program and modernize how trading occurs on the options trading floor. The Exchange does not believe that the proposal will adversely impact Floor Brokers, specialists or ROTs significantly. Specifically, the additional automation should reduce the possibility of Floor Broker violations and mistakes, which should, in turn, reduce their regulatory liability. Of course, there is likely to be a period of adjustment while Floor Brokers become accustomed to executions occurring through the System rather than verbally, but the Exchange believes that the implementation period should be helpful. The Exchange believes that the benefit of reduced, and in some instances the elimination of certain violations outweighs the potential inconvenience of a new system where the system, rather than the Floor Broker executed the order.

With respect to the potential adverse impact on specialists and ROTs, the Exchange acknowledges that it may be challenging for them to adapt to the new FBMS process, because they may be asked to make markets more quickly. As stated above, the trading crowd will continue to have a reasonable time period to respond, and the Exchange will continue to provide guidance to trading crowds regarding what is a reasonable time period to respond, depending on a number of factors, including market conditions and the type of order. Nevertheless, with respect to orders with multiple legs, the challenge for specialists and ROTs will be to respond to a Floor Broker with a market when the Floor Broker has had the opportunity to look at each leg and price the whole order, whereas specialists and ROTs first hear of the details when the Floor Broker announces the order in the trading crowd. To address this, the Exchange intends to, in providing guidance on what is a reasonable time period to respond before the Floor Broker can submit an order for execution, consider the complexity of multi-leg orders.

The Exchange does not believe that this proposal will adversely affect market quality on the Exchange. To the contrary, the Exchange believes that it should enhance market quality by providing quicker and more reliable confirmation of trade executions, because automating executions of Floor Brokered orders results in automated trade reporting and more certainty about which orders have been executed. Crowd participants will benefit from increased trade certainty and fewer regulatory inquiries related to trades that are reported late and or out of sequence. Floor Brokered orders today are require to be reported within 90 seconds, which has proven to be challenging for multi-leg orders. The Exchange believes that quicker reporting and the resulting certainty about trade executions should benefit all market participants, including Floor Brokers, specialists and ROTs.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[36] in general, and furthers the objectives of Section 6(b)(5) of the Act[37] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. Specifically, the new calculation function of FBMS is a tool for Floor Brokers that should enhance their ability to calculate the prices of the components of a multi-leg order, which should increase the speed with which they can represent such orders, thereby making the Exchange's markets more efficient, all to the benefit of the investing public. In addition, the Exchange believes that the requirement to execute most Floor Broker transactions through FBMS is a sound one, consistent with the aforementioned provisions, intended to reduce certain types of rule violations and further automate Exchange trading, without imposing an undue burden on Floor Brokers. For the same reasons, the new FBMS execution functionality is also consistent with these statutory standards and should improve how trading occurs on the Exchange.

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36 15 U.S.C. 78f(b).

37 15 U.S.C. 78f(b)(5).

The Exchange also believes that the proposal to adopt a new FBMS priority provision in Rule 1033(i) akin to Complex Order priority is designed to promote just and equitable principles of trade, 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 by improving Floor Brokers' ability to execute multi-leg orders, to the benefit of customers and other market participants. Multi-leg orders are different than regular orders and more complicated to execute. The priority rules applicable to "spread" orders on the various exchanges balance the difficulty of executing related orders within existing individual markets with the importance maintaining a priority model that makes clear in what orders executions occur. The Exchange does not believe that this is a significant or controversial change, because other exchanges automatically execute orders with many legs and only require one leg to be improved.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that these enhancements to FBMS should result in the Exchange's trading floor operating in a more efficient way, which should help it compete with other floor-based exchanges and help the Exchange's Floor Brokers compete with floor brokers on other options exchanges. The proposal does not impose a burden on intra-market competition not necessary or appropriate in furtherance of the purposes of the Act, because it modernizes floor trading without undue impact on any particular segment of the membership, as explained above. Overall, the proposal is pro-competitive for several reasons; in addition, to helping Phlx Floor Brokers compete for executions against floor brokers at other exchanges, it also helps them be more efficient and compete more effectively against fully electronic executions. This, in turn, helps the Exchange compete against other exchanges in a deeply competitive landscape comprised of ten other options exchanges. In addition, the proposal helps the Exchange compete by ensuring the robustness of its regulatory program, Floor Brokers' compliance with applicable rules, and enhancing customer protection through further utilization of electronic tools my members, which can be a differentiator in attracting participants and order flow and which should benefit customers in the long term.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

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

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

Not applicable.

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

Not applicable.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

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

Not applicable.

11. Exhibits

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

2. Exhibit 5, Proposed rule text.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-Phlx-2013-09)

January __, 2013

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing of Proposed Rule Change to enhance the functionality offered on its Options Floor Broker Management System ("FBMS")

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 January 25, 2013, 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 is filing with the Commission a proposed rule change to enhance the functionality offered on its Options Floor Broker Management System ("FBMS") in a number of ways, described in detail below. As a result of these enhancements, Floor Brokers will no longer execute most trades on the Exchange's options trading floor, resulting in changes to a number of rules.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it

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

[2] 17 CFR 240.19b-4.

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

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

1. Purpose

The purpose of the proposal is to enhance the Exchange’s options regulatory program by expanding the tools available to Floor Brokers in order to reduce the potential for violations of various Exchange rules by Floor Brokers. Specifically, under the proposal, most Floor Broker transactions will be executed through FBMS rather than verbally by Floor Brokers in the trading crowd, which should result in fewer priority rule and trade-through rule violations, because FBMS will check the Exchange’s market and/or the National Best Bid/Offer (“NBBO”) to help prevent violations, as described further below.

Today, Floor Brokers use FBMS for a number of reasons. Historically, Floor Brokers were not connected to the order entry portals like order flow providers are, because their business was focused on receiving orders at the Floor Broker booths on the trading floor and executing such orders in person, manually. As options trading has become more electronic, this has continued to change over time, such that the Exchange began to provide technology to Floor Brokers, as did other options exchanges.[3] The main driving force behind the creation of FBMS was the Consolidated Options Audit Trail

[3] See e.g., Securities Exchange Act Release Nos. 41524 (June 14, 1999)(SR-Phlx-99-11); 50070 (July 23, 2004)(SR-Phlx-2004-46); 50996 (January 7, 2005)(SR-CBOE-2004-77); and 64057 (March 8, 2011)(SR-CBOE-2011-019) at note 4.

System (“COATS”), mandated in 2000.[4] The COATS requirements created the need for tools to assist Floor Brokers[5] in complying with the requirement to capture certain options order information, including the time of order receipt and execution, contemporaneously with receipt and execution.

In addition, today, Floor Brokers can use FBMS to submit orders, including Complex Orders, to Phlx XL, the Exchange’s trading system rather than executing the order in the trading crowd. Those orders are processed just like any other electronic order on the Exchange, subject to the rules governing Phlx XL, such as Rule 1080. Floor Brokers may do so for a variety of reasons, including that the order is far away from the market such that the Floor Broker would prefer to place it on the electronic book or that there is a contra-side order on the book with which the order can trade.

At this time, the Exchange proposes to expand upon FBMS functionality with several enhancements.

Complex Calculator

The Exchange proposes to provide Floor Brokers with a feature called a complex calculator. Floor Brokers entering multi-leg option orders up to 15 legs on a net debit or

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4 See subparagraph IV.B.e(v) of the Order Instituting Public Administrative Proceedings Pursuant to Section 19(h)(1) of the Securities Exchange Act of 1934, Making Findings and Imposing Remedial Sanctions. See Securities Exchange Act Release No. 43268 (September 11, 2000) (Requiring options exchanges to design and implement COATS to "incorporate into the audit trail all non-electronic orders such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on such respondent exchange, beginning with the receipt of an order by such respondent exchange and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order..." ("Phase V")).

5 COATS is not just applicable to Floor Brokers but was particularly challenging for them because of the number of orders they executed manually.

net credit basis via FBMS would receive suggested prices for each component of the multi-leg order that would achieve the desired net debit or net credit price. Such prices would then be displayed on FBMS. The Floor Broker would not be required to submit the multi-leg order at the suggested prices; the new FBMS functionality is intended to function as a tool to assist Floor Brokers in calculating the component prices and expedite the process of handling multi-leg orders in the trading crowd.[6] Accordingly, the Floor Broker can override the prices and attempt to achieve the net price using different prices. The net debit/credit price can also be expressed as an overall cash value. For example, a multi-leg order to purchase 100 of option A and sell 100 of option B could be entered with a net debit price of $5,000. If the option legs were trading $0.90-$1.10 and $0.45 - $0.55, respectively, the complex calculator could generate suggested prices of $1.00 and $0.50 [(($1.00-$0.50)*100 times)*100 options premium multiplier = $5,000], which would satisfy the $5,000 net debit.

When a Floor Broker enters a trading crowd with a multi-leg order, often he or she will simply request a market for that order and announce a net debit or credit price, rather than separate prices for each component. For example, a Floor Broker representing a two-legged spread order to buy 10 XYZ Mar 50 calls and sell 10 XYZ Jun 60 calls may announce the price as a net debit of, for example, $1.00. This means that the purchase price for 10 XYZ Mar 50 calls is $1.00 greater than the selling price of 10 XYZ Jun 60 calls.[7] Conversely, a net credit price of $1.00 would indicate that the

6 The complex calculator functionality will not execute orders.

7 The Floor Broker might pay, for example, $5.00 to purchase 10 XYZ Mar 50 calls, and would receive $4.00 for the sale of 10 XYZ Jun 60 calls. This leaves the Floor Broker with a net debit of $1.00.

purchase price of 10 XYZ Mar 50 calls is $1.00 less than the selling price of 10 XYZ Jun 60 calls.[8]

Currently, when a Floor Broker receives a single order that has multiple components with instructions to execute such order on a net debit or credit basis, the Floor Broker must first consider prices on various different markets, all as close to contemporaneously as possible. He must calculate the bid and ask of the total net debit and credit. If the Floor Broker is able to achieve the specified net debit or credit based upon the then-current market conditions, the Floor Broker will enter the trading crowd (after entering all of the required electronic audit trail information onto the FBMS in accordance with Exchange rules[9]) and request a market. The members of the trading crowd would then make their own calculations and respond with a net debit or credit price.[10] Next, the Floor Broker must ascertain the current market price of each component of the order to determine whether or not the order can be executed at the specified net debit or credit price. Taking all of this into account, he must then execute the trade verbally in open outcry at the net debit or credit price. Following the verbal execution, he must consider whether the markets for the legs of the order are still the same as they were when he traded the order in open outcry. Often, those markets have

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8 In this example, the Floor Broker might pay $4.00 to purchase 10 XYZ Mar 50 calls, and would receive $5.00 for the sale of 10 XYZ Jun 60calls. This leaves the Floor Broker with a net credit of $1.00.

9 See Rules 1063(e) and (f).

10 The trading crowd will continue to have a reasonable time period to respond, but, over time, that time period has become shorter, as trading becomes more electronic, and the Exchange expects that to be the case following these changes as well. The Exchange will continue to provide guidance to trading crowds regarding what is a reasonable time period to respond, depending on a number of factors, including market conditions and the type of order.

changed in the small amount of time, perhaps one second, it took to announce and execute the trade in open outcry. If so, when the Floor Broker submits the trade for trade reporting, the trade report is marked as late or out of sequence to indicate that the trade report is at a price outside of the current market, even though the trade occurred within the market at the time.

This process can be time-consuming, especially when the order consists of a large number of components. It sometimes results in missed opportunities to trade at the market prices that would support the specified net debit or credit. Overall, the Floor Broker has significant manual order handling and post-trade responsibilities today.

The new functionality proposed herein is intended to expedite this process by providing a calculation tool in the FBMS. The tool is intended to significantly reduce and potentially eliminate out of sequence or late trade reporting that often results due to the current protracted open outcry trade execution process. Specifically, once the Floor Broker has submitted the required electronic audit trail information into FBMS, FBMS will enable the Floor Broker to "query" the prices of each component of such an order such that the specified net debit or credit can be achieved. The System will then calculate the prices of each component and display those suggested prices. Initially, multi-leg orders with up to 15 legs will be accepted.[11] The new feature will be in Rule 1063(e)(ii).[12]

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11 Today, without a complex calculator feature, FBMS accepts up to 20 legs. The Exchange believes that 15 legs should be sufficient for Floor Brokers' current business needs.

12 The Exchange is proposing to delete the existing language of Rule 1063(e)(ii),which is obsolete.

In this way, the Floor Broker can quickly: (i) expose the order to the trading crowd; (ii) ascertain whether the order can be executed at the specified net debit or credit, and (iii) if so, submit the prospective prices of the components of the order that will achieve the specified net debit or credit to FBMS for execution. The Exchange believes that the new calculation functionality will substantially increase the speed with which Floor Brokers can ascertain the marketability of multi-leg orders at a specified net debit or credit price, and should result in more efficient executions in the trading crowd.

Today, Floor Brokers can enter Complex Orders[13] consisting of two option legs into FBMS for execution using the Complex Order functionality of Phlx XL, pursuant to Rule 1080.08(b)(iii). The Exchange is proposing to permit orders up to six legs (one of which may be stock) to be entered through FBMS.[14] One-sided (not crosses) Complex Orders are then subject to the Exchange' Complex Order processing, including an auction, placement on the Complex Order Book and/or execution by the System. The new complex calculator functionality assists Floor Brokers with pricing multi-leg orders for representation in the trading crowd as one-sided orders as well as with pricing multi-leg orders for submission for execution as a two-sided order, as discussed further below.

Execution of Two-Sided Orders

Phlx proposes to provide enhanced order handling functionality to its Floor Brokers as part of its various enhancements to FBMS. Orders represented in the trading

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13 As distinguished from multi-leg orders under Rule 1066, Complex Orders are the specific types of orders accepted into Phlx XL's Complex Order process. See Phlx Rule 1080.08.

14 The Exchange is also proposing to permit Do Not Auction ("DNA") orders to be entered into FBMS as one of the new enhancements to FBMS. DNA orders are Complex Orders that are prevented from triggering a Complex Order Live Auction or joining one that is in progress. See Phlx Rule 1080.08(a)(viii) and (e).

crowd by a Floor Broker must now, under this proposal, be submitted to FBMS for execution. Specifically, Floor Brokers will submit orders represented in the trading crowd as two-sided orders (or crosses).[15] This is described in proposed Rule 1063(e)(iii) and Advice C-2 (and cross-referenced in Rule 1080.06) as follows: FBMS is designed to execute two-sided orders entered by Floor Brokers for execution, including multi-leg orders, after representation in the trading crowd.[16] When a Floor Broker submits a two-sided order for execution by FBMS, the order will be executed based on existing markets and Exchange rules. If the order cannot be executed due to, for example, change in the market, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Floor Broker on the FBMS. The Floor Broker may resubmit the two-sided order for execution, as long as the quotes/orders that comprise the order have not been withdrawn.[17] Floor Brokers are responsible for handling all orders in accordance with Exchange priority and trade-through rules, including Rules 1014, 1033 and 1084.

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[15] The reason they are two-sided orders is either that the order came in to the Floor Broker with both sides and was handled pursuant to Rule 1064 or that the Floor Broker represented the order to the trading crowd, thereby finding the second side.

[16] This proposal does not permit executions in a Floor Broker booth or elsewhere, nor does it affect how Qualified Contingent Cross orders are handled.

[17] See discussion surrounding proposed Rule 1000(g) below.

The new FBMS functionality will thereby perform automatically the functions previously handled manually by Floor Brokers, such as checking the Phlx book.[18] Accordingly, FBMS will now assist Floor Brokers with this function by "clearing the book." For example, if a Floor Broker enters a two-sided order through the new FBMS and there is an order on the book at a price that prevents the Floor Broker's order from executing, FBMS will indicate to the Floor Broker how many contracts need to be satisfied before the Floor Broker's order can execute at the agreed-upon price. If the Floor Broker agrees to satisfy that order, consistent with the order placed in his care, he can cause FBMS to send a portion of one of his orders to Phlx XL to trade against the order on the book, thereby clearing it and permitting the remainder of the Floor Broker's order to trade. This functionality is optional in the sense that the Floor Broker can decide not to trade against the book, consistent with order instructions he has been given,[19] and therefore not execute his two-sided order at that particular price. Today, the Floor Broker employs the same process, albeit in two separate steps, to clear the book, including considering whether one side of his two-sided order can, in effect, give up a certain number of contracts in order for the rest of the order to trade at that price.[20] FBMS will

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18 Checking the Phlx book refers to making sure that an order is not executed outside of Phlx's priority provisions which generally give priority to the best price, and then customers at a given price.

19 For example, the Floor Broker may have been instructed to trade a certain minimum amount.

20 Of course, the Floor Broker must exercise due diligence in the execution of the order pursuant to Rule 155. Presumably, Floor Brokers' clients send them orders (rather than entering them electronically into Phlx XL), because they desire the order handling that a Floor Broker provides; if the client wanted a portion of their order to trade against the book, they could submit their order to do so. Nothing requires the book to be cleared if the client or Floor Broker determines not to pursue the execution of their order at that time.

not similarly assist the Floor Broker with checking and clearing away markets if the NBBO is better at another market, but FBMS will prevent the order from executing through the NBBO, consistent with Exchange rules, as described below.

FBMS will not execute an order that violates the priority of orders on the book[21] or trades through the NBBO for an option.[22] Thus, sometimes, when a Floor Broker submits an order for execution, the order will not be executed. One reason could be that the price of the trade would result in a trade through of the NBBO for that option, which is prohibited by Rule 1084(a). There is an exception from the trade through prohibition for "Complex Trades."[23] If an order meets the requirements of a Complex Trade, FBMS will execute such order.

Another reason why an order might not be executable by FBMS is if the Exchange's priority rules would not permit an execution at a certain price, because, for example, there is an order on the book at that price and certain priority rules apply.[24] FBMS, before executing an order, will validate that a multi-leg order meets the definition of Complex Order in Rule 1080.08[25] and will apply a new spread priority provision, which is the same in Rule 1080.08(c)(iii) applicable to the Exchange's complex order functionality in Phlx XL. The new provision will be in Rule 1033(i)[26] and state that, in

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21 See Rules 1014 and 1033.

22 See Rule 1084(a).

23 Rule 1084(b)(viii).

24 Like executions of all electronic orders on Phlx XL, all-or-none orders do not have standing and are not taken into consideration. See Advice A-9.

25 Complex Orders must have a conforming ratio.

26 The current language of Rule 1033(i) is being deleted, as explained below.

FBMS, an order can be executed at a total net credit or debit with priority over either the bid or the offer established in the marketplace that is not better than the bids or offers comprising such total credit or debit, provided that (i) at least one option leg is executed at a better price than established bid or offer for that option contract, and (ii) no option leg is executed at a price outside of the established bid or offer for that option contract. For example, a multi-leg order to purchase option A and sell option B for a net debit of $0.50 would not be permitted to trade if option A was quoted as $1.00 – $1.05 and option B was quoted as $0.50 - $0.55 because there are no prices which satisfy the net debit. However, if option A was quoted as $0.95 bid instead of $1.00 as stipulated above, FBMS would allow a $0.50 debit in this strategy to trade with option prices of $1.00 and $0.50.

If a multi-leg order does not comply with the definition of Complex Order because it has more than six legs, its execution in FBMS will nevertheless be subject to new Rule 1033(i) if it is an order with a conforming ratio. Today, for executions on the trading floor, Rule 1033(d), (e), (g) and (h) effectively require one leg of a spread to be improved for every two legs of a multi-leg order. Under this proposal, a different priority provision will apply to multi-leg orders executed through FBMS with more than six legs than does today on the trading floor. Rather than requiring one leg out of every two legs in a multi-leg order to be improved, only one total leg needs to be improved. This is the same as for Complex Orders traded on Phlx XL pursuant to Rule 1080.08(c)(iii). For example, assuming all of these options do not trade in penny increments, and assume that the market for option A is $1.00 - $1.05, option B is $0.50 - $0.55, option C is $0.60 -

$0.80 and option D is $0.20 - $0.25. Based on these markets, the combined market for an order to buy option A, sell option B, buy option C, and sell option D is $0.80 - $1.15. An order to buy option A, sell option B, buy option C, and sell option D could trade at $1.10 with option A trading at $1.05, option B trading at $0.50, option C trading at $0.75 (this is the leg improving the market), and option D trading at $0.20. The Exchange believes that extending the spread priority provision that exists for Complex Orders to orders with more than six legs executed through FBMS is consistent with the Act, as described further below. The Exchange notes that other options exchanges, such as the ISE, have similar complex order priority provisions for Complex Orders that do not limit the number of legs and require only one leg to be improved.

In addition, an order may be subject to special priority treatment pursuant to Rule 1014.05. If an order is for 500 contracts or more or if one leg of a multi-leg order is for 500 contracts or more, then such order or individual leg of a multi-leg order has priority over bids/offers other than customers on the book and crowd participants (including other Floor Brokers representing orders in the trading crowd). FBMS will prevent an execution if there is a customer order at that price; the Floor Broker must ensure that there is no bid/offer in the trading crowd. In the aforementioned example where the order is to buy option A and sell option B for a net debit of $0.50 and the market for option A is $1.00 - $1.05 and option B is $0.50-$0.55, if each leg of the spread is for 500 contracts or more, then pursuant to Rule 1014.05, each leg has priority over existing bids/offers at that price, except customer interest and crowd participants. Thus, if each leg was for 500 contracts, option A and option B would be permitted to trade at a net debit of $0.50 with execution prices of $1.00 and $0.50, respectively. The execution would not be allowed to occur if there was customer interest at either $1.00 in option A or $.50 in option B.

Similarly, whether or not an order complies with the definition of a Complex Order, FBMS will execute orders at split prices like can be done on the trading floor today, consistent with Rule 1014(g)(i)(B). Rule 1014(g)(i)(B) provides that if a member purchases (sells) 50 or more option contracts of a particular series at a particular price or prices, he shall, at the next lower (higher) price have priority in purchasing (selling) up to the equivalent number of option contracts of the same series that he purchased (sold) at the higher (lower) price or prices, but only if his bid (offer) is made promptly and the purchase (sale) so effected represents the opposite side of a transaction with the same order or offer (bid) as the earlier purchase or purchases (sale or sales). When the market has a bid/ask differential of one minimum trading increment and the bid and/or offer represent the quotation of an out-of-crowd SQT or an RSQT, such member shall have priority over such SQT and/or RSQT with respect to both the bid and the offer. For example, a Floor Broker may purchase 100 options for $5.25 when the quoted market is $5.20 - $5.30 by executing 50 contracts at $5.30 and 50 contracts at $5.20.

Exchange rules also govern the execution prices for multi-leg orders where one leg is the underlying security (stock). Rule 1033(e) provides that a synthetic option order may be executed at a total net credit or debit, provided that, the member executes the option leg at a better price than the established bid or offer for that option contract, in accordance with Rule 1014. If there is more than one option leg and stock, Rule 1033(d) applies. Synthetic option orders in open outcry, in which the option component is for a size of 100 contracts or more, have priority over bids (offers) of crowd participants who are bidding (offering) only for the option component of the synthetic option order, but not over bids (offers) of public customers on the limit order book, and not over crowd participants that are willing to participate in the synthetic option order at the net debit or credit price. FBMS will validate that an order complies with these requirements.[27]

As discussed above, today, when a Floor Broker executes an order in the trading crowd verbally, that order is deemed executed; when the Floor Broker is entering the execution price into FBMS to complete the processing of the trade, including trade reporting to the tape, markets can change. Because the trade has already occurred, the fact that the Exchange's best bid/offer changes before the trade is reported does not matter, as long as the trade was at a valid price when the trade occurred. However, the trade may *appear* to have violated priority or trade through rules to someone looking at a time-sequenced audit trail. The Exchange's surveillance programs endeavor to ascertain whether such a violation occurred. From the Floor Broker's perspective, the time stamp on the order ticket is intended to capture the time of order execution and is the relevant time to determine whether a violation occurred, rather than the time of trade reporting. Determining whether or not a violation occurred and whether a disciplinary process should ensue is currently a manually-driven event; this proposal seeks to introduce better time sequencing and certainty about when a trade occurred, and, to the extent possible, cause executions through FBMS to comply with the applicable exchange rules.

27 The stock portion of such orders is handled by the Floor Broker, not on the Exchange (off Exchange). The Floor Broker must validate, after representing the order in the trading crowd, whether there are crowd participants bidding/offering.

In short, the proposed execution functionality of FBMS should help ensure the certainty about when a trade occurred and what the market was at the time, consistent with Exchange rules.

No Floor-Based Executions

One of the most significant changes proposed herein is that most orders handled by Floor Brokers (limited exceptions apply) will now be executed through FBMS and not verbally by Floor Brokers in the trading crowd. Accordingly, the Exchange is proposing to amend a variety of rules applicable to Floor Brokers to make clear that Floor Brokers handle orders, rather than execute them. These include Rule 155, Rule 1033(d), (e), (f), (h) and (i), Rule 1060, Rule 1063(c) and .02, and Advices C-1 and C-3.

In addition, the Exchange proposes to adopt Rule 1000(f) to expressly state that all Exchange options transactions shall be executed in one of the following ways, once the Exchange's new FBMS functionality has been operating for a certain period to be established by the Exchange: (i) automatically by the Exchange Trading System, Phlx XL, pursuant to Rule 1080 and other applicable options rules; (ii) by and among members in the Exchange's options trading crowd neither of whom is a Floor Broker; or (iii) through the FBMS for trades involving at least one Floor Broker. The rule will further state that although Floor Brokers represent orders in the trading crowd, Floor Brokers are not permitted to execute orders in the Exchange's options trading crowd, except when the Exchange determines to permit manual executions in the event of a problem with Exchange systems, except with respect to accommodation transactions pursuant to Rule 1059 and FLEX trades pursuant to Rules 1079 or 1079A, and except where there are more than 15 legs of an order. Accordingly, certain executions will still occur manually in the trading crowd and not through FBMS. Specifically, FLEX orders will continue to be executable by Floor Brokers in the trading crowd pursuant to Rule 1079 and 1079A, rather than through FBMS. This is because FBMS will not be able to accept FLEX orders, which have varied and complicated terms. Similarly, accommodation transactions (also known as cabinet trades) will continue to be executable by Floor Brokers in the trading crowd pursuant to Rule 1059. Neither FLEX nor accommodation transactions are executed through Exchange systems today. Floor Brokers will also be permitted to execute orders in the trading crowd if they are handling an order with more than 15 legs, because the Exchange determined to limit the complexity of FBMS functionality and does not believe that many orders fall into this category or that Floor Brokers will be adversely affected.

Trades not involving a Floor Broker will still be executable verbally in the trading crowd.[28] For example, a specialist trading with a Registered Options Trader (" ROT") will continue to be able to do so; specialists and ROTs do not have FBMS, because it is a tool for Floor Brokers. The Exchange does not expect that the number of trades occurring manually will be significant.

The Exchange proposes to amend the following rules to make clear that certain orders must be executed through the FBMS: Rule 1064(a), (b), (c) and 1064.04(h).[29]

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28 The restriction from manual trading in Rule 1000(f) is limited to trades involving at least one Floor Broker. See proposed Rule 1000(f)(ii).

29 Rather than making changes to Advice B-11, which generally tracks the language of Rule 1064, the Exchange proposes to delete it. Some Advices have fine schedules adopted pursuant to the Exchange's minor rule enforcement and reporting plan, such that they are necessary, but this one does not.

Specifically, such orders are not deemed executed upon agreement and verbalization in the trading crowd, but rather once entered and processed as two-sided orders through FBMS. The language will provide: all such orders are not deemed executed until entered into and executed by FBMS; bids and offers can be withdrawn pursuant to Rule 1000(g). As explained above, it will be possible that FBMS will not execute an order because market conditions have changed, preventing the execution from occurring, in which case FBMS "returns" the order to the Floor Broker,[30] who can then determine to resubmit it. The Exchange also proposes to amend Rule 1014(g)(vi) and Advice F-2, which pertain to how trades are allocated, matched and time stamped. In order to facilitate timely tape reporting of trades, it is the duty of certain persons identified in these provisions to allocate, match and time stamp trades executed in open outcry and to submit the matched trade tickets to an Exchange Data Entry Technician ("DET") located on the trading floor immediately upon execution. Trades executed electronically via the XL System are automatically trade reported without further action required by executing parties; these provisions will now also state that trades executed electronically through FBMS are also automatically trade reported.

The Exchange also proposes to amend Rule 1066, Certain Types of Orders Defined, and rename it "Certain Types of Floor-Based (Non-Phlx XL) Orders Defined" to make clear that the order types in the rule reflect what can be traded on the floor. The order types that are handled and executed automatically by Phlx XL appear in Rule 1080. The Exchange is also proposing introductory language specifically stating that these order types are eligible for entry by a Floor Broker for execution through FBMS and,

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30 The System will first attempt to execute the order a number of times for a certain number of seconds.

respecting transactions where there is no Floor Broker involved, for execution by members in the trading crowd. Rule 1066 is also proposed to be amended to delete the following order types, because FBMS will not accept these order types:[31] multi-part order, delta order, market-on-close order, and one-cancels-the-other order.[32] These order types are being deleted because they are not easily automated and are rarely used. Once the proposal is in full effect, these deleted order types will not be available on the Exchange, neither through the PHLX XL nor on the trading floor (including by non-Floor Brokers such as ROTs and specialists). The Exchange does not believe that this is a significant change, because these are not common order types.

The Exchange proposes to rename "Hedge Order" in Rule 1066(f) to "Multi-leg Order," and make corresponding changes in Rule 1033, 1063(e) and Advices C-2 and F-14. A synthetic options order will also be re-categorized as a type of multi-leg order in Rule 1066(f)(5), rather than a separate order type in Rule 1066(g). The definition and description of an Intermarket Sweep Order will be moved from Rule 1066(i) to Rule 1080.03 because it is (and will continue to be) only available on Phlx XL. The definition is not changing. Rule 1066(f) will also be amended to add three new definitions – Spread Type Order, and Complex Order, to help distinguish between the multi-leg orders that also meet the definition of Complex Order in Rule 1080.08 from those that do not,[33] and DNA Order which will now be accepted through FBMS for all orders, not just Complex

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31 The Exchange is also proposing to delete Rule 1033(i), Inter-Currency Spread Priority, because FBMS will not handle order multi-leg orders involving two different underlying currencies; these trades rarely occur.

32 This order type is also being deleted from Rule 1063(b).

33 A spread type order, which can only be entered through FBMS, can have up to 15 legs, while a Complex Order entered for handling through PHLX XL can have up to six legs, each including the underlying security.

Orders. In sum, Rule 1066, as revised, will contain all of the order types available for open outcry trading on the trading floor and through FBMS; Rule 1080 will continue to govern the order types available through PHLX XL.

Lastly, the Exchange proposes to adopt new Rule 1000(g) to codify how bids and offers are made and maintained on the trading floor, because the Exchange believes that eliminating most Floor Broker verbal executions will place additional emphasis on how long a bid/offer is in effect. Today, Rule 110[34] provides, in pertinent part, that bids and offers must be made in an audible tone of voice. A member shall be considered "in" on a bid or offer, while he remains at the post, unless he shall distinctly and audibly say "out." A member bidding and offering in immediate and rapid succession shall be deemed "in" until he shall say "out" on either bid or offer. The Exchange proposes to add this language to new Rule 1000(g), Manner of Bidding and Offering, as well as additional language to address how a member can be "out" of a bid/offer when dealing with a Floor Broker using FBMS. Specifically, a member must say "out" before the Floor Broker submits the order into the FBMS for execution (and before each time the Floor Broker resubmits the order). Otherwise, once such order is submitted and electronically executed, the quoting member cannot withdraw his/her bid/offer. To more fully address this aspect of floor trading, the Exchange proposes to state that once the trading crowd has provided a quote, it will remain in effect until: (A) a reasonable amount of time has passed, or (B) there is a significant change in the price of the underlying security, or (C) the market given in response to the request has been improved. In the case of a dispute, the term "significant change" will be interpreted on a case-by-case basis by an Options

[34] Rule 110 is also proposed to be renamed from "Bids and Offers- Precedence" to Bids and Offers – Manner," to better cover its content.

Exchange Official[35] based upon the extent of the recent trading in the option and, in the case of equity and index options, in the underlying security, and any other relevant factors. This language is currently used in Rule 1064.02(v) to emphasize when bids/offers are in effect, which will be helpful to emphasize with these new FBMS enhancements. The concepts are not new; they are merely being codified into the options portion of the rules.

The changes proposed herein will be incorporated into any applicable fine schedules under the Exchange's minor rule violation plan. Although the Exchange is not adding any new fine schedules or changing any fines, the Exchange is proposing to add the new electronic trading requirement to Advice C-2, Options Floor Broker Management System, which will continue to be subject to the existing fine schedule. The changes to Advices C-1, C-3 and F-14, which also have a fine schedule, are minor. Advice C-1 is being amended to require that a Floor Broker ascertain the presence of at least one ROT in the trading crowd where an option is traded (rather than executed). Advice C-3(c), regarding opening orders of ROTs, is being amended to reflect that Floor Brokers will handle rather than execute orders. Advice F-14 is being amended to replace the term "hedge order" with "multi-leg order." The change to Advice F-2, Allocation, Time Stamping, Matching and Access to Matched Trades, results in fewer trades being subject to it, because electronic trades, which there will be more of, are automatically matched and reported.

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35 See Rule 124.

<u>Implementation</u>

The Exchange proposes to implement the enhancements with a trial period of two to four weeks, to be determined by the Exchange, during which the new FBMS enhancements and related rules will operate along with the existing FBMS and rules. The Exchange seeks to begin implementation in February 2013 and complete it in March 2013. Thus, Floor Brokers and their personnel will be able to get accustomed to the new features over a period of time, before the old FBMS is no longer available. During this period, Floor Brokers will still be able to execute orders verbally in the trading crowd and submit the execution reports through FBMS, like they do today. Floor Brokers will also be able to use the new FBMS to execute trades. The Exchange is adopting new rule language into Rule 1000(f) to address this trial period. The Exchange believes that this trial period is reasonable and should assist Floor Brokers and their staff in learning the new features.

<u>Conclusion</u>

The Exchange believes that the proposed enhancements to FBMS (and resulting changes in priority rules) will strengthen its regulatory program and modernize how trading occurs on the options trading floor. The Exchange does not believe that the proposal will adversely impact Floor Brokers, specialists or ROTs significantly. Specifically, the additional automation should reduce the possibility of Floor Broker violations and mistakes, which should, in turn, reduce their regulatory liability. Of course, there is likely to be a period of adjustment while Floor Brokers become accustomed to executions occurring through the System rather than verbally, but the Exchange believes that the implementation period should be helpful. The Exchange believes that the benefit of reduced, and in some instances the elimination of certain violations outweighs the potential inconvenience of a new system where the system, rather than the Floor Broker executed the order.

With respect to the potential adverse impact on specialists and ROTs, the Exchange acknowledges that it may be challenging for them to adapt to the new FBMS process, because they may be asked to make markets more quickly. As stated above, the trading crowd will continue to have a reasonable time period to respond, and the Exchange will continue to provide guidance to trading crowds regarding what is a reasonable time period to respond, depending on a number of factors, including market conditions and the type of order. Nevertheless, with respect to orders with multiple legs, the challenge for specialists and ROTs will be to respond to a Floor Broker with a market when the Floor Broker has had the opportunity to look at each leg and price the whole order, whereas specialists and ROTs first hear of the details when the Floor Broker announces the order in the trading crowd. To address this, the Exchange intends to, in providing guidance on what is a reasonable time period to respond before the Floor Broker can submit an order for execution, consider the complexity of multi-leg orders.

The Exchange does not believe that this proposal will adversely affect market quality on the Exchange. To the contrary, the Exchange believes that it should enhance market quality by providing quicker and more reliable confirmation of trade executions, because automating executions of Floor Brokered orders results in automated trade reporting and more certainty about which orders have been executed. Crowd participants will benefit from increased trade certainty and fewer regulatory inquiries related to trades that are reported late and or out of sequence. Floor Brokered orders today are require to be reported within 90 seconds, which has proven to be challenging for multi-leg orders. The Exchange believes that quicker reporting and the resulting certainty about trade executions should benefit all market participants, including Floor Brokers, specialists and ROTs.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[36] in general, and furthers the objectives of Section 6(b)(5) of the Act[37] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. Specifically, the new calculation function of FBMS is a tool for Floor Brokers that should enhance their ability to calculate the prices of the components of a multi-leg order, which should increase the speed with which they can represent such orders, thereby making the Exchange's markets more efficient, all to the benefit of the investing public. In addition, the Exchange believes that the requirement to execute most Floor Broker transactions through FBMS is a sound one, consistent with the aforementioned provisions, intended to reduce certain types of rule violations and further automate Exchange trading, without imposing an undue burden on Floor Brokers. For the same reasons, the new FBMS execution functionality is also consistent with these statutory standards and should improve how trading occurs on the Exchange.

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[36] 15 U.S.C. 78f(b).

[37] 15 U.S.C. 78f(b)(5).

The Exchange also believes that the proposal to adopt a new FBMS priority provision in Rule 1033(i) akin to Complex Order priority is designed to promote just and equitable principles of trade, 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 by improving Floor Brokers' ability to execute multi-leg orders, to the benefit of customers and other market participants. Multi-leg orders are different than regular orders and more complicated to execute. The priority rules applicable to "spread" orders on the various exchanges balance the difficulty of executing related orders within existing individual markets with the importance maintaining a priority model that makes clear in what orders executions occur. The Exchange does not believe that this is a significant or controversial change, because other exchanges automatically execute orders with many legs and only require one leg to be improved.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that these enhancements to FBMS should result in the Exchange's trading floor operating in a more efficient way, which should help it compete with other floor-based exchanges and help the Exchange's Floor Brokers compete with floor brokers on other options exchanges. The proposal does not impose a burden on intra-market competition not necessary or appropriate in furtherance of the purposes of the Act, because it modernizes floor trading without undue impact on any particular segment of the membership, as explained above. Overall, the proposal is pro-competitive for several reasons; in addition, to helping Phlx Floor Brokers compete for executions against floor brokers at other exchanges, it also helps them be more efficient and compete more effectively against fully electronic executions. This, in turn, helps the Exchange compete against other exchanges in a deeply competitive landscape comprised of ten other options exchanges. In addition, the proposal helps the Exchange compete by ensuring the robustness of its regulatory program, Floor Brokers' compliance with applicable rules, and enhancing customer protection through further utilization of electronic tools my members, which can be a differentiator in attracting participants and order flow and which should benefit customers in the long term.

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

No written comments were either solicited or received.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2013-09 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-2013-09. 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 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal offices 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-2013-09 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.[38]

Kevin M. O'Neill
Deputy Secretary

38 17 CFR 200.30-3(a)(12).

Exhibit 5

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Rule 110. Bids and Offers—[Precedence] <u>Manner</u>

Bids and offers may be made simultaneously, as being essentially different propositions, and may be accepted without precedence of one over another. Bids and offers must be made in an audible tone of voice. A member shall be considered "in" on a bid or offer, while he remains at the post, unless he shall distinctly and audibly say "out." A member bidding and offering in immediate and rapid succession shall be deemed "in" until he shall say "out" on either bid or offer.

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Rule 155. General Responsibility of Floor Brokers

A Floor Broker handling an order is to use due diligence to [execute] <u>cause</u> the order <u>to be</u> <u>executed</u> at the best price or prices available to him in accordance with the Rules of the Exchange.

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OPTIONS RULES

Rules Applicable to Trading of Options on Stocks, Exchange-Traded Fund Shares and Foreign Currencies (Rules 1000—1094)

Rule 1000. Applicability, Definitions and References

(a) - (e) No change.

<u>(f) All Exchange options transactions shall be executed in one of the following ways, once the Exchange's new Options Floor Broker Management System functionality has been operating for a certain period to be established by the Exchange:</u>

<u>(i) automatically by the Exchange Trading System pursuant to Rule 1080 and other applicable options rules;</u>

<u>(ii) by and among members in the Exchange's options trading crowd none of whom is a Floor Broker; or</u>

<u>(iii) through the Options Floor Broker Management System for trades involving at least one Floor Broker. Although Floor Brokers may represent orders in the trading crowd, Floor Brokers are not permitted to execute orders in the Exchange's options trading crowd, except as follows:</u>

(A) The Exchange may determine to permit executions otherwise than in accordance with subparagraphs (i) – (iii) above respecting an option or all options in the event of a problem with Exchange systems.

(B) In addition, Floor Brokers can execute orders in the options trading crowd pursuant to Rule 1059, Accommodation Transactions (cabinet trades), and Rule 1079, FLEX Equity, Index and Currency Options.

(C) Multi-leg orders with more than 15 legs can be executed in the trading crowd.

(g) Manner of Bidding and Offering. Bids and offers to be effective must either be entered electronically in a form and manner prescribed by the Exchange (as quotes or orders) or made by public outcry in the trading crowd (to which Rule 110 applies). All bids and offers shall be general ones and shall not be specified for acceptance by particular members.

Public Outcry - Pursuant to Rule 110, bids and offers must be made in an audible tone of voice. A member shall be considered "in" on a bid or offer, while he remains at the post, unless he shall distinctly and audibly say "out." A member bidding and offering in immediate and rapid succession shall be deemed "in" until he shall say "out" on either bid or offer. Once the trading crowd has provided a quote, it will remain in effect until: (A) a reasonable amount of time has passed, or (B) there is a significant change in the price of the underlying security, or (C) the market given in response to the request has been improved. In the case of a dispute, the term "significant change" will be interpreted on a case-by-case basis by an Options Exchange Official based upon the extent of the recent trading in the option and, in the case of equity and index options, in the underlying security, and any other relevant factors.

With respect to orders involving a Floor Broker using the Options Floor Broker Management System to execute an order pursuant to Rule 1000(f), a member must audibly say “out” before the Floor Broker submits the order into the FBMS for execution and, if the order is not executed, the member must audibly say “out” before each time the Floor Broker resubmits the order for execution.

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

(a) – (f) No change.

(g) *Equity Option, Index Option and U.S. dollar-settled Foreign Currency Option Priority and Parity*

(i) – (v) No change.

(vi) In order to facilitate timely tape reporting of trades, it is the duty of the persons identified below to allocate, match and time stamp trades executed in open outcry and to submit the matched trade tickets to an Exchange Data Entry Technician ("DET") located on the trading floor immediately upon execution. Trades executed electronically via the XL System <u>and through the Options Floor Broker Management System</u> are automatically trade reported without further action required by executing parties:

(a) – (d) No change.

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Rule 1033. Bids And Offers—Premium

(a) – (c) No change.

(d) Spread [Type] Priority. When a member holding a [hedge] <u>multi-leg</u> order, as defined in Rule 1066 and bidding or offering on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions at or within the bids and offers established in the marketplace, then the order may be executed as a [hedge] <u>multi-leg</u> order at the total credit or debit with one other member with priority over either the bid or the offer established in the marketplace that is not better than the bids or offers comprising such total credit or debit, provided that[, the member executes] at least one option leg <u>is executed</u> at a better price than established bid or offer for that option contract AND no option leg is executed at a price outside of the established bid or offer for that option contract.

(e) Synthetic Option Orders. When a member holding a synthetic option order, as defined in Rule 1066, and bidding or offering on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions at or within the bids and offers established in the marketplace, then the order may be executed as a synthetic option order at the total credit or debit with one other member, provided that[, the member executes] the option leg <u>is executed</u> at a better price than the established bid or offer for that option contract, in accordance with Rule 1014. Synthetic option orders in open outcry, in which the option component is for a size of 100 contracts or more, have priority over bids (offers) of crowd participants who are bidding (offering) only for the option component of the synthetic option order, but not over bids (offers) of public customers on the limit order book, and not over crowd participants that are willing to participate in the synthetic option order at the net debit or credit price.

(f) Three-Way Spread Type Priority. When a member holding a three-way order for foreign currency options determines that the order will be best served by bidding or offering on the basis of a total net credit or debit, the member may, after seeking bids and offers for the three-way order, <u>seek to</u> execute the order at a total credit or debit with one other member provided that at least one of the individual legs to the order is effected at a price better than the established bid or offer for that option contract and that no option leg is executed at a price outside of the established bid or offer for that option contract. For purposes of this Rule, three-way orders include spread, straddle and combination orders of three individual series in the same foreign currency options where (i) the order size for each of the three individual series are equal to each other, or (ii) the combined order size of any two series on the same side of the market is either equal to the order size of the third series by a or differs from the order size of the third series by a permissible ratio. For purposes of this paragraph, a permissible ratio is any one of the following: one-to-one, one-to-two, one-to-three and two-to-three.

(g) Ratio Spread Type Priority. A spread order may consist of different numbers of contracts so long as the number of contracts differ by a permissible ratio (a "Ratio Spread"). Similarly, the legs to a straddle or combination order may consist of different numbers of puts and calls so long as the number of contracts differ by a permissible ratio. For the purposes of this paragraph, a permissible ratio is any ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00). For example, a one-to-two (.5) ratio, a two-to-three (.667) ratio, or a two-to-one (2.0) ratio is permissible, whereas a one-to-four (.25) ratio or a four-to-one (4.0) ratio is not.

(h) Multi-Spread Priority. When a member holding two spread type orders (spreads, straddles or combinations, as defined in Rule 1066) for the same account determines that the orders will be best served by bidding or offering on the basis of a total net credit or debit, the member may, after seeking bids and offers for the total of the two spread type orders, seek to execute both orders as a single transaction at a total net credit or debit with one other member, provided that at least one of the individual legs of each individual spread is executed at a better price than the established bid or offer for that option contract and that no option leg is executed at a price outside of the established bid or offer for that option contract.

(i) [Inter-Currency Spread Priority. When a member holding any one or more spread type orders (spreads, straddles or combinations, as defined in Rule 1066) in two different foreign currency options determines that the orders will be best served by bidding or offering on the basis of a total net credit or debit, the member may, after seeking bids and offers for the total of two orders, execute both orders as a single transaction at a total net credit or debit with one other member, provided that at least one of the individual legs of each individual spread is executed at a better price than the established bid or offer for that option contract and that no option leg is executed at a price outside of the established bid or offer for that option contract. In order to qualify, the spread must first be quoted as individual legs in each trading crowd and then as an inter-currency spread.]

Spread Type Priority. Through FBMS, Spread Type Orders consisting of a conforming ratio may be executed at a total credit or debit price with priority over individual bids or offers established in the marketplace (including customers) that are not better than the bids or offers comprising such total credit or debit, provided that at least one option leg is executed at a better price than the established bid or offer for that option contract and no option leg is executed at a price outside of the established bid or offer for that option contract.

Rule 1060. Floor Broker Defined
An Options Floor Broker is an individual who is registered with the Exchange for the purpose, while on the Options Floor, of accepting and [executing] handling options orders received from members and member organizations. An Options Floor Broker shall not accept an order from any other source unless he is the nominee of a member organization qualified to transact business with the public in which event he may accept orders from public customers of the organization.

Rule 1063. Responsibilities of Floor Brokers
(a) *General Responsibility*. In addition to the Provisions of Rule 155 concerning due diligence, an Options Floor Broker shall ascertain that at least one Registered Options Trader is present at the trading post prior to representing an order for execution. This Rule 1063(a) shall not apply to a Floor Broker in any foreign currency option if no Registered Options Trader registered in such foreign currency option is present on the Exchange's trading floor at that time.

(b) *Contingency order [or one-cancels-the-other order]*. An Options Floor Broker handling a contingency order [or a one-cancels-the-other order] that is dependent upon the price of the underlying security shall be responsible for satisfying the dependency requirement on the basis of the last reported price of the underlying security in the primary market that is generally available on the Options Floor at any given time. Unless mutually agreed by the members involved, an execution or non-execution that results shall not be altered by the fact that such reported price is subsequently found to have been erroneous.

(c) *Combination orders at the opening or close.* A Floor Broker shall not be held responsible for the execution of [executing] a single order combining different series of options based upon transaction prices that are established at the opening or close of trading or during any trading rotation.

(d) No change.

(e) (i) *Options Floor Broker Management System.* In order to create an electronic audit trail for equity, equity index and U.S. dollar-settled foreign currency options orders represented by Floor Brokers on the Exchange's Options Floor, a Floor Broker or such Floor Broker's employees shall, contemporaneously upon receipt of an order and prior to the representation of such an order in the trading crowd, record all options orders represented by such Floor Broker onto the electronic Options Floor Broker Management System (“FBMS”)(as described in Rule 1080, Commentary .06). The following specific information with respect to orders represented by a Floor Broker shall be recorded by such Floor Broker or such Floor Broker's employees: (i) the order type (i.e., customer, firm, broker-dealer, professional) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle), or contingency order as described in Rule 1066; (v) number of contracts; (vi) limit price or market order or, in the case of a [complex] multi-leg order, net debit or credit, if applicable; (vii) whether the transaction is to open or close a position; and (viii) The Options Clearing Corporation

("OCC") clearing number of the broker-dealer that submitted the order (collectively, the "required information"). A F[f]loor B[b]roker must enter complete alpha/numeric identification assigned by the Exchange for all orders entered on behalf of Exchange Registered Option Traders. [Upon the execution of such an order, the Floor Broker shall enter the time of execution of the trade.] Any additional information with respect to the order shall be inputted into the Options Floor Broker Management System contemporaneously upon receipt, which may occur after the representation and execution of the order.

(ii) Pursuant to Rule 1000(f), Floor Brokers are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event of a malfunction in the [Options Floor Broker Management System] FBMS or in the event that the Exchange determines that Floor Brokers are permitted to execute orders in the Exchange's options trading crowd for a specific reason pursuant to Rule 1000(f)(iii), Floor Brokers shall record the required information on trade tickets, and shall not represent an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets shall be time stamped upon the execution of such an order. Floor Brokers or their employees shall either enter the required information that is recorded on such trade tickets into the Exchange's electronic trading system or ensure that such information is entered for inclusion in the electronic audit trail.

(ii) [Orders in Options Overlying Standard and Poor's Depositary Receipts ("SPDRs"). The requirements of sub-paragraph (e)(i) above shall apply to options overlying SPDRs beginning on March 28, 2005.] Complex Calculator. The FBMS will calculate and display a suggested price of each individual component of a multi-leg order up to 15 legs submitted on a net debit or credit basis.

(iii) Execution. FBMS is also designed to execute two-sided orders entered by Floor Brokers, including multi-leg orders up to 15 legs, after representation in the trading crowd. When a Floor Broker submits an order for execution through FBMS, the order will be executed based on market conditions and in accordance with Exchange rules. FBMS execution functionality will assist the Floor Broker in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Floor Broker on the FBMS. The Floor Broker may resubmit the order for execution, as long as the quotes/orders that comprise the cross have not been withdrawn. Floor Brokers are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Rules 1014, 1033 and 1084.

(f) No change.

••• ***Commentary:*** ------------------

.01 No change.

.02 Floor Brokers must make reasonable efforts to ascertain whether each order entrusted to them is for the account of a customer or a broker-dealer. If it is ascertained that the order is for the account of a broker-dealer, the responsible Floor Broker must advise the crowd of that fact prior to bidding/offering on behalf of the order or <u>submitting</u> [executing] the order for execution. The Floor Broker or his employees must make the appropriate notation on the Options Floor Broker Management System when it has been determined that the order is for an account of a broker/dealer.

Rule 1064. Crossing, Facilitation and Solicited Orders

(a) Except as provided in paragraph (e) below, an Options Floor Broker who holds orders to buy and sell the same option series may cross such orders, provided that he proceeds in the following manner:

(i) In accordance with his responsibilities for due diligence, pursuant to Rule 155, an Options Floor Broker shall request bids and offers for such options series and make all persons in the trading crowd aware of his request.

(ii) After providing an opportunity for such bids and offers to be made, he must bid and offer at prices differing by the minimum increment and must improve the market by bidding above the highest bid or offering below the lowest offer.

(iii) If such higher bid or lower offer is not taken, he may cross the orders at such higher bid or lower offer by announcing by public outcry that he is crossing and giving the quantity and price. <u>All such orders are not deemed executed until entered into and executed through the Options Floor Broker Management System ("FBMS"); bids and offers can be withdrawn pursuant to Rule 1000(g).</u>

(b) *Facilitation Orders.* Except as provided in paragraph (e) below, a Floor Broker holding an options order for a public customer and a contraside order may cross such orders in accordance with paragraph (a) above or may execute such orders as a facilitation cross in the following manner:

(i) The Floor Broker or his employees must enter the appropriate notation onto the Options Floor Broker Management System for the public customer's order, together with all of the terms of the order, including any contingency involving other options or the underlying or related securities.

(ii) The Floor Broker shall request markets for the execution of all options components of the order. After providing an opportunity for such markets to be made, the Floor Broker shall announce that he holds an order subject to facilitation and shall bid (or offer) in between the market for each options component and disclose all terms and conditions of the order including all securities which are components of the order.

(iii) After all market participants in the crowd are given a reasonable opportunity to accept all terms and conditions made on behalf of the public customer whose order is subject to facilitation, the Floor Broker may immediately thereafter cross all or any remaining part of such order and the facilitation order at each customer's bid or offer by announcing by public outcry that he is crossing and by stating the quantity and price(s). <u>All such orders are not deemed executed until entered into and executed through the Options Floor Broker Management System (“FBMS”); bids and offers can be withdrawn pursuant to Rule 1000(g).</u>

Once a Floor Broker has announced an order as subject to facilitation and has established a bid (or offer) in between the market for the option(s) to be facilitated, the order cannot be broken up by a subsequent superior bid or offer for just one component to the facilitated order.

(c) *Solicited Orders.* Except as provided in paragraph (e) below, for the purpose of this Rule, a solicitation occurs whenever an order, other than a cross, is presented for execution in the trading crowd resulting from an away-from-the-crowd expression of interests to trade by one broker dealer to another.

(i) If a member appears in the trading crowd in response to a solicitation, other trading crowd participants must be given a reasonable opportunity to respond to the order which prompted the solicitation before the solicited member may respond to the order. Prior to a bid (or offer) being made on behalf of any such order the solicitor or his representative must identify the solicited party to the trading crowd and give all information to the trading crowd which was given to the solicited member.

(ii) A member or member organization representing an order in options ("originating order") may solicit another member, member organization or non-member broker-dealer outside the trading crowd ("solicited party") to participate in the transaction on a proprietary basis provided that the member or member organization representing the originating order, upon entering the trading crowd[to execute the transaction,] must:

(A) announce to the trading crowd the same terms of the originating order that have been disclosed to the solicited party;

(B) bid at the price he/she is prepared to buy from the solicited party or offer at the solicited price he/she is prepared to sell to the solicited party; and

(C) give the trading crowd a reasonable opportunity to accept the bid or offer. <u>All such orders are not deemed executed until entered into and executed through the Options Floor Broker Management System (“FBMS”); bids and offers can be withdrawn pursuant to Rule 1000(g).</u>

(iii) The Floor Broker or his employees must note on the Options Floor Broker Management System that the trade involves a solicited order.

The members of the trading crowd shall have priority over the solicited party order.

(d) - (e) No change.

• • • ***Commentary:*** ------------------

.01 - .03 No change.

.04 Rule 1064(d) does not prohibit a member or member organization from buying or selling a stock, security futures or futures position following receipt of an option order, including a complex order, but prior to announcing such order to the trading crowd, provided that:

(a) – (g) No change.

(h) if at the time a tied hedge transaction is executed[in an options trading crowd], market conditions in any non-Phlx market(s) prevent the execution of the non-options leg(s) at the price(s) agreed upon, the trade representing the options leg(s) of the tied hedge transaction may be cancelled at the request of any member that is a party to the trade.

<u>All such orders are not deemed executed until entered into and executed by the Options Floor Broker Management System ("FBMS"); bids and offers can be withdrawn pursuant to Rule 1000(g).</u>

Rule 1066. Certain Types of <u>Floor-Based</u> <u>(Non-PHLX XL)</u> Orders Defined

<u>These order types are eligible for entry by a Floor Broker for execution through the Options Floor Broker Management System ("FBMS") and, respecting transactions where there is no Floor Broker involved, for execution by members in the trading crowd.</u>

(a)-(c) No change.

(1) No change.

(2) [*Multi-Part Order.* A multi-part order is an order to buy and/or sell a stated number of foreign currency option contracts and a stated number of foreign currency future contracts. A multi-part order may be executed in accordance with the procedures outlined in Rule 1068.] <u>Reserved.</u>

(3) [*Delta Order*. A "delta order" is a contingency order that is dependent upon the amount an option's price changes in relation to a corresponding change of price in the underlying security.] <u>Reserved.</u>

(4) - (5) No change.

(6) [*Market-on-Close Order.* A market-on-close order is a market limit order to be executed as close as possible to the closing bell, or during the closing rotation and should be near to or at the closing price for the particular series.] Reserved.

(7) - (9) No change.

(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) [*One-cancels-the-other Order.* A one-cancels-the-other order consists of two or more orders treated as a unit. The execution of any one of the orders causes the others to be canceled.] Reserved.

(f) [*Hedge Order]* Multi-leg Orders. A [hedge] 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) *Spread Order.* A spread order is an order to buy a stated number of option contracts and to sell a stated number of option contracts in a different series of the same option and may be bid for or offered on a total net debit or credit basis.

[(A) *Inter-Currency Spread Order.* In the case of foreign currency options, a spread order may consist of an order to buy a stated number of option contracts in one foreign currency and to sell the same number of option contracts in a different foreign currency option.]

(2) – (4) No change.

[(g)] (5) *Synthetic Option.* A synthetic option order is an order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with either (i) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of units of the underlying stock or convertible security or the number of units of the underlying stock or convertible security necessary to create a delta neutral position, or (ii) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date, and each representing the same number of units of stock as, and on the opposite side of the market from, the stock or convertible security portion of the order.

(6) *Spread Type Order* – A spread type order is a multi-leg order submitted through the Floor Broker Management System ("FBMS") involving the simultaneous purchase and/or sale of two or more different options series (up to 15) in the same underlying security, priced as a net debit or credit based on the relative prices of the

individual components, for the same account, for the purpose of executing a particular investment strategy. A spread type order may include as one of the legs a stated number of units of an underlying security (stock or Exchange Traded Fund Share ("ETF")) coupled with the purchase or sale of options contract(s). The underlying security must be the deliverable for the options component of that Complex Order and represent exactly 100 shares per option for regular way delivery.

(7) Complex Order. A Complex Order is a multi-leg order that meets the definition of Complex Order in Rule 1080.08(a)(i).

(8) DNA Order. A DNA Order is an order submitted through FBMS that meets the definition of DNA Order in Rule 1080.08(a)(viii).

(g) Reserved.

(h) *Routing order types*. In Phlx XL II, the following order types will be available and governed by Rule 1080(m): DNR (do not route), FIND and SRCH.

[(i) "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.]

• • • ***Commentary:*** ------------------

.01 - .02 No change.

* * * * *

Phlx XL and Phlx XL II

Rule 1080.

(a) - (n) No change.

Commentary:

.01 - .02 No change.

.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 - .05 No change.

.06 Options Floor Broker Management System. (a) The Options Floor Broker Management System ("FBMS") is a component of [AUTOM] PHLX XL designed to enable Floor Brokers and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. The [Options Floor Broker Management System] FBMS also is designed to establish an electronic audit trail for options orders represented by Floor Brokers on the Exchange, to the extent permissible under Rule 1000(f), such that the audit trial 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 Rule 1063(e).

.07 No change.

.08 Complex Orders on Phlx XL.

(a) No change.

(b) Complex orders may be entered in increments of $0.01 as follows:

(i) - (ii) No change.

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

(iv) No change.

(c) - (i) No change.

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OPTION FLOOR PROCEDURE ADVICES AND ORDER & DECORUM REGULATIONS

A. SPECIALISTS

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[B-11 Crossing, Facilitation and Solicited Orders

(a) An Options Floor Broker who holds orders to buy and sell the same options series may cross such orders, provided that he proceeds in the following manner:

(i) In accordance with his responsibilities for due diligence, pursuant to Rule 155, an Options Floor Broker shall request bids and offers for such options series and make all persons in the trading crowd aware of his request.

(ii) After providing an opportunity for such bids and offers to be made, he must bid and offer at prices differing by the minimum increment and must improve the market by bidding above the highest bid or offering below the lowest offer.

(iii) If such bid or offer is not taken, he may cross the orders at such higher bid or lower offer by announcing by public outcry that he is crossing and giving the quantity and price.

(b) Facilitation Orders - A Floor Broker holding an options order for a public customer and a contra-side order may cross such orders in accordance with paragraph (a) above or may execute such orders as a facilitation cross in the following manner:

(i) The Floor Broker or his employees must enter the appropriate notation onto the Options Floor Broker Management System for the public customer's order, together with all of the terms of the order, including any contingency involving other options or the underlying or related securities.

(ii) The Floor Broker shall request markets for the execution of all options components of the order. After providing an opportunity for such markets to be made, the Floor Broker shall announce that he holds an order subject to facilitation and shall bid (or offer) in between the market for each options component and disclose all terms and conditions of the order including all securities which are components of the order.

(iii) After all market participants in the crowd are given a reasonable opportunity to accept all terms and conditions made on behalf of the public customer whose order is subject to facilitation, the Floor Broker may immediately thereafter cross all or any remaining part of such order and the facilitation order at each customer's bid or offer by announcing by public outcry that he is crossing and by stating the quantity and price(s).

Once a Floor Broker has announced an order which consists of two or more components as subject to facilitation and has established a bid (or offer) in between the market for the option(s) to be facilitated, the order can not be broken up by a subsequent superior bid or offer from the crowd for just one component to the facilitated order.

(c) Solicited Orders - For the purpose of this Advice, a solicitation occurs whenever an order, other than a cross, is presented for execution in the trading crowd resulting from an away-from-the-crowd expression of interest.

(i) If a member appears in the trading crowd in response to a solicitation, other trading crowd participants must be given a reasonable opportunity to respond to the order which prompted the solicitation before the solicited member may respond to the order. Prior to a bid (or offer) being made on behalf of any such order, the solicitor or his representative must identify the solicited party to the trading crowd and give all information to the trading crowd which was given to the solicited member.

(ii) A member or member organization representing an order in options ("originating order") may solicit another member, member organization or non-member broker-dealer outside the trading crowd ("solicited party") to participate in the transaction on a proprietary basis provided that the member or member organization representing the originating order, upon entering the trading crowd to execute the transaction, must:

(A) announce to the trading crowd the same terms of the originating order that have been disclosed to the solicited party;

(B) bid at the price he/she is prepared to buy from the solicited party or offer at the solicited price he/she is prepared to sell to the solicited party; and

(C) give the trading crowd a reasonable opportunity to accept the bid or offer.

(iii) The Floor Broker or his employees must note on the Options Floor Broker Management System that the trade involves a solicited order.

The members of the trading crowd shall have priority over the solicited party order.

(d) No member organization or person associated with a member or member organization who has knowledge of the material terms and conditions of a solicited order, an order being facilitated, or orders being crossed, the execution of which are imminent, shall enter, based on such knowledge, an order to buy or sell an option for the same underlying security; an order to buy or sell the security underlying such class; or an order to buy or sell any related instrument until

(i) the terms and conditions of the order and any changes in the terms of the order of which the member, member organization or person associated with a member or member organization has knowledge are disclosed to the trading crowd, or

(ii) the trade can no longer reasonably be considered imminent in view of the passage of time since the order was received.

For purposes of this Rule, an order to buy or sell a "related instrument" means, in reference to an index option, an order to buy or sell securities comprising 10% or more of the component securities in the index or an order to buy or sell a futures contract on an economically equivalent index.

FINE SCHEDULE

Fine not applicable

Commentary:

.01 A violation of this Advice B-11 may be considered conduct inconsistent with just and equitable principles of trade.

.02 Subsection (d) of this OFPA B-11 does not prohibit a member or member organization from buying or selling a stock, security futures or futures position following receipt of an option order, including a complex order, but prior to announcing such order to the trading crowd, provided that:

(a) the option order is in a class designated as eligible for "tied hedge" transactions (as described below) as determined by the Exchange and is within the designated tied hedge eligibility size parameters, which parameters shall be determined by the Exchange and may not be smaller than 500 contracts per order (there shall be no aggregation of multiple orders to satisfy the size parameter);

(b) such member or member organization shall create an electronic record that it is engaging in a tied hedge transaction in a form and manner prescribed by the Exchange;

(c) such hedging position is:

(i) comprised of a position designated as eligible for a tied hedge transaction as determined by the Exchange and may include the same underlying stock applicable to the option order, a security future overlying the same stock applicable to the option order or, in reference to an index, ETF or HOLDR option, a related instrument. A "related instrument" means, in reference to an index option, securities comprising ten percent or more of the component securities in the index or a futures contract on any economically equivalent index applicable to the option order. A "related instrument" means, in reference to an ETF or HOLDR option, a futures contract on any economically equivalent index applicable to the ETF or HOLDR underlying the option order;

(ii) brought without undue delay to the trading crowd and announced concurrently with the option order;

(iii) offered to the trading crowd in its entirety; and

(iv) offered, at the execution price received by the member or member organization introducing the option, to any in-crowd market participant who has established parity or priority for the related options;

(d) the hedging position does not exceed the option order on a delta basis;

(e) all tied hedge transactions (regardless of whether the option order is a simple or complex order) are treated the same as complex orders for purposes of the Exchange's open outcry allocation and reporting procedures. Tied hedge transactions are subject to the existing NBBO trade-through requirements for options and stock, as applicable, and may qualify for various exceptions; however, when the option order is a simple order the execution of the option leg of a tied hedge transaction does not qualify it for any NBBO trade-through exception for a Complex Trade;

(f) in-crowd market participants that participate in the option transaction must also participate in the hedging position and may not prevent the option transaction from occurring by giving a competing bid or offer for one component of such order; and

(g) prior to entering tied hedge orders on behalf of customers, the member or member organization must deliver to the customer a written notification informing the customer that his order may be executed using the Exchange's tied hedge procedures. The written notification must disclose the terms and conditions contained in this Commentary and be in a form approved by the Exchange. A combination option and hedging position offered in reliance on this Commentary .02 (or Commentary .04 to Rule 1064) shall be referred to as a "tied hedge" order.

(h) if at the time a tied hedge transaction is executed in an options trading crowd, market conditions in any non-Phlx market(s) prevent the execution of the non-options leg(s) at the price(s) agreed upon, the trade representing the options leg(s) of the tied hedge transaction may be cancelled at the request of any member that is a party to the trade.]

* * * * *

C. FLOOR BROKERS

C-1 Ascertaining the Presence of Registered Options Traders in a Trading Crowd
A Floor Broker representing an order in options shall[, prior to executing such order,] ascertain that at least one Registered Options Trader is present in the trading crowd at the post where such order is [executed]traded. This Floor Procedure Advice C-1 shall not apply to a Floor Broker in any foreign currency option if no Registered Options Trader registered in such foreign currency option is present on the Exchange's trading floor at that time.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	$250.00
2nd Occurrence	$500.00
3rd Occurrence	$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Business Conduct Committee

C-2 Options Floor Broker Management System
Options Floor Broker Management System. In order to create an electronic audit trail for options orders represented by Floor Brokers on the Exchange's Options Floor, a Floor Broker or such Floor Broker's employees shall, contemporaneously upon receipt of an order and prior to the representation of such an order in the trading crowd, record all options orders represented by such Floor Broker onto the electronic Options Floor Broker Management System (as described in Rule 1080, Commentary .06). The following specific information with respect to orders represented by a Floor Broker shall be recorded by such Floor Broker or such Floor Broker's employees: (i) the order type (i.e., customer, firm, broker-dealer, professional) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle), or contingency order as described in Rule 1066; (v) number of contracts; (vi) limit price or market order or, in the case of a complex or multi-leg order, net debit or credit, if applicable; (vii) whether the transaction is to open or close a position; and (viii) The Options Clearing Corporation ("OCC") clearing number of the broker-dealer that submitted the order (collectively, the "required information"). A F[f]loor [b]Broker must enter complete alpha/numeric identification assigned by the Exchange for all orders entered on behalf of Exchange Registered Option Traders. [Upon the execution of such an order, the Floor Broker shall enter the time of execution of the trade.] Any additional information with respect to the order shall be inputted into the Options Floor Broker Management System contemporaneously upon receipt, which may occur after the representation and execution of the order.

Pursuant to Rule 1000(f), Floor Brokers are not permitted to execute orders in the Exchange’s options trading crowd (subject to certain exceptions). In the event of a malfunction in the Options Floor Broker Management System or in the event that the Exchange determines that Floor Brokers are permitted to execute orders in the

Exchange's options trading crowd for a specific reason pursuant to Rule 1000(f)(iii), Floor Brokers shall record the required information on trade tickets, and shall not represent an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets shall be time stamped upon the execution of such an order. Floor Brokers or their employees shall either enter the required information that is recorded on such trade tickets into the Exchange's electronic trading system or ensure that such information is entered for inclusion in the electronic audit trail.

Floor Brokers or their employees shall enter the required information (as described above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity, equity index and U.S. dollar-settled foreign currency options. Floor Brokers or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

FBMS is also designed to execute two-sided orders entered by Floor Brokers, including multi-leg orders up to 15 legs, after representation in the trading crowd. When a Floor Broker submits an order for execution through FBMS, the order will be executed based on market conditions and in accordance with Exchange rules. FBMS execution functionality will assist the Floor Broker in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Floor Broker on the FBMS. The Floor Broker may resubmit the order for execution, as long as the quotes/orders that comprise the cross have not been withdrawn. Floor Brokers are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Rules 1014, 1033 and 1084.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Business Conduct Committee

C-3 Handling Orders of ROTs and Other Registered Options Market Makers

(a) – (b) No change.

(c) Before [executing]<u>handling</u> an opening transaction on behalf of a ROT, the Floor Broker or his employees must ascertain that the ROT is aware of the terms of the trade and assure that the floor ticket has been initialed and time-stamped by the ROT and that the order is appropriately entered on the Options Floor Broker Management System. The Floor Broker must note on the Options Floor Broker Management System any opening off-floor order to be cleared into a<u>n</u> Exchange market maker account, as indicated by a ROT seeking market maker margin treatment for such order pursuant to Rule 1014, Commentary .01 and Advice B-4, and comply with the requirements of Advice B-12 respecting multiply traded options.

(d) No change.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	$500.00
2nd Occurrence	$1,000.00
3rd Occurrence	$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Business Conduct Committee

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F-2 Allocation, Time Stamping, Matching and Access to Matched Trades

(a) In order to facilitate timely tape reporting of trades, it is the duty of the persons identified below to allocate, match and time stamp trades executed in open outcry and to submit the matched trade tickets to an Exchange Data Entry Technician ("DET") located on the trading floor immediately upon execution. Trades executed electronically via the XL System <u>and through the Options Floor Broker Management System</u> are automatically trade reported without further action required by executing parties:

(i) – (iv) No change.

The person responsible for trade allocation (the "Allocation Participant") shall, for each trade allocated by such Allocating Participant, circle his or her badge identification number on the trade tickets, identifying himself or herself as the Allocating Participant in the particular trade. If the Allocating Participant is not a participant in the trade to be allocated, he/she shall identify himself/herself/ by initialing the trade tickets. In the case of a trade in which a Floor Broker is the Allocating Participant, such Floor Broker shall allocate the trade using the Options Floor Broker Management System.

(b) – (e) No change.

FINE SCHEDULE
(Implemented on a three-year

running calendar basis).

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F-14 Executing [Hedge] <u>Multi-leg</u> and Synthetic Option Orders

A [hedge] <u>multi-leg</u> order (i.e. spread type order) as defined in Exchange Rule 1066(f) may be executed as a single transaction at a single credit or debit in accordance with Exchange Rule 1033(d) and the requirements below:

a) Bids (offers) for the total hedge order must be solicited from the crowd on the basis of a total credit or debit.

b) In the case of an "options-only hedge order" (spread, straddle, and combination orders), the trade may be immediately executed at a single credit or debit which is superior to the aggregate price of the established markets for the individual option legs (on a buy-on-the-bid or sell-on-the-offer basis), such that:

(i) no option leg is executed outside of the established bid/offer for that option contract; and

(ii) at least one option leg is executed at a price better than the established bid/offer for that option contract.

c) In the case of conversions and reversals, the trade may be immediately executed at a single credit or debit which is superior to the aggregate price of the established markets for the individual option legs (on a buy-on-the-bid or sell-on-the-offer basis), such that:

(i) no option leg is executed outside of the established bid/offer for that option contract;

(ii) at least one option leg is executed at a price better than the established bid/offer for that option contract.

d) In the case of a synthetic option order, the trade may be immediately executed at a single credit or debit which is superior to the aggregate price of the established market for the individual legs (on a buy-on-the-offer and sell-on-the-bid basis), provided that the option leg is executed at a price better than the established bid/offer for that option contract.

Once the credit or debit execution price to a [hedge or synthetic] multi-leg option order is agreed upon, the stock portion of the order, if any, must be effected at or near the same time as the execution of the option portion [and participants must promptly match the individual option legs for trade reporting].

FINE SCHEDULE

Fine not applicable.

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