Required fields are shown with yellow backgrounds and asterisks.

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

File No.* SR - 2013 - * 22

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) * ☐

Rule

Pilot ☐	Extension of Time Period for Commission Action * ☐	Date Expires *	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	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) ▣ Section 806(e)(2) ▣	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 Regarding Complex Order PIXL.

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 * Jurij   Last Name * Trypupenko

Title *   Associate General Counsel

E-mail *   jurij.trypupenko@nasdaqomx.com

Telephone * (301) 978-8132   Fax   (301) 978-8472

Signature

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

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

(Title *)

Date   03/05/2013

By   Edward S. Knight   Executive Vice President and General Counsel

(Name *)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Edward S Knight,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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

Exhibit 1 - Notice of Proposed Rule Change *

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

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

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

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

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

Exhibit 3 - Form, Report, or Questionnaire

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

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

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

Partial Amendment

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

1.   Text of the Proposed Rule Change

(a)   Pursuant to the provisions of 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") is filing with the Securities and Exchange Commission ("Commission")

a proposal to amend Rule 1080 (Phlx XL and Phlx XL II) to accommodate Complex

Orders in PIXL.[3]

The Exchange requests that the Commission approve the proposed rule change on

an accelerated basis.

A notice of the proposed rule change for publication in the Federal Register is

attached hereto as Exhibit 1 and the text of the proposed rule change is attached

as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

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

[2]   17 CFR 240.19b-4.

[3]   The Exchange adopted PIXL in October, 2010 as a price-improvement
         mechanism that is a component of the Exchange's fully automated options trading
         system, Phlx XL, now known as XL II. See Securities Exchange Act Release No.
         63027 (October 1, 2010), 75 FR 62160 (October 7, 2010)(SR-Phlx-2010-
         108)(order granting approval of price improvement system, XL).

         Six-legged Complex Orders trade on the Exchange. See Securities Exchange Act
         Release No. 63777 (January 26, 2011), 76 FR 5630 (February 1, 2011)(SR-Phlx-
         2010-157)(approval order allowing six-legged Complex Orders); and
         Commentary.08 to Rule 1080. This proposal would enable Complex Orders to
         trade on PIXL.

2.   Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Directors of the

Exchange on December 11, 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 Jurij

Trypupenko, Associate General Counsel, NASDAQ OMX Group, Inc., at (301) 978-

8132.

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

        a.   Purpose

The purpose of this proposed rule change is to amend Rule 1080 to accommodate

Complex Orders in PIXL. This proposal would allow Complex Orders in the Exchange's

price-improving electronic auction, PIXL, similarly to other options exchanges that

currently allow complex orders in their price-improving electronic auctions.[4]

        Background

                Current PIXL

The PIXL mechanism is a process whereby members electronically submit orders

they represent as agent against principal interest or other interest that they represent as

agent. The submitted orders are stopped at a price and are subsequently entered into an

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[4]   See Securities Exchange Act Release No. 64805 (July 5, 2011), 76 FR 40758
        (July 11, 2011)(SR-ISE-2011-30)(order granting approval of a proposed rule
        change relating to Complex Orders in ISE's Price Improvement Mechanism,
        PIM). See also Securities Exchange Act Release No. 66235 (January 25, 2012),
        77 FR 4844 (January 31, 2012)(SR-CBOE-2011-114)(order granting approval of
        a proposed rule change relating to Complex Order processing in CBOE's Hybrid
        3.0 classes).

auction seeking price improvement. Currently, the PIXL mechanism accepts only simple orders.

An Exchange member may initiate a PIXL Auction ("Initiating Member") by submitting a PIXL Order in one of three ways: [5]

1)   the Initiating Member could submit a PIXL Order specifying a single price at which it seeks to execute the PIXL Order (a "stop price");

2)   an Initiating Member could submit a PIXL Order specifying that it is willing to automatically match as principal or as agent on behalf of an Initiating Order, the price and size of all trading interest, and responses to the PIXL Auction Notification ("PAN") (known as "auto-match"), in which case the PIXL Order will be stopped at the National Best Bid/Offer ("NBBO") on the Initiating Order side of the market (if 50 contracts or greater) or, if less than 50 contracts, the better of: (i) The Phlx Best Bid/Offer ("PBBO") price on the opposite side of the market from the PIXL Order improved by at least one minimum price improvement increment, or (ii) the PIXL Order's limit price (if the order is a limit order), provided in either case that certain circumstances are met and that such price is at least one increment better than the limit of an order on the book on the same side as the PIXL Order; or

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[5]   Three components of the PIXL system were approved by the Commission on a pilot basis: (1) Paragraphs (n)(i)(A)(2) and (n)(i)(B)(2) of Rule 1080, relating to stopping the entire PIXL Order where the order is for a size less than 50 contracts; (2) paragraphs (n)(ii)(B)(4) and (n)(ii)(D) of Rule 1080, relating to the early conclusion of the PIXL Auction; and (3) paragraph (n)(vii) of Rule 1080, stating that there shall be no minimum size requirement of orders entered into PIXL (collectively, the "pilots"). See supra note 3. The pilots were extended for a pilot period expiring July 18, 2013, and are applicable to Complex PIXL. The paragraphs reflecting the pilots are modified to clarify that all of the pilots are applicable to Complex PIXL.

3)   an Initiating Member could submit a PIXL Order specifying that it is willing to either: (i) stop the entire order at a single stop price and auto-match PAN responses, as described below, together with trading interest, at a price or prices that improve the stop price to a specified price above or below which the Initiating Member will not trade (a "Not Worse Than" or "NWT" price); (ii) stop the entire order at a single stop price and auto-match all PAN responses and trading interest at or better than the stop price; or (iii) stop the entire order at the NBBO on the Initiating Order side (if 50 contracts or greater) or the better of: (A) the PBBO price on the opposite side of the market from the PIXL Order improved by one minimum price improvement increment, or (B) the PIXL Order's limit price (if the order is a limit order) on the Initiating Order side (if for less than 50 contracts), and auto-match PAN responses and trading interest at a price or prices that improve the stop price up to the NWT price.[6] In all cases, if the PBBO on the same side of the market as the PIXL Order represents a limit order on the book, the stop price must be at least one minimum price improvement increment better than the booked limit order's limit price.

     After the PIXL Order is entered, a PAN is broadcast and a one-second blind Auction ensues. Anyone may respond to the PAN notification. At the conclusion of the Auction, the PIXL Order will be allocated at the best price(s) among quotes, orders, and PAN responses.

     Once the Initiating Member has submitted a PIXL Order for processing, such PIXL Order may not be modified or cancelled, and a member submitting the order has no ability to control the timing of the execution. The execution is carried out by the

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[6]   The PIXL 50 contract differentiation is applicable to Complex Orders entered into PIXL.

Exchange's Phlx XL automated options trading system and pricing is determined solely

by the other orders and quotes that are present in the Phlx XL system at the time the

Auction ends.

Current Complex Orders

A Complex Order is any order involving the simultaneous purchase and/or sale of

two or more different options series in the same underlying security, priced at 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 Complex Order may also

be a stock-option order, which is an order to buy or sell a stated number of units of an

underlying stock or exchange-traded fund ("ETF") coupled with the purchase or sale of

options contract(s). Complex Orders on Phlx are discussed in Commentary .08 to Rule

1080.[7] In particular, Commentary .08 governs the trading of Complex Orders on the

Phlx's electronic options trading platform, Phlx XL II, to, among other things: (i) permit

Complex Orders with up to six components, including the underlying stock or Exchange

Traded Fund Share ("ETF"); (ii) establish a Do Not Auction ("DNA") designation for

Complex Orders; (iii) add a definition of conforming ratio; (iv) provide priority rules for

Complex Orders traded on Phlx XL II; and (v) provide for the communication of the

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[7]   For the full definition of Complex Order, see Commentary .08(a)(i) to Rule 1080.
        See also Securities Exchange Act Release No. 63777 (January 26, 2011), 76 FR
        5630 (February 1, 2011)(SR-Phlx-2010-157)(order granting approval of a
        proposed rule change relating to Complex Orders in Phlx Commentary .08 to
        Rule 1080 and establishing, among other things, six-legged Complex Orders)(the
        "Complex Order filing"). Prior to the Complex Order filing, a Complex Order
        could be composed of two option legs and could not have a stock component.

        Six other options exchanges have rules that provide for the trading of complex
        orders. See C2 Rule 6.13; CBOE Rules 6.42, 6.45, 6.53C; ISE Rule 722; NYSE
        Arca Rules 6.62(e), 6.91; NYSE MKT Rules 900.3NY(e), 963NY, 980NY.

stock or ETF component of a Complex Order by the Exchange to NASDAQ Options

Services LLC ("NOS"), the Phlx's affiliated broker-dealer, for execution.

Currently, PIXL does not accommodate auctions for Complex Orders as is

allowed on other options exchanges that have price-improving electronic auctions like

PIXL.[8] However, Complex Orders are becoming an increasingly important segment of

options trading. This proposal allows Complex Orders of up to six legs, as defined in

Commentary .08 of Rule 1080, to be entered into the Exchange's PIXL Auction, and

proposes changes to Rule 1080 to facilitate this process without making any

modifications to the PIXL process in place today for orders which are not Complex

Orders, or to the Complex Order rules.[9]

The Proposal

Changes to Rule 1080(n) - PIXL

The Exchange proposes to enhance PIXL so that Complex Orders may be entered

into PIXL and may have the benefit of price improvement functionality (known as

"Complex PIXL").

The Exchange intends to change PIXL, which is codified in Rule 1080(n), only to

the extent needed to accommodate Complex PIXL Orders. The Exchange does so by

exempting Complex PIXL Orders from those sections of PIXL which are not wholly

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[8]   See Securities Exchange Act Release No. 64805 (July 5, 2011), 76 FR 40758
        (July 11, 2011)(SR-ISE-2011-30)(order granting approval of a proposed rule
        change relating to Complex Orders in ISE's Price Improvement Mechanism,
        PIM). See also Securities Exchange Act Release No. 66235 (January 25, 2012),
        77 FR 4844 (January 31, 2012)(SR-CBOE-2011-114)(order granting approval of
        a proposed rule change relating to Complex Order processing in CBOE's Hybrid
        3.0 classes).

[9]   The Exchange notes that, as in most filings, it proposes technical housecleaning
        changes that are described below.

applicable to Complex Orders. Specifically, Complex Orders are exempted from the

following portions of subsection (n) of Rule 1080: (i) the current PIXL auction eligibility

requirements for the account of a public customer and not a public customer that

differentiate whether a PIXL Order is for a size of less than 50 contracts or 50 contracts

or more;[10] (ii) the current procedure for initiating a PAN Auction, how an Initiating

Member must mark the PIXL Order and what the member must specify;[11] (iii) the current

minimum price increment for PAN responses as established pursuant to subparagraph

(i)(A)(1);[12] (iv) the current rejection of PAN responses that are not equal to or better than

the NBBO at the time of receipt of the PAN response;[13] (v) the current allocation process

whereby after public customer interest at a particular price level has been satisfied,

remaining contracts will be allocated among all Exchange quotes, orders and PAN

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[10]   Rule 1080(n)(i)(A) and (B).

[11]   Rule 1080(n)(ii)(A).

[12]   Rule 1080(n)(ii)(A)(7). The Exchange proposes new language in subsection (b)
         stating that the minimum price increment for PAN responses and for an Initiating
         Member's stop price and/or for an NWT price in the case of a Complex Order
         shall be $0.01.

[13]   Rule 1080(n)(ii)(A)(9). The Exchange proposes new language in subsection (9)
         stating that a Complex Order PAN response must be equal to or better than the
         cPBBO, as defined in Commentary .08(a) of this Rule 1080 at the time of receipt
         of the PAN response. PAN responses may be modified or cancelled during the
         Auction. A PAN response (except if it is a Complex Order) submitted with a
         price that is outside the NBBO will be rejected. A Complex Order PAN response
         submitted with a price that is outside the cPBBO will be rejected.

         Commentary .08(a)(iv) defines the term cPBBO as the best net debit or credit
         price for a Complex Order Strategy based on the PBBO for the individual options
         components of such Complex Order Strategy, and, where the underlying security
         is a component of the Complex Order, the National Best Bid and/or Offer for the
         underlying security.

responses;[14] (vi) the current process whereby if there are PAN responses that cross the

then-existing NBBO (provided such NBBO is not crossed) at the time of the conclusion

of the Auction, such PAN responses will be executed, if possible, at their limit price(s);[15]

(vii) the current process whereby if the PIXL Auction price is the same as that of an order

on the limit order book on the same side of the market as the PIXL Order, the PIXL

Order may only be executed at a price that is at least one minimum price improvement

increment better than the resting order's limit price or, if such resting order's limit price

crosses the stop price, then the entire PIXL Order will trade at the stop price with all

better priced interest being considered for execution at the stop price;[16] and (viii) that

currently the execution price for a PIXL Order for the account of a public customer

paired with an order for the account of a public customer must be expressed in the

quoting increment applicable to the affected series, and that such an execution may not

trade through the NBBO or at the same price as any resting customer order.[17]

The Exchange is proposing several rule provisions in respect of Complex Orders

so that they can participate in PIXL Auctions. First, the Exchange proposes new Rule

1080(n)(i)(C) regarding stopping the entire Complex Order when submitting such order

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[14]   Rule 1080(n)(ii)(E)(2)(a), (b), and (c).

[15]   Rule 1080(n)(ii)(F). The Exchange proposes new language adding the alternative
         that if there are Complex Order PAN responses that cross the then-existing
         cPBBO at the time of the conclusion of the Auction, such PAN responses will be
         executed, if possible, at their limit price(s).

[16]   Rule 1080(n)(ii)(G).

[17]   Proposed Rule 1080(n)(vi). The Exchange clarifies that the subsection applies to
         the execution price for a PIXL Order and proposes new language stating that the
         execution price for a Complex Order PIXL may be in $0.01 increments and may
         not trade through the cPBBO or at the same price as a resting customer Complex
         Order.

into PIXL. Specifically, new subsection (C) states that if the PIXL Order is a Complex

Order, as defined in Commentary.08 to Rule 1080, the Initiating Member must stop the

entire PIXL order at a price that is better than the best net price (debit or credit) (i)

available on the Complex Order book; and (ii) achievable from the best Phlx bids and

offers for the individual options (an "improved net price"), provided in either case that

such price is equal to or better than the PIXL Order's limit price.[18] This proposal

maintains the core principal of public customer priority by requiring a Complex Order

submitted into PIXL to be stopped at a net debit/credit price which improves upon the

stated markets present for the individual components of the Complex Order. For

example, a Complex Order to buy one of option A with a PBBO market of $1.00 bid,

offered at $1.20, and sell one of option B with a PBBO market of $0.50 bid, offered at

$0.60, would need to be stopped by the Initiating Member at a net price better than the

calculated cPBBO market of $0.40 bid, offered at $0.70.[19] If in this same example there

was also a resting Complex Order to buy one of option A and sell one of option B on

Phlx for a net debit price of $0.50, the Initiating Member would need to stop the Complex

Order entered into PIXL at a net price better than $0.50 bid and the calculated net best

offer (cPBBO) of $0.70.

Proposed new Rule 1080(n)(i)(C) regarding the permissible stop price for

Complex Orders being submitted into PIXL ensures that the core principal of public

---

[18]   Subsection (n)(i)((D) (re-numbered from current subsection (C)) indicates under
        what circumstances PIXL Orders are not eligible to initiate an Auction and will be
        rejected. Reference to proposed new subsection (C) is added to subsection (D) as
        re-numbered.

[19] $0.40 bid = $1.00 bid of A less $0.60 offer of B; and $0.70 offer = $1.20 offer of
        A less $0.50 bid of B.

customer priority is intact and is consistent with the process set forth by International

Securities Exchange LLC ("ISE") for Complex Orders sent into their Price Improvement

Mechanism ("PIM").[20]

Second, the Exchange is adding proposed new Rule (n)(ii)(A)(2) to explain the

process for initiating a PIXL Complex Auction, which is similar to initiating a PIXL

Auction today. Specifically, proposed new subsection (2) language states that to initiate

the PIXL Complex Order Auction, the Initiating Member must mark the PIXL Order for

Auction processing, and specify either: (a) a single price at which it seeks to execute the

PIXL Order (a "stop price"); or (b) that it is willing to either: (i) stop the entire order at a

single stop price and auto-match PAN responses and trading interest at a price or prices

that improve the stop price to a specified price (a "Not Worse Than" or "NWT" price); or

(ii) stop the entire order at a single stop price and auto-match all PAN responses and

trading interest at or better than the stop price. Once the Initiating Member has submitted

a Complex Order into PIXL for processing pursuant to this subparagraph, such order may

not be modified or cancelled. Under any of the circumstances described in sub-

paragraphs (a)-(b) of subsection (2), the stop price or NWT price may be improved to the

benefit of the PIXL Order during the Auction, but may not be cancelled.

The procedure set forth in new Rule 1080(n)(ii)(A)(2) for Complex Orders is

similar to the procedure set forth in Rule 1080(n)(ii)(A)(1) for initiating a PIXL Auction

for orders which are not complex. However, new Rule 1080(n)(ii)(A)(2) does not allow

for Initiating Members to enter Complex Orders into PIXL and specify, without

stipulating a specific stop price, that they are willing to automatically match as principal

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[20]   Supplementary Material .10 to ISE Rule 723.

or as agent on behalf of an Initiating Order the price and size of all PAN responses, and

trading interest. Initiating Members entering orders into PIXL which are not Complex

Orders may indicate that they are willing to stop the PIXL Order at the NBBO on the

Initiating Order side (if 50 contracts or more) or the PBBO on the opposite side of the

market from the PIXL Order improved by one minimum price improvement increment (if

the PIXL Order is for less than 50 contracts), provided such price is no worse than the

NBBO, by submitting the order with a market price and a NWT market price.

When submitted in this manner, the trading system stops the PIXL order at a price

based on the disseminated markets in that series at the time of order receipt, in

accordance with PIXL rules stated above. The Exchange is not offering this particular

functionality for Complex Orders in order to avoid stopping an order at a net debit/credit

price which may be unexpected by the Initiating Member due to the fact that there are

multiple legs in Complex Orders and prices may change rapidly. Requiring the Initiating

Member to use an exact limit price as the stop price, yet allow the use of a NWT market

price, will ensure that the stop price will meet the Initiating Member's expectations and

still allow the Initiating Member to automatically match other interest if desired.

Third, the Exchange is proposing new language in Rule 1080(n)(ii)(B)(3) to add a

Complex Order PIXL alternative for concluding a Complex Order PIXL Auction.

Specifically, new subsection (3) states that a Complex Order PIXL Auction will conclude

any time the cPBBO or the Complex Order book crosses the PIXL Order stop price on

the same side of the market as the PIXL Order.[21] This language introduces proposed new

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[21]   The Exchange also clarifies the end of the Auction alternative in Rule
        1080(n)(ii)(B)(2) to state that, for a PIXL Auction (except if it is a Complex

Rule 1080(n)(ii)(B)(2) for Complex Order PIXL Auctions that is similar to what is

available for PIXL Auctions today. Today, PIXL Auctions end at the earlier of (i) the

end of the Auction period, (ii) any time there is a trading halt on the Exchange in the

affected series, or (iii) any time the PBBO crosses the PIXL order stop price on the same

side as the PIXL Order. The PBBO includes both orders and quotes on the Exchange.

Complex PIXL Auctions will also conclude (i) at the end of the Auction period or (ii) any

time there is a trading halt on the Exchange in the affected series as stipulated in the rule

today. In addition, the language of proposed new Rule 1080(n)(ii)(B)(3) is being added

to explicitly state that the end of a Complex PIXL Auction can also occur either when the

cPBBO or the Complex Order book crosses the PIXL Order stop price on the same side

of the market as the PIXL Order.

Fourth, the Exchange is proposing new language in Rule 1080(n)(ii)(C) to add a

Complex Order PIXL alternative for execution when a Complex PIXL Auction ended

due to the cPBBO or the Complex Order book crossing the Complex Order PIXL stop

price on the same side as the Complex PIXL Order. Specifically, new language in

subsection (C)(2) states that at the conclusion of the PIXL Auction, in the case of the

cPBBO or the Complex Order book crossing the Complex PIXL Order stop price on the

same side as the Complex PIXL Order, the entire Complex PIXL Order will be executed

at the stop price against executable PAN responses and executable Complex Order

interest. For example, if a Complex PIXL Auction is in progress where the Complex

PIXL Order is a buy order stopped at $0.60, if either the cPBBO (calculated Phlx Best

Bid) moves to be $0.61 bid or better, or if a Complex Order is entered onto the Phlx book

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Order), any time the PBBO crosses the PIXL Order stop price on the same side of
the market as the PIXL Order.

with a bid price of $0.61 or more, the Complex PIXL Auction will be terminated as set

forth in proposed Rule 1080(n)(ii)(B)(3). In such case, any complex sell interest, both

Complex Orders and PAN responses, at a price of $0.60 or lower will be considered for

trade against the Complex PIXL Order at $0.60.

The execution process described above for Complex PIXL Orders is simpler than

the process in place for PIXL Auctions terminated due to the PBBO crossing the PIXL

Order stop price on the same side of the market as the PIXL Order. Currently, when a

PIXL Auction is terminated due to the PBBO crossing the PIXL Order stop price on the

same side of the market as the PIXL Order, the PIXL Order is executed at best response

prices or, if the stop price is the best price in the Auction, is executed at the stop price,

unless the best response price is equal to the price of a limit order resting on the Phlx

book on the same side of the market as the PIXL Order, in which case the PIXL Order

will be executed against that response (but at a price that is at least one minimum price

improvement increment better than the price of such limit order).[22] For example, assume

a PIXL Order to buy 20 contracts is stopped at a price of $0.60 when the market is $0.40

bid, offered at $0.70. Additionally, assume a PAN response is received to sell 10

contracts at $0.55 and an order is submitted and entered onto the Phlx book to sell 10

contracts at $0.60. If a buy order (or quote) with a limit of $0.65 is entered into the Phlx

XL system, the buy order (or quote) will trade immediately against the 10 contract order

offered at $0.60. The buy order (or quote) will not trade against the PAN response

offered at $0.55 since it is an Auction response and is only eligible to trade as part of the

Auction. Any residual interest of the buy order (or quote) is reflected in the PBBO

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22   Rule 1080(n)(ii)(B).

causing the market to move to $0.65 bid, offered at $0.70, the PIXL Auction is

terminated. Provided, in the unlikely event that the PAN response to sell at $0.55 had not

been cancelled, the PAN response will trade 10 contracts against the PIXL Order at $0.55

and any residual PIXL Order contracts will trade at $0.60 against the Initiating Order.

The Exchange is proposing that when a Complex PIXL Auction is terminated due to

either the cPBBO or the Complex Order book crossing the Complex Order PIXL stop

price on the same side as the Complex PIXL Order, such order is only executed through

the cPBBO and/or the Complex Order book at one price, the stop price.[23] Consider a

scenario similar to the stopped PIXL Order example set forth above. Assume that a

Complex PIXL Order to buy is stopped at a price of $0.60. The Complex PIXL Order is

to buy option A and sell option B, where option A is $0.90 bid, offered at $1.00 and

option B is $0.30 bid, offered at $0.40. The individual option markets imply a cPBBO

market of $0.50 bid, offered at $0.70. As before, assume a PAN response is received to

sell the strategy at $0.55. If the market for option A becomes $1.05 bid, offered at $1.15,

the implied (calculated) cPBBO market becomes $0.65 bid, offered at $0.85 causing the

Complex PIXL Auction to terminate. As proposed, the PAN response at $0.55 will trade

against the Complex PIXL Order at the stop price of $0.60. To trade at $.60, at least one

of the option components of the Complex Order will need to be executed at a price which

is outside of the current market where cPBBO is $0.65 bid. Since this event may have up

to six components, the Exchange believes that limiting the prices trading through the

cPBBO and/or the Complex Order book to only the stop price is important. Furthermore,

combined with the improbability that responses will still be available which are crossing

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[23]   Proposed Rule 1080(n)(ii)(B)(3).

the cPBBO or the Complex Order book, the Exchange believes the price continuity of this approach is also more rational and fair to all participants. When executing at the stop price, the Initiating Order as well as all better priced PAN responses and Complex Order interest will be considered for trade against the Complex PIXL Order.

Fifth, the Exchange is proposing new language in Rule 1080(n)(ii)(E)(2)(d) regarding allocation of Complex Order PIXL. Specifically, new subsection (2)(d) states that in the case of a Complex Order PIXL, if the Initiating Member selected the single stop price option of the PIXL Auction, PIXL executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after public customer complex interest is satisfied being allocated to the Initiating Member at the stop price. If only one other participant matches the stop price, then the Initiating Member may be allocated up to 50% of the contracts executed at such price. Complex Orders on the PHLX Complex Order Book, PAN responses, and quotes and orders which comprise the cPBBO will be considered for allocation against the Complex PIXL order. Such interest will be allocated in the following order: (i) to public customer Complex Orders and PAN responses in time priority; (ii) to SQT, RSQT, and non-SQT ROT Complex Orders and PAN responses on a size pro-rata basis; (iii) to non-market maker off-floor broker-dealer Complex Orders and PAN responses on a size pro-rata basis, and (iv) to quotes and orders which comprise the cPBBO with public customer interest being satisfied first in time priority, then to SQT, RSQT, and non-SQT ROT interest satisfied on a size pro-rata basis, and lastly to non-market maker off-floor broker-dealers on a size pro-rata basis. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Member.

For example, a Complex Order to buy one of option A and sell one of option B, 100 times, with a cPBBO of $0.40 bid, $0.70 offer, may be submitted into PIXL by the Initiating Member with a single stop price of $0.60. Assume that during the Auction, Phlx receives the following responses and order interest:

- MM1 responds to sell the strategy 10 times at a price of $0.55

- MM1 responds to sell the strategy 10 times at a price of $0.60

- BD responds to sell the strategy 5 times at a price of $0.60

- Customer Complex Order to sell the strategy 30 times at a price of $0.60

- MM2 responds to sell the strategy 20 times at $0.60.

After all of the aforementioned responses and orders are received, option A of the simple market moves causing the cPBBO to become offered 20 times at $0.55. Option A is quoted in the simple market as $1.00 bid, $1.05 offer, with the $1.05 offer representing a Customer offer. Option B is quoted in the simple market as $0.50 bid, $0.60 offer.

At the end of the Auction, the Complex PIXL Order will be executed 30 times at a price of $0.55. Of those 30 strategies, MM1 will trade 10 and an additional 20 contracts will be traded by legging into the interest that represents the cPBBO, including the Customer offered at $1.05 in Option A. The Complex PIXL Order will then be traded against interest at $0.60. First, the Customer offering the strategy 30 times will be satisfied. Next, the Initiating member will be allocated 40% of the remaining 40 strategy contracts, i.e. 16 strategy contracts at his stop price of $0.60. The residual 24 strategy contracts will trade against the two market maker responses in a pro-rata fashion with MM1 executing 8 strategy contracts and MM2 executing 16 strategy contracts. The

broker dealer offering 5 strategies at $0.60 would not receive any allocation and the response is cancelled back to the participant.

An additional example illustrating the execution algorithm proposed for Complex Order PIXL is as follows. Assume a Complex Order to buy one of option A and sell one of option B, 100 times, with a cPBBO of $0.40 bid, $0.70 offer, may be submitted into PIXL by the Initiating Member with a single stop price of $0.60.   Assume that during the Auction, Phlx receives the following responses and order interest:

- MM1 responds to sell the strategy 10 times at a price of $0.55

- MM1 responds to sell the strategy 10 times at a price of $0.60

- BD responds to sell the strategy 5 times at a price of $0.60

- Customer Complex Order to sell the strategy 30 times at a price of $0.60

- MM2 responds to sell the strategy 20 times at $0.60.

After all of the aforementioned responses and orders are received, option A of the simple market moves causing the cPBBO to become offered 20 times at $0.60. Option A is quoted in the simple market as $1.00 bid, $1.10 offer, with the $1.10 offer representing a Customer offer. Option B is quoted in the simple market as $0.50 bid, $0.60 offer.

At the end of the Auction, the Complex PIXL Order will be executed 10 times at a price of $0.55 against MM1. The Complex PIXL Order will then be traded against interest at $0.60. First, the Customer offering the strategy 30 times will be satisfied. Next, the Initiating member will be allocated 40% of the remaining 60 strategy contracts, i.e. 24 strategy contracts at his stop price of $0.60. The residual 36 strategy contracts will trade against the two market maker responses with MM1 executing 10 strategy contracts and MM2 executing 20 strategy contracts. The broker dealer offering 5 strategies at

$0.60 would then be executed. The last 1 contract would be traded against the cPBBO

interest with the Customer offering Option A at $1.10 receiving priority over any other

interest offered at that price.

Similarly to PIXL, all interest in the Phlx system at the end of a Complex PIXL

auction will be considered for execution against the Complex PIXL Order. Interest will

be traded first based on the prices available at the end of the Auction. At all prices, other

than the final price point, all interest, including Complex Orders, PAN response, and

interest comprising the cPBBO will be fully satisfied. At the final price point, the

Initiating Member will be allocated up to 40% (50% if matching only one other

participant) of the Complex PIXL Order after public customer complex interest has been

satisfied. After public customer complex interest and the Initiating Member have been

allocated contracts, other complex interest will be considered for allocation with SQT,

RSQT, and non-SQT ROT interest being allocated in a size pro-rata fashion followed by

non-market maker off-floor broker dealer complex interest in a size pro-rata fashion.

Once all complex interest, including both Complex Orders and PAN responses, has been

satisfied, interest comprising the cPBBO will be considered for allocation. Public

customer interest comprising the cPBBO will be afforded priority over non-public

customer interest comprising the cPBBO and will be allocated in a price time manner.

After public customer interest comprising the cPBBO has been satisfied, SQT, RSQT,

and non-SQT ROT interest comprising the cPBBO will be allocated in a size pro-rata

fashion followed by non-market maker off-floor broker dealer complex interest in a size

pro-rata fashion.

Since a Complex PIXL Order must improve upon all interest in the Phlx XL system at time of receipt, the proposed Complex PIXL execution algorithm ensures and maintains the priority of established public customer interest. In the event that new interest is received during the auction, Complex Orders and PAN responses will be afforded priority over interest comprising the cPBBO at a given price point. It is important to note, however, that public customer complex interest will maintain priority over non-public customer complex interest and public customer interest comprising the cPBBO will be afforded priority over non-public customer interest comprising the cPBBO. The Complex PIXL Auction allows for all participant types, including public customers, to respond to the auction notification.[24] Public customers responding to the auction or submitting complex order interest during the auction will be afforded priority over non-customer interest. Public customer interest comprising the cPBBO will be afforded priority over non-customer interest comprising the cPBBO but not over complex order or PAN response interest. Such public customer interest was provided the opportunity to respond to the auction and/or submit complex interest during the auction. Since public customer interest comprising the cPBBO chose not to avail themselves of the opportunity to respond to the auction, the public customer interest representing individual components of the cPBBO will not be afforded priority over participants offering contra-side interest to the Complex PIXL for all components of the Complex PIXL Order at the same price point.

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[24]   Rule 1080(n)(ii)(A)(5) (re-numbered from subsection (A)(4)) provides that any person or entity may submit responses to the PAN, provided such response is properly marked specifying price, size and side of the market.

Sixth, the Exchange is proposing new language in Rule 1080(n)(ii)(E)(2)(e) regarding allocation of Complex Order PIXL where an Initiating Member selected "stop and NWT" in respect to the stop price of a PIXL Order submission. Specifically, new subsection (2)(e) states that in the case of a Complex Order PIXL, if the Initiating Member selected the "stop and NWT" option for the Complex PIXL Order submission, contracts shall be allocated as follows: (i) first to Complex Orders and PAN responses at prices better than the NWT price, as well as to quotes and orders which comprise the cPBBO, pursuant to the algorithm set forth above in (n)(ii)(E)(2)(d) of Rule 1080 and (ii) next, to Complex Orders and PAN responses at prices, as well as to quotes and orders which comprise the cPBBO, at the Initiating Member's NWT price and better than the Initiating Member's stop price, beginning with the NWT price. The Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other interest at each price point, except that the Initiating Member shall be entitled to receive up to 40% of the contracts remaining at the final price point (including situations where the final price is the stop price). In the case of an Initiating Order with a NWT price at the market, the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other interest at all price points, except that the Initiating Member shall be entitled to receive up to 40% of the contracts remaining at the final price point (including situations where the final price is the stop price). If there is other interest at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in (n)(ii)(E)(2)(d) of this rule. Any remaining contracts shall be allocated to the Initiating Member.[25]

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25   Proposed new subsection (n)(ii)(E)(2)(f) states that a single quote, order or PAN

For example, a Complex Order to buy one of option A and sell one of option B, 100 times, with a cPBBO of $0.40 bid, $0.70 offer, could be submitted into PIXL by the Initiating Member with a single stop price of $0.60 and a NWT price of $0.55. Assume that during the Auction, a market maker (MM1) responds to the auction notification and offers to sell the same Complex Order strategy 10 times at a price of $0.55 as well as offers to sell the strategy 25 times at a price of $0.60. In addition, assume that a public customer Complex Order to sell the strategy 10 times at $0.60 is received and another market maker (MM2) responds to sell the strategy 25 times at $0.60. At the end of the Auction, the Complex PIXL Order will be executed 10 times at a price of $0.55 against MM1 and an additional 10 times at a price of $0.55 against the Initiating Member since he indicated he was willing to match all interest down to $0.55 by using the NWT functionality. The Complex PIXL Order will then execute 10 times at a price of $0.60 against the public customer offer. Then, the Initiating Member will be allocated 40% of the remaining 70 strategy contracts, i.e. 28 strategy contracts, of the Complex PIXL Order at the stop price of $0.60. The two market maker responders will execute the remaining 42 contracts in a pro-rata fashion with both MM1 and MM2 trading 21 strategy contracts each.

Seventh, the Exchange is proposing new language in Rule 1080(n)(ii)(E)(g) to stipulate that Complex PIXL Orders which include a stock/ETF component will only execute against Complex Orders or PAN responses that also include the stock/ETF component. Such orders will not "leg" to the simple market and will therefore not trade

response shall not be allocated a number of contracts that is greater than its size.

against interest comprising the cPBBO.[26] This behavior is consistent with the handling

of Complex Orders that include a stock/ETF component and are entered into the Phlx

system.[27] Legging of a stock/ETF component would introduce the risk of a participant

not receiving an execution on all components of the Complex Order and is therefore not

considered as a means of executing a Complex Order which includes a stock/ETR

component. The Exchange believes that introducing the risk of not having the ability to

fully execute a complex strategy is counter-productive to, and inconsistent with, the effort

to allow Complex Orders in PIXL. If there are Complex Orders and PAN responses

which satisfy all components of the Complex Order in PIXL, including the stock

component, the stock will be executed in the same manner as it is done today for

Complex Orders.[28]

Eighth, the Exchange is proposing new language in Rule 1080(n)(ii)(H) regarding

a Complex Order PIXL Auction price matching a Complex Order Book price on the same

side of the market as the PIXL Order. Specifically, new subsection (H) states that if the

Complex Order PIXL Auction price is the same as that of a Complex Order on the

Complex Order Book on the same side of the market as the Complex PIXL Order, the

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[26] Complex Orders that include a stock/ETF component and are submitted to the Phlx Complex Order book or entered into a Complex Order Live Auction (COLA) also have a similar restriction. Rule 1080(n)(ii).

[27] Commentary.08 (a)(i) to Rule 1080 states, for example, that stock-option orders can only be executed against other stock-option orders and cannot be executed by the System against orders for the individual components.

[28] The Exchange electronically communicates the underlying security component of the order to NOS for immediate execution as per Exchange Rule 1080 Commentary .08(h). In addition, only those participants with the appropriate documentation (e.g. a Qualified Special Representative ("QSR") arrangement with NOS), as required by Exchange Rule 1080 Commentary .08(a)(i), will be allowed to submit Complex Orders which include a stock component into PIXL.

PIXL Order may only be executed at a price that is at least one minimum price improvement increment better than the resting order's limit price; or if such resting order's limit price crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price. This is similar to how PIXL executions are handled today when an order on the same side as the PIXL Order is on the book.[29] Rule 1080(n)(ii)(H) is being proposed in order to provide for the same behavior when a Complex Order on the same side of the market as the Complex PIXL Order is resting on the book.

Ninth, the Exchange is proposing new language in Rule 1080(n)(ii)(J) regarding Complex Order PIXL Orders with stock components. Specifically, subsection (J)(1) states that a member organizations may only submit Complex PIXL Orders, Complex Orders, and/or PAN responses with a stock/ETF component if such orders/responses comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS pursuant to the Act. Member organizations submitting such orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Members of FINRA or the NASDAQ Stock Market ("NASDAQ") are required to have a Uniform Service Bureau/Executing Broker Agreement ("AGU") with Nasdaq Options Services LLC in order to trade orders containing a stock/ETF component; firms that are not members of FINRA or NASDAQ are required to have a Qualified Special Representative ("QSR") arrangement with Nasdaq Options Services LLC ("NOS") in order to trade orders containing a stock/ETF component.

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[29]   Rule 1080(n)(ii)(G).

New subsection (J)(2) states that where one component of a Complex PIXL Order

is the underlying security, the Exchange shall electronically communicate the underlying

security component of a Complex PIXL Order to NOS, its designated broker-dealer, for

immediate execution. Such execution and reporting will occur otherwise than on the

Exchange and will be handled by NOS pursuant to applicable rules regarding equity

trading. And, new subsection (J)(3) states that when the short sale price test in Rule 201

of Regulation SHO is triggered for a covered security, NOS will not execute a short sale

order in the underlying covered security component of a Complex PIXL Order, Complex

Order, or PAN response if the price is equal to or below the current national best bid.

However, NOS will execute a short sale order in the underlying covered security

component of a Complex PIXL Order if such order was stopped at price which was equal

to or better than the national best bid at the time of order receipt and is being executed by

the Initiating Member or when the Complex PIXL Order, Complex Order, or PAN

response being executed is marked "short exempt," regardless of whether it is at a price

that is equal to or below the current national best bid. If NOS cannot execute the

underlying covered security component of a Complex PIXL Order in accordance with

Rule 201 of Regulation SHO pursuant to the Act, the Complex PIXL Order, Complex

Order, or PAN response will be canceled back to the entering member organization. For

purposes of this paragraph, the term "covered security" shall have the same meaning as in

Rule 201(a)(1) of Regulation SHO. The Exchange is also proposing two additional

minor changes to the Phlx rules in order to accommodate Complex Order submission into

the PIXL mechanism, and one clarifying change to the current PIXL rule. The first of

these rule changes is to current Rule 1080(n)(i)(E), which states that PIXL Orders

submitted during the final second of the trading session in the affected series are not

eligible to initiate an Auction and will be rejected. The Exchange is proposing to alter

the language to state that orders submitted during the final "two seconds" of the trading

session will not be eligible to initiate an Auction and will be rejected. The Exchange is

increasing this duration from one to two seconds in order to accommodate the execution

of multiple components of a Complex Order. Since this time allowance is set for PIXL

as a whole, and not only for PIXL versus Complex PIXL, no orders submitted into the

PIXL mechanism will be accepted when there remains less than two seconds in the

trading session for the components of the order. Second, the Exchange is proposing to

add language to Commentary .08(e)(i)(B)(2) of Rule 1080 to stipulate that a Complex

Order that would otherwise be a COLA-eligible order that is received in a strategy where

there is currently a Complex Order PIXL Auction in progress shall not be COLA-eligible.

The Phlx XL system allows for only one Auction to be ongoing in a given series or

strategy at a time. This rule will be changed slightly to include "strategy" as well as

"series". With the allowance of Complex Orders into PIXL, the Complex Order rules

will also be changed to stipulate that only one Auction, including both COLA and PIXL,

may be conducted at a time in a given strategy.[30]

Lastly, the Exchange is submitting a clarifying change to current Rule

1080(n)(ii)(E)(2)(a). The rule currently states that if the Initiating Member is matched by

only one specialist, SQT or RSQT at the stop price, then the Initiating Member is entitled

to 50% of the contracts executed at such price. The rule is being clarified to state that if

the Initiating Member is matched by only one other "participant," which includes a

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[30]   Proposed Rule 1080(n)(ii).

specialist, SQT or RSQT, as well as any other exchange member, then the Initiating

Member is entitled to 50% of the contracts executed at such price.

        b.   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the

Act[31] in general, and furthers the objectives of Section 6(b)(5) of the Act[32] 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. This will be

effectuated by rule changes that allow Complex Orders to be submitted into the Phlx

price improvement (PIXL) mechanism.

PILX is the Exchange's electronic order, trade, and execution system that allows a

member of the Exchange known as an Initiating Member to electronically submit for

execution an order it represents as agent on behalf of a public customer, broker-dealer, or

any other entity against principal interest or against any other order it represents as agent

provided it submits the PIXL Order for electronic execution into the PIXL Auction

pursuant to the Rule. During the one-second blind PIXL Auction (PAN), the Initiating

Member's stop price or NWT price may be improved to the benefit of the PIXL Order

during the Auction, but may not be cancelled. Anyone may respond to the PAN by

sending orders or quotes. At the conclusion of the Auction, the PIXL Order will be

allocated at the best price(s). PIXL has proven to be, since its institution several years

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[31]   15 U.S.C. 78f(b).

[32]   15 U.S.C. 78f(b)(5).

ago, an effective electronic price improvement and trading tool on the Exchange that, until this proposal, was not able to accept Complex Orders.

Complex Orders allow the simultaneous purchase and/or sale of two or more different options series in the same underlying security and for the same account. These orders are priced at a net debit or credit based on the relative prices of no more than six individual components for the purpose of executing a particular investment strategy. Complex Orders may also be a stock-option orders, which enable buying or selling a stated number of units of an underlying stock or ETF coupled with the purchase or sale of options contract(s). Complex Orders allow the execution of spread and other multifaceted trading and hedging strategies that could not be done effectively, if at all, with multiple simple orders.

Currently, PIXL does not accommodate Complex Orders as is allowed on other options exchanges, such as ISE and the Chicago Board Options Exchange, Incorporated ("CBOE"), which have price-improving electronic auctions like PIXL. Clearly, Complex Orders are and will continue to become an increasingly important hedging and trading segment of the options industry. This proposal simply allows Complex Orders to be entered into the Exchange's PIXL Auction mechanism just as is allowed on ISE and CBOE.

The proposal would be of significant benefit to investors and traders as well as the public, which will gain the opportunity to submit additional orders types seeking price improvement through the PIXL mechanism and may in turn increase Exchange volume. The proposal is decidedly pro-competitive. It would allow the Exchange to better

compete against other markets that already offer accommodation of complex orders in

their electronic auctions.

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. To the contrary, the Exchange believes the proposal is pro-competitive. First, the

proposal would enable the Exchange to provide market participants with an expanded

opportunity to realize price improvement of Complex Orders through PIXL. And second,

the proposal would diminish the potential for foregone market opportunities on the

Exchange by allowing Complex Orders in PIXL to be entered by all Phlx members,

similarly to electronic price improvement functionality for complex orders that is allowed

on other options exchanges.

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

        Not applicable.

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

        The Exchange requests that the Commission approve the proposed rule change on

an accelerated basis pursuant to Section 19(b)(2)[33] of the Act so that, from a competitive

perspective, the Exchange has rules similar to those of other Exchanges that allow

complex orders to enter into a price-improving electronic auction. This would enable

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[33]   15 U.S.C. 78f(b)(2).

Complex PIXL Orders to be entered into the Exchange's electronic auction, PIXL, and

provide the ability to achieve price improvement of such multi-legged complex order

strategies, and thereby enhance the ability of investors, traders, and market participants in

general to execute their trading and hedging decisions.

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

       ISE received approval to allow Complex Orders into their PIM, which is an

electronic auction process, the same as PIXL.[34] The proposed changes that are explained

through examples herein enable Phlx to have functionality that is similar to what is

already approved for and offered by ISE: complex orders in an electronic auction process.

Thus, PIXL will require that Complex Orders submitted into the mechanism are entered

at a price that is better than the best net price (i) available on the complex order book; and

(ii) achievable from the best Phlx bids and offers for the individual legs (an improved net

price) just as the ISE requires.

       In addition, CBOE received approval to allow Complex Orders to be submitted

into their AIM.[35] CBOE's AIM process for non-complex orders is similar to PIXL in

that orders are submitted into the AIM mechanism with a stop price or marked as "auto-

match", in which case the orders are stopped at the NBBO or if less than 50 contracts at

one minimum price improvement increment better than the NBBO. Unlike PIXL,

CBOE's AIM offers participants the ability to submit an order into AIM which first

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[34]   See Securities Exchange Act Release No. 64805 (July 5, 2011), 76 FR 40758
         (July 11, 2011)(SR-ISE-2011-30).

[35]   See Securities Exchange Act Release No. 66235 (January 25, 2012), 77 FR 4844
         (January 31, 2012)(SR-CBOE-2011-114).

clears better priced interest prior to initiating an auction. Orders entered into PIXL must adhere to the acceptance rules upon receipt; if better priced interest is present, the PIXL Order is immediately rejected. Complex Orders may be entered into AIM provided they meet the same eligibility requirements as non-complex orders and the Agency Order is eligible based on its complex order type, order origin, class, and marketability. Unlike CBOE's AIM, however, PIXL will have slightly different acceptance requirements for Complex Orders versus non-complex orders. Phlx will require that all Complex Orders be submitted into PIXL with a stop price which improves both the cPBBO and the Complex Order book regardless of the PIXL order size. In addition, PIXL will not allow a Complex Order to be submitted as an "auto-match" unless the order is also submitted with a specific stop price. CBOE continues to offer this as an option when submitting Complex Orders into AIM.

9.   Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act
      Not applicable.

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

      Not applicable.

11.   Exhibits

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

      5.   Text of the proposed rule change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No.   ; File No. SR-Phlx-2013-22)

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing of
Proposed Rule Change Regarding Complex Order PIXL

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1], and

Rule 19b-4[2] thereunder, notice is hereby given that on March 5, 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 proposal to amend Rule 1080

(Phlx XL and XL II) to accommodate Complex Orders in PIXL.[3]

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

[2]   17 CFR 240.19b-4.

[3]   The Exchange adopted PIXL in October, 2010 as a price-improvement
         mechanism that is a component of the Exchange's fully automated options trading
         system, Phlx XL, now known as XL II. See Securities Exchange Act Release No.
         63027 (October 1, 2010), 75 FR 62160 (October 7, 2010)(SR-Phlx-2010-
         108)(order granting approval to a proposed rule change relating to a proposed
         price improvement system, XL).

         Six-legged Complex Orders trade on the Exchange. See Securities Exchange Act
         Release No. 63777 (January 26, 2011), 76 FR 5630 (February 1, 2011)(SR-Phlx-
         2010-157)(approval order allowing six-legged Complex Orders); and
         Commentary.08 to Rule 1080. This proposal would enable Complex Orders to
         trade on PIXL.

The Exchange requests that the Commission approve the proposed rule change on an accelerated basis.

The text of the proposed rule change is available on the Exchange's Website at http://nasdaqomxphlx.cchwallstreet.com/NASDAQOMXPHLX/Filings/, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at 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 this proposed rule change is to amend Rule 1080 to accommodate Complex Orders in PIXL. This proposal would allow Complex Orders in the Exchange's price-improving electronic auction, PIXL, similarly to other options exchanges that currently allow complex orders in their price-improving electronic auctions.[4]

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[4]   See Securities Exchange Act Release No. 64805 (July 5, 2011), 76 FR 40758 (July 11, 2011)(SR-ISE-2011-30)(order granting approval of a proposed rule change relating to Complex Orders in ISE's Price Improvement Mechanism, PIM). See also Securities Exchange Act Release No. 66235 (January 25, 2012), 77 FR 4844 (January 31, 2012)(SR-CBOE-2011-114)(order granting approval of a proposed rule change relating to Complex Order processing in CBOE's Hybrid 3.0 classes).

Background

Current PIXL

The PIXL mechanism is a process whereby members electronically submit orders they represent as agent against principal interest or other interest that they represent as agent. The submitted orders are stopped at a price and are subsequently entered into an auction seeking price improvement. Currently, the PIXL mechanism accepts only simple orders.

An Exchange member may initiate a PIXL Auction ("Initiating Member") by submitting a PIXL Order in one of three ways: [5]

1)   the Initiating Member could submit a PIXL Order specifying a single price at which it seeks to execute the PIXL Order (a "stop price");

2)   an Initiating Member could submit a PIXL Order specifying that it is willing to automatically match as principal or as agent on behalf of an Initiating Order, the price and size of all trading interest, and responses to the PIXL Auction Notification ("PAN") (known as "auto-match"), in which case the PIXL Order will be stopped at the National Best Bid/Offer ("NBBO") on the Initiating Order side of the market (if 50 contracts or greater) or, if less than 50 contracts, the better of: (i) The Phlx Best Bid/Offer ("PBBO") price on the opposite side of the market from the PIXL Order improved by at least one

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[5]   Three components of the PIXL system were approved by the Commission on a pilot basis: (1) Paragraphs (n)(i)(A)(2) and (n)(i)(B)(2) of Rule 1080, relating to stopping the entire PIXL Order where the order is for a size less than 50 contracts; (2) paragraphs (n)(ii)(B)(4) and (n)(ii)(D) of Rule 1080, relating to the early conclusion of the PIXL Auction; and (3) paragraph (n)(vii) of Rule 1080, stating that there shall be no minimum size requirement of orders entered into PIXL (collectively, the "pilots"). See supra note 3. The pilots were extended for a pilot period expiring July 18, 2013, and are applicable to Complex PIXL. The paragraphs reflecting the pilots are modified to clarify that all of the pilots are applicable to Complex PIXL.

minimum price improvement increment, or (ii) the PIXL Order's limit price (if the order

is a limit order), provided in either case that certain circumstances are met and that such

price is at least one increment better than the limit of an order on the book on the same

side as the PIXL Order; or

3)   an Initiating Member could submit a PIXL Order specifying that it is willing to

either: (i) stop the entire order at a single stop price and auto-match PAN responses, as

described below, together with trading interest, at a price or prices that improve the stop

price to a specified price above or below which the Initiating Member will not trade (a

"Not Worse Than" or "NWT" price); (ii) stop the entire order at a single stop price and

auto-match all PAN responses and trading interest at or better than the stop price; or (iii)

stop the entire order at the NBBO on the Initiating Order side (if 50 contracts or greater)

or the better of: (A) the PBBO price on the opposite side of the market from the PIXL

Order improved by one minimum price improvement increment, or (B) the PIXL Order's

limit price (if the order is a limit order) on the Initiating Order side (if for less than 50

contracts), and auto-match PAN responses and trading interest at a price or prices that

improve the stop price up to the NWT price.[6] In all cases, if the PBBO on the same side

of the market as the PIXL Order represents a limit order on the book, the stop price must

be at least one minimum price improvement increment better than the booked limit

order's limit price.

        After the PIXL Order is entered, a PAN is broadcast and a one-second blind

Auction ensues. Anyone may respond to the PAN notification. At the conclusion of the

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[6]   The PIXL 50 contract differentiation is applicable to Complex Orders entered into
          PIXL.

Auction, the PIXL Order will be allocated at the best price(s) among quotes, orders, and

PAN responses.

Once the Initiating Member has submitted a PIXL Order for processing, such

PIXL Order may not be modified or cancelled, and a member submitting the order has no

ability to control the timing of the execution. The execution is carried out by the

Exchange's Phlx XL automated options trading system and pricing is determined solely

by the other orders and quotes that are present in the Phlx XL system at the time the

Auction ends.

Current Complex Orders

A Complex Order is any order involving the simultaneous purchase and/or sale of

two or more different options series in the same underlying security, priced at 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 Complex Order may also

be a stock-option order, which is an order to buy or sell a stated number of units of an

underlying stock or exchange-traded fund ("ETF") coupled with the purchase or sale of

options contract(s). Complex Orders on Phlx are discussed in Commentary .08 to Rule

1080.[7] In particular, Commentary .08 governs the trading of Complex Orders on the

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[7]   For the full definition of Complex Order, see Commentary .08(a)(i) to Rule 1080.
        See also Securities Exchange Act Release No. 63777 (January 26, 2011), 76 FR
        5630 (February 1, 2011)(SR-Phlx-2010-157)(order granting approval of a
        proposed rule change relating to Complex Orders in Phlx Commentary .08 to
        Rule 1080 and establishing, among other things, six-legged Complex Orders)(the
        "Complex Order filing"). Prior to the Complex Order filing, a Complex Order
        could be composed of two option legs and could not have a stock component.

        Six other options exchanges have rules that provide for the trading of complex
        orders. See C2 Rule 6.13; CBOE Rules 6.42, 6.45, 6.53C; ISE Rule 722; NYSE
        Arca Rules 6.62(e), 6.91; NYSE MKT Rules 900.3NY(e), 963NY, 980NY.

Phlx's electronic options trading platform, Phlx XL II, to, among other things: (i) permit Complex Orders with up to six components, including the underlying stock or Exchange Traded Fund Share ("ETF"); (ii) establish a Do Not Auction ("DNA") designation for Complex Orders; (iii) add a definition of conforming ratio; (iv) provide priority rules for Complex Orders traded on Phlx XL II; and (v) provide for the communication of the stock or ETF component of a Complex Order by the Exchange to NASDAQ Options Services LLC ("NOS"), the Phlx's affiliated broker-dealer, for execution.

Currently, PIXL does not accommodate auctions for Complex Orders as is allowed on other options exchanges that have price-improving electronic auctions like PIXL.[8] However, Complex Orders are becoming an increasingly important segment of options trading. This proposal allows Complex Orders of up to six legs, as defined in Commentary .08 of Rule 1080, to be entered into the Exchange's PIXL Auction, and proposes changes to Rule 1080 to facilitate this process without making any modifications to the PIXL process in place today for orders which are not Complex Orders, or to the Complex Order rules.[9]

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[8] See Securities Exchange Act Release No. 64805 (July 5, 2011), 76 FR 40758 (July 11, 2011)(SR-ISE-2011-30)(order granting approval of a proposed rule change relating to Complex Orders in ISE's Price Improvement Mechanism, PIM). See also Securities Exchange Act Release No. 66235 (January 25, 2012), 77 FR 4844 (January 31, 2012)(SR-CBOE-2011-114)(order granting approval of a proposed rule change relating to Complex Order processing in CBOE's Hybrid 3.0 classes).

[9] The Exchange notes that, as in most filings, it proposes technical housecleaning changes that are described below.

The Proposal

Changes to Rule 1080(n) - PIXL

The Exchange proposes to enhance PIXL so that Complex Orders may be entered

into PIXL and may have the benefit of price improvement functionality (known as

"Complex PIXL").

The Exchange intends to change PIXL, which is codified in Rule 1080(n), only to

the extent needed to accommodate Complex PIXL Orders. The Exchange does so by

exempting Complex PIXL Orders from those sections of PIXL which are not wholly

applicable to Complex Orders. Specifically, Complex Orders are exempted from the

following portions of subsection (n) of Rule 1080: (i) the current PIXL auction eligibility

requirements for the account of a public customer and not a public customer that

differentiate whether a PIXL Order is for a size of less than 50 contracts or 50 contracts

or more;[10] (ii) the current procedure for initiating a PAN Auction, how an Initiating

Member must mark the PIXL Order and what the member must specify;[11] (iii) the current

minimum price increment for PAN responses as established pursuant to subparagraph

(i)(A)(1);[12] (iv) the current rejection of PAN responses that are not equal to or better than

the NBBO at the time of receipt of the PAN response;[13] (v) the current allocation process

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[10]   Rule 1080(n)(i)(A) and (B).

[11]   Rule 1080(n)(ii)(A).

[12]   Rule 1080(n)(ii)(A)(7). The Exchange proposes new language in subsection (b)
         stating that the minimum price increment for PAN responses and for an Initiating
         Member's stop price and/or for an NWT price in the case of a Complex Order
         shall be $0.01.

[13]   Rule 1080(n)(ii)(A)(9). The Exchange proposes new language in subsection (9)
         stating that a Complex Order PAN response must be equal to or better than the
         cPBBO, as defined in Commentary .08(a) of this Rule 1080 at the time of receipt

whereby after public customer interest at a particular price level has been satisfied,

remaining contracts will be allocated among all Exchange quotes, orders and PAN

responses;[14] (vi) the current process whereby if there are PAN responses that cross the

then-existing NBBO (provided such NBBO is not crossed) at the time of the conclusion

of the Auction, such PAN responses will be executed, if possible, at their limit price(s);[15]

(vii) the current process whereby if the PIXL Auction price is the same as that of an order

on the limit order book on the same side of the market as the PIXL Order, the PIXL

Order may only be executed at a price that is at least one minimum price improvement

increment better than the resting order's limit price or, if such resting order's limit price

crosses the stop price, then the entire PIXL Order will trade at the stop price with all

better priced interest being considered for execution at the stop price;[16] and (viii) that

currently the execution price for a PIXL Order for the account of a public customer

paired with an order for the account of a public customer must be expressed in the

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of the PAN response. PAN responses may be modified or cancelled during the
Auction. A PAN response (except if it is a Complex Order) submitted with a
price that is outside the NBBO will be rejected. A Complex Order PAN response
submitted with a price that is outside the cPBBO will be rejected.

Commentary .08(a)(iv) defines the term cPBBO as the best net debit or credit
price for a Complex Order Strategy based on the PBBO for the individual options
components of such Complex Order Strategy, and, where the underlying security
is a component of the Complex Order, the National Best Bid and/or Offer for the
underlying security.

[14]   Rule 1080(n)(ii)(E)(2)(a), (b), and (c).

[15]   Rule 1080(n)(ii)(F). The Exchange proposes new language adding the alternative
that if there are Complex Order PAN responses that cross the then-existing
cPBBO at the time of the conclusion of the Auction, such PAN responses will be
executed, if possible, at their limit price(s).

[16]   Rule 1080(n)(ii)(G).

quoting increment applicable to the affected series, and that such an execution may not

trade through the NBBO or at the same price as any resting customer order.[17]

The Exchange is proposing several rule provisions in respect of Complex Orders

so that they can participate in PIXL Auctions. First, the Exchange proposes new Rule

1080(n)(i)(C) regarding stopping the entire Complex Order when submitting such order

into PIXL. Specifically, new subsection (C) states that if the PIXL Order is a Complex

Order, as defined in Commentary.08 to Rule 1080, the Initiating Member must stop the

entire PIXL order at a price that is better than the best net price (debit or credit) (i)

available on the Complex Order book; and (ii) achievable from the best Phlx bids and

offers for the individual options (an "improved net price"), provided in either case that

such price is equal to or better than the PIXL Order's limit price.[18] This proposal

maintains the core principal of public customer priority by requiring a Complex Order

submitted into PIXL to be stopped at a net debit/credit price which improves upon the

stated markets present for the individual components of the Complex Order. For

example, a Complex Order to buy one of option A with a PBBO market of $1.00 bid,

offered at $1.20, and sell one of option B with a PBBO market of $0.50 bid, offered at

$0.60, would need to be stopped by the Initiating Member at a net price better than the

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[17]   Proposed Rule 1080(n)(vi). The Exchange clarifies that the subsection applies to
        the execution price for a PIXL Order and proposes new language stating that the
        execution price for a Complex Order PIXL may be in $0.01 increments and may
        not trade through the cPBBO or at the same price as a resting customer Complex
        Order.

[18]   Subsection (n)(i)((D) (re-numbered from current subsection (C)) indicates under
        what circumstances PIXL Orders are not eligible to initiate an Auction and will be
        rejected. Reference to proposed new subsection (C) is added to subsection (D) as
        re-numbered.

calculated cPBBO market of $0.40 bid, offered at $0.70.[19] If in this same example there was also a resting Complex Order to buy one of option A and sell one of option B on Phlx for a net debit price of $0.50, the Initiating Member would need to stop the Complex Order entered into PIXL at a net price better than $0.50 bid and the calculated net best offer (cPBBO) of $0.70.

Proposed new Rule 1080(n)(i)(C) regarding the permissible stop price for Complex Orders being submitted into PIXL ensures that the core principal of public customer priority is intact and is consistent with the process set forth by International Securities Exchange LLC ("ISE") for Complex Orders sent into their Price Improvement Mechanism ("PIM").[20]

Second, the Exchange is adding proposed new Rule (n)(ii)(A)(2) to explain the process for initiating a PIXL Complex Auction, which is similar to initiating a PIXL Auction today. Specifically, proposed new subsection (2) language states that to initiate the PIXL Complex Order Auction, the Initiating Member must mark the PIXL Order for Auction processing, and specify either: (a) a single price at which it seeks to execute the PIXL Order (a "stop price"); or (b) that it is willing to either: (i) stop the entire order at a single stop price and auto-match PAN responses and trading interest at a price or prices that improve the stop price to a specified price (a "Not Worse Than" or "NWT" price); or (ii) stop the entire order at a single stop price and auto-match all PAN responses and trading interest at or better than the stop price. Once the Initiating Member has submitted a Complex Order into PIXL for processing pursuant to this subparagraph, such order may

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[19] $0.40 bid = $1.00 bid of A less $0.60 offer of B; and $0.70 offer = $1.20 offer of A less $0.50 bid of B.

[20]   Supplementary Material .10 to ISE Rule 723.

not be modified or cancelled. Under any of the circumstances described in sub-paragraphs (a)-(b) of subsection (2), the stop price or NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled.

The procedure set forth in new Rule 1080(n)(ii)(A)(2) for Complex Orders is similar to the procedure set forth in Rule 1080(n)(ii)(A)(1) for initiating a PIXL Auction for orders which are not complex. However, new Rule 1080(n)(ii)(A)(2) does not allow for Initiating Members to enter Complex Orders into PIXL and specify, without stipulating a specific stop price, that they are willing to automatically match as principal or as agent on behalf of an Initiating Order the price and size of all PAN responses, and trading interest. Initiating Members entering orders into PIXL which are not Complex Orders may indicate that they are willing to stop the PIXL Order at the NBBO on the Initiating Order side (if 50 contracts or more) or the PBBO on the opposite side of the market from the PIXL Order improved by one minimum price improvement increment (if the PIXL Order is for less than 50 contracts), provided such price is no worse than the NBBO, by submitting the order with a market price and a NWT market price.

When submitted in this manner, the trading system stops the PIXL order at a price based on the disseminated markets in that series at the time of order receipt, in accordance with PIXL rules stated above. The Exchange is not offering this particular functionality for Complex Orders in order to avoid stopping an order at a net debit/credit price which may be unexpected by the Initiating Member due to the fact that there are multiple legs in Complex Orders and prices may change rapidly. Requiring the Initiating Member to use an exact limit price as the stop price, yet allow the use of a NWT market

price, will ensure that the stop price will meet the Initiating Member's expectations and

still allow the Initiating Member to automatically match other interest if desired.

Third, the Exchange is proposing new language in Rule 1080(n)(ii)(B)(3) to add a

Complex Order PIXL alternative for concluding a Complex Order PIXL Auction.

Specifically, new subsection (3) states that a Complex Order PIXL Auction will conclude

any time the cPBBO or the Complex Order book crosses the PIXL Order stop price on

the same side of the market as the PIXL Order.[21] This language introduces proposed new

Rule 1080(n)(ii)(B)(2) for Complex Order PIXL Auctions that is similar to what is

available for PIXL Auctions today. Today, PIXL Auctions end at the earlier of (i) the

end of the Auction period, (ii) any time there is a trading halt on the Exchange in the

affected series, or (iii) any time the PBBO crosses the PIXL order stop price on the same

side as the PIXL Order. The PBBO includes both orders and quotes on the Exchange.

Complex PIXL Auctions will also conclude (i) at the end of the Auction period or (ii) any

time there is a trading halt on the Exchange in the affected series as stipulated in the rule

today. In addition, the language of proposed new Rule 1080(n)(ii)(B)(3) is being added

to explicitly state that the end of a Complex PIXL Auction can also occur either when the

cPBBO or the Complex Order book crosses the PIXL Order stop price on the same side

of the market as the PIXL Order.

Fourth, the Exchange is proposing new language in Rule 1080(n)(ii)(C) to add a

Complex Order PIXL alternative for execution when a Complex PIXL Auction ended

due to the cPBBO or the Complex Order book crossing the Complex Order PIXL stop

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[21]   The Exchange also clarifies the end of the Auction alternative in Rule
         1080(n)(ii)(B)(2) to state that, for a PIXL Auction (except if it is a Complex
         Order), any time the PBBO crosses the PIXL Order stop price on the same side of
         the market as the PIXL Order.

price on the same side as the Complex PIXL Order. Specifically, new language in subsection (C)(2) states that at the conclusion of the PIXL Auction, in the case of the cPBBO or the Complex Order book crossing the Complex PIXL Order stop price on the same side as the Complex PIXL Order, the entire Complex PIXL Order will be executed at the stop price against executable PAN responses and executable Complex Order interest. For example, if a Complex PIXL Auction is in progress where the Complex PIXL Order is a buy order stopped at $0.60, if either the cPBBO (calculated Phlx Best Bid) moves to be $0.61 bid or better, or if a Complex Order is entered onto the Phlx book with a bid price of $0.61 or more, the Complex PIXL Auction will be terminated as set forth in proposed Rule 1080(n)(ii)(B)(3). In such case, any complex sell interest, both Complex Orders and PAN responses, at a price of $0.60 or lower will be considered for trade against the Complex PIXL Order at $0.60.

The execution process described above for Complex PIXL Orders is simpler than the process in place for PIXL Auctions terminated due to the PBBO crossing the PIXL Order stop price on the same side of the market as the PIXL Order. Currently, when a PIXL Auction is terminated due to the PBBO crossing the PIXL Order stop price on the same side of the market as the PIXL Order, the PIXL Order is executed at best response prices or, if the stop price is the best price in the Auction, is executed at the stop price, unless the best response price is equal to the price of a limit order resting on the Phlx book on the same side of the market as the PIXL Order, in which case the PIXL Order will be executed against that response (but at a price that is at least one minimum price improvement increment better than the price of such limit order).[22] For example, assume

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[22]   Rule 1080(n)(ii)(B).

a PIXL Order to buy 20 contracts is stopped at a price of $0.60 when the market is $0.40

bid, offered at $0.70. Additionally, assume a PAN response is received to sell 10

contracts at $0.55 and an order is submitted and entered onto the Phlx book to sell 10

contracts at $0.60. If a buy order (or quote) with a limit of $0.65 is entered into the Phlx

XL system, the buy order (or quote) will trade immediately against the 10 contract order

offered at $0.60. The buy order (or quote) will not trade against the PAN response

offered at $0.55 since it is an Auction response and is only eligible to trade as part of the

Auction. Any residual interest of the buy order (or quote) is reflected in the PBBO

causing the market to move to $0.65 bid, offered at $0.70, the PIXL Auction is

terminated. Provided, in the unlikely event that the PAN response to sell at $0.55 had not

been cancelled, the PAN response will trade 10 contracts against the PIXL Order at $0.55

and any residual PIXL Order contracts will trade at $0.60 against the Initiating Order.

The Exchange is proposing that when a Complex PIXL Auction is terminated due to

either the cPBBO or the Complex Order book crossing the Complex Order PIXL stop

price on the same side as the Complex PIXL Order, such order is only executed through

the cPBBO and/or the Complex Order book at one price, the stop price.[23] Consider a

scenario similar to the stopped PIXL Order example set forth above. Assume that a

Complex PIXL Order to buy is stopped at a price of $0.60. The Complex PIXL Order is

to buy option A and sell option B, where option A is $0.90 bid, offered at $1.00 and

option B is $0.30 bid, offered at $0.40. The individual option markets imply a cPBBO

market of $0.50 bid, offered at $0.70. As before, assume a PAN response is received to

sell the strategy at $0.55. If the market for option A becomes $1.05 bid, offered at $1.15,

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[23]   Proposed Rule 1080(n)(ii)(B)(3).

the implied (calculated) cPBBO market becomes $0.65 bid, offered at $0.85 causing the

Complex PIXL Auction to terminate. As proposed, the PAN response at $0.55 will trade

against the Complex PIXL Order at the stop price of $0.60. To trade at $.60, at least one

of the option components of the Complex Order will need to be executed at a price which

is outside of the current market where cPBBO is $0.65 bid. Since this event may have up

to six components, the Exchange believes that limiting the prices trading through the

cPBBO and/or the Complex Order book to only the stop price is important. Furthermore,

combined with the improbability that responses will still be available which are crossing

the cPBBO or the Complex Order book, the Exchange believes the price continuity of

this approach is also more rational and fair to all participants. When executing at the stop

price, the Initiating Order as well as all better priced PAN responses and Complex Order

interest will be considered for trade against the Complex PIXL Order.

Fifth, the Exchange is proposing new language in Rule 1080(n)(ii)(E)(2)(d)

regarding allocation of Complex Order PIXL. Specifically, new subsection (2)(d) states

that in the case of a Complex Order PIXL, if the Initiating Member selected the single

stop price option of the PIXL Auction, PIXL executions will occur at prices that improve

the stop price, and then at the stop price with up to 40% of the remaining contracts after

public customer complex interest is satisfied being allocated to the Initiating Member at

the stop price. If only one other participant matches the stop price, then the Initiating

Member may be allocated up to 50% of the contracts executed at such price. Complex

Orders on the PHLX Complex Order Book, PAN responses, and quotes and orders which

comprise the cPBBO will be considered for allocation against the Complex PIXL order.

Such interest will be allocated in the following order: (i) to public customer Complex

Orders and PAN responses in time priority; (ii) to SQT, RSQT, and non-SQT ROT

Complex Orders and PAN responses on a size pro-rata basis; (iii) to non-market maker

off-floor broker-dealer Complex Orders and PAN responses on a size pro-rata basis, and

(iv) to quotes and orders which comprise the cPBBO with public customer interest being

satisfied first in time priority, then to SQT, RSQT, and non-SQT ROT interest satisfied

on a size pro-rata basis, and lastly to non-market maker off-floor broker-dealers on a size

pro-rata basis. Thereafter, remaining contracts, if any, shall be allocated to the Initiating

Member.

For example, a Complex Order to buy one of option A and sell one of option B,

100 times, with a cPBBO of $0.40 bid, $0.70 offer, may be submitted into PIXL by the

Initiating Member with a single stop price of $0.60. Assume that during the Auction,

Phlx receives the following responses and order interest:

- MM1 responds to sell the strategy 10 times at a price of $0.55

- MM1 responds to sell the strategy 10 times at a price of $0.60

- BD responds to sell the strategy 5 times at a price of $0.60

- Customer Complex Order to sell the strategy 30 times at a price of $0.60

- MM2 responds to sell the strategy 20 times at $0.60.

After all of the aforementioned responses and orders are received, option A of the simple

market moves causing the cPBBO to become offered 20 times at $0.55. Option A is

quoted in the simple market as $1.00 bid, $1.05 offer, with the $1.05 offer representing a

Customer offer. Option B is quoted in the simple market as $0.50 bid, $0.60 offer.

At the end of the Auction, the Complex PIXL Order will be executed 30 times at

a price of $0.55. Of those 30 strategies, MM1 will trade 10 and an additional 20

contracts will be traded by legging into the interest that represents the cPBBO, including

the Customer offered at $1.05 in Option A. The Complex PIXL Order will then be traded

against interest at $0.60. First, the Customer offering the strategy 30 times will be

satisfied. Next, the Initiating member will be allocated 40% of the remaining 40 strategy

contracts, i.e. 16 strategy contracts at his stop price of $0.60. The residual 24 strategy

contracts will trade against the two market maker responses in a pro-rata fashion with

MM1 executing 8 strategy contracts and MM2 executing 16 strategy contracts. The

broker dealer offering 5 strategies at $0.60 would not receive any allocation and the

response is cancelled back to the participant.

An additional example illustrating the execution algorithm proposed for Complex

Order PIXL is as follows. Assume a Complex Order to buy one of option A and sell one

of option B, 100 times, with a cPBBO of $0.40 bid, $0.70 offer, may be submitted into

PIXL by the Initiating Member with a single stop price of $0.60.   Assume that during the

Auction, Phlx receives the following responses and order interest:

- MM1 responds to sell the strategy 10 times at a price of $0.55

- MM1 responds to sell the strategy 10 times at a price of $0.60

- BD responds to sell the strategy 5 times at a price of $0.60

- Customer Complex Order to sell the strategy 30 times at a price of $0.60

- MM2 responds to sell the strategy 20 times at $0.60.

After all of the aforementioned responses and orders are received, option A of the simple

market moves causing the cPBBO to become offered 20 times at $0.60. Option A is

quoted in the simple market as $1.00 bid, $1.10 offer, with the $1.10 offer representing a

Customer offer. Option B is quoted in the simple market as $0.50 bid, $0.60 offer.

At the end of the Auction, the Complex PIXL Order will be executed 10 times at a price of $0.55 against MM1. The Complex PIXL Order will then be traded against interest at $0.60. First, the Customer offering the strategy 30 times will be satisfied. Next, the Initiating member will be allocated 40% of the remaining 60 strategy contracts, i.e. 24 strategy contracts at his stop price of $0.60. The residual 36 strategy contracts will trade against the two market maker responses with MM1 executing 10 strategy contracts and MM2 executing 20 strategy contracts. The broker dealer offering 5 strategies at $0.60 would then be executed. The last 1 contract would be traded against the cPBBO interest with the Customer offering Option A at $1.10 receiving priority over any other interest offered at that price.

Similarly to PIXL, all interest in the Phlx system at the end of a Complex PIXL auction will be considered for execution against the Complex PIXL Order. Interest will be traded first based on the prices available at the end of the Auction. At all prices, other than the final price point, all interest, including Complex Orders, PAN response, and interest comprising the cPBBO will be fully satisfied. At the final price point, the Initiating Member will be allocated up to 40% (50% if matching only one other participant) of the Complex PIXL Order after public customer complex interest has been satisfied. After public customer complex interest and the Initiating Member have been allocated contracts, other complex interest will be considered for allocation with SQT, RSQT, and non-SQT ROT interest being allocated in a size pro-rata fashion followed by non-market maker off-floor broker dealer complex interest in a size pro-rata fashion. Once all complex interest, including both Complex Orders and PAN responses, has been satisfied, interest comprising the cPBBO will be considered for allocation. Public

customer interest comprising the cPBBO will be afforded priority over non-public

customer interest comprising the cPBBO and will be allocated in a price time manner.

After public customer interest comprising the cPBBO has been satisfied, SQT, RSQT,

and non-SQT ROT interest comprising the cPBBO will be allocated in a size pro-rata

fashion followed by non-market maker off-floor broker dealer complex interest in a size

pro-rata fashion.

Since a Complex PIXL Order must improve upon all interest in the Phlx XL

system at time of receipt, the proposed Complex PIXL execution algorithm ensures and

maintains the priority of established public customer interest. In the event that new

interest is received during the auction, Complex Orders and PAN responses will be

afforded priority over interest comprising the cPBBO at a given price point. It is

important to note, however, that public customer complex interest will maintain priority

over non-public customer complex interest and public customer interest comprising the

cPBBO will be afforded priority over non-public customer interest comprising the

cPBBO. The Complex PIXL Auction allows for all participant types, including public

customers, to respond to the auction notification.[24] Public customers responding to the

auction or submitting complex order interest during the auction will be afforded priority

over non-customer interest. Public customer interest comprising the cPBBO will be

afforded priority over non-customer interest comprising the cPBBO but not over complex

order or PAN response interest. Such public customer interest was provided the

opportunity to respond to the auction and/or submit complex interest during the auction.

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[24]   Rule 1080(n)(ii)(A)(5) (re-numbered from subsection (A)(4)) provides that any
        person or entity may submit responses to the PAN, provided such response is
        properly marked specifying price, size and side of the market.

Since public customer interest comprising the cPBBO chose not to avail themselves of the opportunity to respond to the auction, the public customer interest representing individual components of the cPBBO will not be afforded priority over participants offering contra-side interest to the Complex PIXL for all components of the Complex PIXL Order at the same price point.

Sixth, the Exchange is proposing new language in Rule 1080(n)(ii)(E)(2)(e) regarding allocation of Complex Order PIXL where an Initiating Member selected "stop and NWT" in respect to the stop price of a PIXL Order submission. Specifically, new subsection (2)(e) states that in the case of a Complex Order PIXL, if the Initiating Member selected the "stop and NWT" option for the Complex PIXL Order submission, contracts shall be allocated as follows: (i) first to Complex Orders and PAN responses at prices better than the NWT price, as well as to quotes and orders which comprise the cPBBO, pursuant to the algorithm set forth above in (n)(ii)(E)(2)(d) of Rule 1080 and (ii) next, to Complex Orders and PAN responses at prices, as well as to quotes and orders which comprise the cPBBO, at the Initiating Member's NWT price and better than the Initiating Member's stop price, beginning with the NWT price. The Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other interest at each price point, except that the Initiating Member shall be entitled to receive up to 40% of the contracts remaining at the final price point (including situations where the final price is the stop price). In the case of an Initiating Order with a NWT price at the market, the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other interest at all price points, except that the Initiating Member shall be entitled to receive up to 40% of the contracts remaining at the final price point

(including situations where the final price is the stop price). If there is other interest at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in (n)(ii)(E)(2)(d) of this rule. Any remaining contracts shall be allocated to the Initiating Member.[25]

For example, a Complex Order to buy one of option A and sell one of option B, 100 times, with a cPBBO of $0.40 bid, $0.70 offer, could be submitted into PIXL by the Initiating Member with a single stop price of $0.60 and a NWT price of $0.55. Assume that during the Auction, a market maker (MM1) responds to the auction notification and offers to sell the same Complex Order strategy 10 times at a price of $0.55 as well as offers to sell the strategy 25 times at a price of $0.60. In addition, assume that a public customer Complex Order to sell the strategy 10 times at $0.60 is received and another market maker (MM2) responds to sell the strategy 25 times at $0.60. At the end of the Auction, the Complex PIXL Order will be executed 10 times at a price of $0.55 against MM1 and an additional 10 times at a price of $0.55 against the Initiating Member since he indicated he was willing to match all interest down to $0.55 by using the NWT functionality. The Complex PIXL Order will then execute 10 times at a price of $0.60 against the public customer offer. Then, the Initiating Member will be allocated 40% of the remaining 70 strategy contracts, i.e. 28 strategy contracts, of the Complex PIXL Order at the stop price of $0.60. The two market maker responders will execute the remaining 42 contracts in a pro-rata fashion with both MM1 and MM2 trading 21 strategy contracts each.

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[25]   Proposed new subsection (n)(ii)(E)(2)(f) states that a single quote, order or PAN response shall not be allocated a number of contracts that is greater than its size.

Seventh, the Exchange is proposing new language in Rule 1080(n)(ii)(E)(g) to stipulate that Complex PIXL Orders which include a stock/ETF component will only execute against Complex Orders or PAN responses that also include the stock/ETF component. Such orders will not "leg" to the simple market and will therefore not trade against interest comprising the cPBBO.[26] This behavior is consistent with the handling of Complex Orders that include a stock/ETF component and are entered into the Phlx system.[27] Legging of a stock/ETF component would introduce the risk of a participant not receiving an execution on all components of the Complex Order and is therefore not considered as a means of executing a Complex Order which includes a stock/ETR component. The Exchange believes that introducing the risk of not having the ability to fully execute a complex strategy is counter-productive to, and inconsistent with, the effort to allow Complex Orders in PIXL. If there are Complex Orders and PAN responses which satisfy all components of the Complex Order in PIXL, including the stock component, the stock will be executed in the same manner as it is done today for Complex Orders.[28]

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[26]   Complex Orders that include a stock/ETF component and are submitted to the Phlx Complex Order book or entered into a Complex Order Live Auction (COLA) also have a similar restriction. Rule 1080(n)(ii).

[27]   Commentary.08 (a)(i) to Rule 1080 states, for example, that stock-option orders can only be executed against other stock-option orders and cannot be executed by the System against orders for the individual components.

[28]   The Exchange electronically communicates the underlying security component of the order to NOS for immediate execution as per Exchange Rule 1080 Commentary .08(h). In addition, only those participants with the appropriate documentation (e.g. a Qualified Special Representative ("QSR") arrangement with NOS), as required by Exchange Rule 1080 Commentary .08(a)(i), will be allowed to submit Complex Orders which include a stock component into PIXL.

Eighth, the Exchange is proposing new language in Rule 1080(n)(ii)(H) regarding a Complex Order PIXL Auction price matching a Complex Order Book price on the same side of the market as the PIXL Order. Specifically, new subsection (H) states that if the Complex Order PIXL Auction price is the same as that of a Complex Order on the Complex Order Book on the same side of the market as the Complex PIXL Order, the PIXL Order may only be executed at a price that is at least one minimum price improvement increment better than the resting order's limit price; or if such resting order's limit price crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price. This is similar to how PIXL executions are handled today when an order on the same side as the PIXL Order is on the book.[29] Rule 1080(n)(ii)(H) is being proposed in order to provide for the same behavior when a Complex Order on the same side of the market as the Complex PIXL Order is resting on the book.

Ninth, the Exchange is proposing new language in Rule 1080(n)(ii)(J) regarding Complex Order PIXL Orders with stock components. Specifically, subsection (J)(1) states that a member organizations may only submit Complex PIXL Orders, Complex Orders, and/or PAN responses with a stock/ETF component if such orders/responses comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS pursuant to the Act. Member organizations submitting such orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Members of FINRA or the NASDAQ Stock Market ("NASDAQ") are required to have a Uniform Service Bureau/Executing Broker Agreement ("AGU") with

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[29]   Rule 1080(n)(ii)(G).

Nasdaq Options Services LLC in order to trade orders containing a stock/ETF

component; firms that are not members of FINRA or NASDAQ are required to have a

Qualified Special Representative ("QSR") arrangement with Nasdaq Options Services

LLC ("NOS") in order to trade orders containing a stock/ETF component.

New subsection (J)(2) states that where one component of a Complex PIXL Order

is the underlying security, the Exchange shall electronically communicate the underlying

security component of a Complex PIXL Order to NOS, its designated broker-dealer, for

immediate execution. Such execution and reporting will occur otherwise than on the

Exchange and will be handled by NOS pursuant to applicable rules regarding equity

trading. And, new subsection (J)(3) states that when the short sale price test in Rule 201

of Regulation SHO is triggered for a covered security, NOS will not execute a short sale

order in the underlying covered security component of a Complex PIXL Order, Complex

Order, or PAN response if the price is equal to or below the current national best bid.

However, NOS will execute a short sale order in the underlying covered security

component of a Complex PIXL Order if such order was stopped at price which was equal

to or better than the national best bid at the time of order receipt and is being executed by

the Initiating Member or when the Complex PIXL Order, Complex Order, or PAN

response being executed is marked "short exempt," regardless of whether it is at a price

that is equal to or below the current national best bid. If NOS cannot execute the

underlying covered security component of a Complex PIXL Order in accordance with

Rule 201 of Regulation SHO pursuant to the Act, the Complex PIXL Order, Complex

Order, or PAN response will be canceled back to the entering member organization. For

purposes of this paragraph, the term "covered security" shall have the same meaning as in

Rule 201(a)(1) of Regulation SHO. The Exchange is also proposing two additional minor changes to the Phlx rules in order to accommodate Complex Order submission into the PIXL mechanism, and one clarifying change to the current PIXL rule. The first of these rule changes is to current Rule 1080(n)(i)(E), which states that PIXL Orders submitted during the final second of the trading session in the affected series are not eligible to initiate an Auction and will be rejected. The Exchange is proposing to alter the language to state that orders submitted during the final "two seconds" of the trading session will not be eligible to initiate an Auction and will be rejected. The Exchange is increasing this duration from one to two seconds in order to accommodate the execution of multiple components of a Complex Order. Since this time allowance is set for PIXL as a whole, and not only for PIXL versus Complex PIXL, no orders submitted into the PIXL mechanism will be accepted when there remains less than two seconds in the trading session for the components of the order. Second, the Exchange is proposing to add language to Commentary .08(e)(i)(B)(2) of Rule 1080 to stipulate that a Complex Order that would otherwise be a COLA-eligible order that is received in a strategy where there is currently a Complex Order PIXL Auction in progress shall not be COLA-eligible. The Phlx XL system allows for only one Auction to be ongoing in a given series or strategy at a time. This rule will be changed slightly to include "strategy" as well as "series". With the allowance of Complex Orders into PIXL, the Complex Order rules will also be changed to stipulate that only one Auction, including both COLA and PIXL, may be conducted at a time in a given strategy.[30]

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30   Proposed Rule 1080(n)(ii).

Lastly, the Exchange is submitting a clarifying change to current Rule

1080(n)(ii)(E)(2)(a). The rule currently states that if the Initiating Member is matched by

only one specialist, SQT or RSQT at the stop price, then the Initiating Member is entitled

to 50% of the contracts executed at such price. The rule is being clarified to state that if

the Initiating Member is matched by only one other "participant," which includes a

specialist, SQT or RSQT, as well as any other exchange member, then the Initiating

Member is entitled to 50% of the contracts executed at such price.

2.   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the

Act[31] in general, and furthers the objectives of Section 6(b)(5) of the Act[32] 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. This will be

effectuated by rule changes that allow Complex Orders to be submitted into the Phlx

price improvement (PIXL) mechanism.

PILX is the Exchange's electronic order, trade, and execution system that allows a

member of the Exchange known as an Initiating Member to electronically submit for

execution an order it represents as agent on behalf of a public customer, broker-dealer, or

any other entity against principal interest or against any other order it represents as agent

provided it submits the PIXL Order for electronic execution into the PIXL Auction

pursuant to the Rule. During the one-second blind PIXL Auction (PAN), the Initiating

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[31]   15 U.S.C. 78f(b).

[32]   15 U.S.C. 78f(b)(5).

Member's stop price or NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled. Anyone may respond to the PAN by sending orders or quotes. At the conclusion of the Auction, the PIXL Order will be allocated at the best price(s). PIXL has proven to be, since its institution several years ago, an effective electronic price improvement and trading tool on the Exchange that, until this proposal, was not able to accept Complex Orders.

Complex Orders allow the simultaneous purchase and/or sale of two or more different options series in the same underlying security and for the same account. These orders are priced at a net debit or credit based on the relative prices of no more than six individual components for the purpose of executing a particular investment strategy. Complex Orders may also be a stock-option orders, which enable buying or selling a stated number of units of an underlying stock or ETF coupled with the purchase or sale of options contract(s). Complex Orders allow the execution of spread and other multifaceted trading and hedging strategies that could not be done effectively, if at all, with multiple simple orders.

Currently, PIXL does not accommodate Complex Orders as is allowed on other options exchanges, such as ISE and the Chicago Board Options Exchange, Incorporated ("CBOE"), which have price-improving electronic auctions like PIXL. Clearly, Complex Orders are and will continue to become an increasingly important hedging and trading segment of the options industry. This proposal simply allows Complex Orders to be entered into the Exchange's PIXL Auction mechanism just as is allowed on ISE and CBOE.

The proposal would be of significant benefit to investors and traders as well as the public, which will gain the opportunity to submit additional orders types seeking price improvement through the PIXL mechanism and may in turn increase Exchange volume. The proposal is decidedly pro-competitive. It would allow the Exchange to better compete against other markets that already offer accommodation of complex orders in their electronic auctions.

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. To the contrary, the Exchange believes the proposal is pro-competitive. First, the proposal would enable the Exchange to provide market participants with an expanded opportunity to realize price improvement of Complex Orders through PIXL. And second, the proposal would diminish the potential for foregone market opportunities on the Exchange by allowing Complex Orders in PIXL to be entered by all Phlx members, similarly to electronic price improvement functionality for complex orders that is allowed on other options exchanges.

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 disapprovedIV. 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-2013-22 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-2013-22. 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-2013-22 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.[33]

Kevin M. O'Neill
Deputy Secretary

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[33]   17 CFR 200.30-3(a)(12).

EXHIBIT 5

Proposed new text is underlined. Deleted text is [bracketed].

Phlx Option Rules

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Rule 1080. Phlx XL and Phlx XL II

(a) – (o)   No Change.

(n) **Price Improvement XL ("PIXL")**

A member may electronically submit for execution an order it represents as agent on behalf of a public customer, broker-dealer, or any other entity ("PIXL Order") against principal interest or against any other order (except as provided in sub-paragraph (n)(i)(E) below) it represents as agent (an "Initiating Order") provided it submits the PIXL Order for electronic execution into the PIXL Auction ("Auction") pursuant to this Rule.

   (i) Auction Eligibility Requirements. All options traded on the Exchange are eligible for PIXL. A member (the "Initiating Member") may initiate an Auction provided all of the following are met:

   (A) if the PIXL Order (except if it is a Complex Order) is for the account of a public customer:

      (1) and is for a size of 50 contracts or more, the Initiating Member must stop the entire PIXL Order (except if it is a Complex Order) at a price that is equal to or better than the National Best Bid/Offer ("NBBO") on the opposite side of the market from the PIXL Order, provided that such price must be at least one minimum price improvement increment (as determined by the Exchange but not smaller than one cent) better than any limit order on the limit order book on the same side of the market as the PIXL Order.

      (2) and is for a size of less than 50 contracts, the Initiating Member must stop the entire PIXL Order (except if it is a Complex Order) at a price that is the better of: (i) the Exchange's Best Bid or Offer ("PBBO") price on the opposite side of the market from the PIXL Order improved by at least one minimum price improvement increment, or (ii) the PIXL Order's limit price (if the order is a limit order), provided in either case that such price is at or better than the NBBO, and at least one minimum price improvement increment better than any limit order on the book on the same side of the market as the PIXL Order. This sub-paragraph (A)(2) shall be effective for a pilot period scheduled to expire July 18, 2013.

(B) If the PIXL Order (except if it is a Complex Order) is for the account of a broker-dealer or any other person or entity that is not a public customer:

(1) and is for a size of 50 contracts or more: the Initiating Member must stop the entire PIXL Order (except if it is a Complex Order) at a price that is the better of: (i) the PBBO price improved by at least one minimum price improvement increment on the same side of the market as the PIXL Order, or (ii) the PIXL Order's limit price (if the order is a limit order), provided in either case that such price is at or better than the NBBO.

(2) and is for a size of less than 50 contracts, the Initiating Member must stop the entire PIXL Order (except if it is a Complex Order) at a price that is the better of: (i) the PBBO price improved by at least one minimum price improvement increment on the same side of the market as the PIXL Order, or (ii) the PIXL Order's limit price (if the order is a limit order), provided in either case that such price is at or better than the NBBO and at least one minimum improvement increment better than the PBBO on the opposite side of the market from the PIXL Order. This sub-paragraph (B)(2) shall be effective for a pilot period scheduled to expire July 18, 2013.

(C) If the PIXL Order is a Complex Order, as defined in Commentary.08 to Rule 1080, the Initiating Member must stop the entire PIXL order at a price that is better than the best net price (debit or credit) (i) available on the Complex Order book; and (ii) achievable from the best PHLX bids and offers for the individual options (an "improved net price"), provided in either case that such price is equal to or better than the PIXL Order's limit price.

([C]D) PIXL Orders that do not comply with the requirements of sub-paragraphs (A)[and], (B), and (C) above are not eligible to initiate an Auction and will be rejected.

([D]E) PIXL Orders submitted at or before the opening of trading are not eligible to initiate an Auction and will be rejected.

([E]F) PIXL Orders submitted during the final two seconds of the trading session in the affected series are not eligible to initiate an Auction and will be rejected.

([F]G) An Initiating Order may not be a solicited order for the account of any Exchange specialist, SQT, RSQT or non-streaming ROT assigned in the affected series.

(ii) Auction Process. Only one Auction may be conducted at a time in any given series or strategy. Once commenced, an Auction may not be cancelled and shall proceed as follows:

(A) Auction Period and PIXL Auction Notification ("PAN").

(1) To initiate the Auction (except if it is a Complex Order), the Initiating Member must mark the PIXL Order for Auction processing, and specify either: (a) a single price at which it seeks to execute the PIXL Order (a "stop price"); (b) that it is willing to automatically match as principal or as agent on behalf of an Initiating Order the price and size of all PAN responses, and trading interest ("auto-match") in which case the PIXL Order will be stopped at the NBBO on the Initiating Order side (if 50 contracts or greater) or, if less than 50 contracts, the better of: (i) the PBBO price on the opposite side of the market from the PIXL Order improved by one minimum price improvement increment, or (ii) the PIXL Order's limit price (if the order is a limit order), provided in either case that such price is at or better than the NBBO; or (c) that it is willing to either: (i) stop the entire order at a single stop price and auto-match PAN responses and trading interest at a price or prices that improve the stop price to a specified price (a "Not Worse Than" or "NWT" price); (ii) stop the entire order at a single stop price and auto-match all PAN responses and trading interest at or better than the stop price; or (iii) stop the entire order at the NBBO on the Initiating Order side (if 50 contracts or greater) or the better of: (A) the PBBO price on the opposite side of the market from the PIXL Order improved by one minimum price improvement increment, or (B) the PIXL Order's limit price (if the order is a limit order) (if for less than 50 contracts), and auto-match PAN responses and trading interest at a price or prices that improve the stop price up to the NWT price. In all cases, if the PBBO on the same side of the market as the PIXL Order represents a limit order on the book, the stop price must be at least one minimum price improvement increment better than the booked limit order's limit price. Once the Initiating Member has submitted a PIXL Order for processing pursuant to this subparagraph, such PIXL Order may not be modified or cancelled. Under any of the circumstances described in sub-paragraphs (a)-(c) above, the stop price or NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled.

(2) To initiate the PIXL Complex Order Auction, the Initiating Member must mark the PIXL Order for Auction processing, and specify either: (a) a single price at which it seeks to execute the PIXL Order (a "stop price"); or (b) that it is willing to either: (i) stop the entire order at a single stop price and auto-match PAN responses and trading interest at a price or prices that improve the stop price to a specified price (a "Not Worse Than" or "NWT" price); or (ii) stop the entire order at a single stop price and auto-match all PAN responses and trading interest at or better than the stop price. Once the Initiating Member has submitted a PIXL Complex Order for processing pursuant to this subparagraph, such PIXL Order may not be modified or cancelled. Under any of the circumstances described in sub-paragraphs (a)-(b) above, the stop price or NWT price may be improved to the benefit of the PIXL Order during the Auction, but may not be cancelled.

([2]3) When the Exchange receives a PIXL Order for Auction processing, a PAN detailing the side, size and the stop price of the PIXL Order will be sent over the Exchange's TOPO Plus Orders data feed. An updated PAN will also be sent over the Exchange's TOPO Plus Orders data feed if the Initiating Member improves the stop price of the PIXL Order. The updated PAN will include the side, size and improved stop price of the PIXL Order.

([3]4) The Auction will last for one second.

([4]5) Any person or entity may submit responses to the PAN, provided such response is properly marked specifying price, size and side of the market.

([5]6) PAN responses will not be visible to Auction participants, and will not be disseminated to OPRA.

([6]7) (a) The minimum price increment for PAN responses and for an Initiating Member's stop price and/or NWT price (except if it is a Complex Order) shall be the minimum price improvement increment established pursuant to subparagraph (i)(A)(1) above.

(b) The minimum price increment for PAN responses and for an Initiating Member's stop price and/or NWT price in the case of a Complex Order shall be .01.

([7]8) A PAN response size at any given price point may not exceed the size of the PIXL Order. A PAN response with a size greater than the size of the PIXL Order will be rejected.

([8]9) A PAN response (except if it is a Complex Order) must be equal to or better than the NBBO at the time of receipt of the PAN response. A Complex Order PAN response must be equal to or better than the cPBBO, as defined in Commentary .08(a) of this Rule 1080 at the time of receipt of the PAN response. PAN responses may be modified or cancelled during the Auction. A PAN response (except if it is a Complex Order) submitted with a price that is outside the NBBO will be rejected. A Complex Order PAN response submitted with a price that is outside the cPBBO will be rejected.

([9]10) PAN responses on the same side of the market as the PIXL Order are considered invalid and will be rejected.

([10]11) Multiple PAN responses from the same member may be submitted during the Auction. Multiple orders at a particular price point submitted by a member in response to a PAN may not exceed, in the aggregate, the size of the PIXL Order.

(B) Conclusion of Auction. The PIXL Auction shall conclude at the earlier to occur of (1) through (4) below, with the PIXL Order executing pursuant to paragraph (C)(1) through (4) below.

(1) The end of the Auction period;

(2) For a PIXL Auction (except if it is a Complex Order), a[A]ny time the PBBO crosses the PIXL Order stop price on the same side of the market as the PIXL Order; [or]

(3) For a Complex Order PIXL Auction, any time the cPBBO or the Complex Order book crosses the PIXL Order stop price on the same side of the market as the Complex PIXL Order; or

([3]4) Any time there is a trading halt on the Exchange in the affected series.

([4]5) Sub-paragraphs (B)(2), [and](B)(3) and (B)(4) above shall be effective for a pilot period scheduled to expire July 18, 2013.

(C) If the situations described in sub-paragraphs (B)(2), (3), or ([3]4) above occur, the entire PIXL Order will be executed at: (1) in the case of the PBBO crossing the PIXL Order stop price, the best response price(s) or, if the stop price is the best price in the Auction, at the stop price, unless the best response price is equal to the price of a limit order resting on the PHLX book on the same side of the market as the PIXL Order, in which case the PIXL Order will be executed against that response, but at a price that is at least one minimum price improvement increment better than the price of such limit order at the time of the conclusion of the Auction; [or](2) in the case of the cPBBO or the Complex Order book crossing the Complex PIXL Order stop price on the same side of the market as the Complex PIXL Order, the stop price against executable PAN responses and executable Complex Orders; or ([2]3) in the case of a trading halt on the Exchange in the affected series, the stop price, in which case the PIXL Order will be executed solely against the Initiating Order. Any unexecuted PAN responses will be cancelled.

(D) An unrelated market or marketable limit order (against the PBBO or cPBBO) on the opposite side of the market from the PIXL Order (Complex PIXL Order) received during the Auction (Complex PIXL Auction) will not cause the Auction (Complex PIXL Auction) to end early and will execute against interest outside of the Auction (Complex PIXL Auction). If contracts remain from such unrelated order at the time the Auction (Complex PIXL Auction) ends, they will be considered for participation in the order allocation process described below. This sub-paragraph shall be effective for a pilot period scheduled to expire on July 18, 2013.

(E) Order Allocation. At the conclusion of the Auction, the PIXL Order will be allocated at the best price(s) as follows:

(1) Public customer orders shall have priority at each price level.

(2) After public customer interest at a particular price level has been satisfied, remaining contracts will be allocated among all Exchange quotes, orders and PAN responses as follows:

(a) If the Initiating Member selected the single stop price option of the PIXL Auction (except if it is a Complex Order), PIXL executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after public customer interest is satisfied being allocated to the Initiating Member at the stop price. However, if only one [specialist, SQT or RSQT] other participant matches the stop price, then the Initiating Member may be allocated up to 50% of the contracts executed at such price. Remaining contracts shall be allocated pursuant to the algorithm set forth in Exchange Rules 1014(g)(vii)(B)(1)(b) and (d) among remaining quotes, orders and PAN responses at the stop price. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Member.

(b) If the Initiating Member selected the auto-match option of the PIXL Auction (except if it is a Complex Order), the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point until a price point is reached where the balance of the order can be fully executed, except that the Initiating Member shall be entitled to receive up to 40% of the contracts remaining at the final price point (including situations where the stop price is the final price). If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in Exchange Rules 1014(g)(vii)(B)(1)(b) and (d). Any remaining contracts shall be allocated to the Initiating Member.

(c) In the case of a PIXL (except if it is a Complex Order), [I]if the Initiating Member selected the "stop and NWT" option of the PIXL Auction, contracts shall be allocated as follows:

(i) first to quotes, orders and PAN responses at prices better than the NWT price (if any), beginning with the best price, pursuant to the algorithm set forth in Exchange Rules 1014(g)(vii)(B)(1)(b) and (d)at each price point;

(ii) next, to quotes, orders and PAN responses at prices at the Initiating Member's NWT price and better than the Initiating Member's stop

price, beginning with the NWT price. The Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point, except that the Initiating Member shall be entitled to receive up to 40% of the contracts remaining at the final price point (including situations where the final price is the stop price). In the case of an Initiating Order with a NWT price at the market, the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at all price points, except that the Initiating Member shall be entitled to receive up to 40% of the contracts remaining at the final price point (including situations where the final price is the stop price). If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in Exchange Rules 1014(g)(vii)(B)(1)(b) and (d). Any remaining contracts shall be allocated to the Initiating Member.

[(d) A single quote, order or PAN response shall not be allocated a number of contracts that is greater than its size.]

(d) In the case of a Complex Order PIXL, if the Initiating Member selected the single stop price option of the PIXL Auction, PIXL executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after public customer complex interest is satisfied being allocated to the Initiating Member at the stop price. If only one other participant matches the stop price, then the Initiating Member may be allocated up to 50% of the contracts executed at such price. Complex Orders on the PHLX Complex Order Book, PAN responses, and quotes and orders which comprise the cPBBO will be considered for allocation against the Complex PIXL order. Such interest will be allocated in the following order: (i) to public customer Complex Orders and PAN responses in time priority; (ii) to SQT, RSQT, and non-SQT ROT Complex Orders and PAN responses on a size pro-rata basis; (iii) to non-market maker off-floor broker-dealer Complex Orders and PAN responses on a size pro-rata basis, and (iv) to quotes and orders which comprise the cPBBO with public customer interest being satisfied first in time priority, then to SQT, RSQT, and non-SQT ROT interest satisfied on a size pro-rata basis, and lastly to non-market maker off-floor broker-dealers on a size pro-rata basis. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Member.

(e) In the case of a Complex Order PIXL, if the Initiating Member selected the "stop and NWT" option of the PIXL Auction, contracts shall be allocated as follows:

(i) First to Complex Orders and PAN responses at prices better than the NWT price, as well as to quotes and orders which comprise the cPBBO, pursuant to the algorithm set forth above in (n)(ii)(E)(2)(d) of this rule;

(ii) Next, to Complex Orders and PAN responses at prices, as well as to quotes and orders which comprise the cPBBO, at the Initiating Member's NWT price and better than the Initiating Member's stop price, beginning with the NWT price. The Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other interest at each price point, except that the Initiating Member shall be entitled to receive up to 40% of the contracts remaining at the final price point (including situations where the final price is the stop price). In the case of an Initiating Order with a NWT price at the market, the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other interest at all price points, except that the Initiating Member shall be entitled to receive up to 40% of the contracts remaining at the final price point (including situations where the final price is the stop price). If there is other interest at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in (n)(ii)(E)(2)(d) of this rule. Any remaining contracts shall be allocated to the Initiating Member.

(f) A single quote, order or PAN response shall not be allocated a number of contracts that is greater than its size.

(g) A Complex PIXL Order consisting of a stock/ETF component will not execute against interest comprising the cPBBO.

(F) If there are PAN responses (except if it is a Complex Order) that cross the then-existing NBBO (provided such NBBO is not crossed) or Complex Order PAN responses that cross the then-existing cPBBO at the time of the conclusion of the Auction, such PAN responses will be executed, if possible, at their limit price(s).

(G) If the PIXL Auction price (except if it is a Complex Order) is the same as that of an order on the limit order book on the same side of the market as the PIXL Order , the PIXL Order may only be executed at a price that is at least one minimum price improvement increment better than the resting order's limit price or, if such resting order's limit price crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price.

(H) If the Complex Order PIXL Auction price is the same as that of a Complex Order on the Complex Order Book on the same side of the market as the PIXL Order, the PIXL Order may only be executed at a price that is at least one

minimum price improvement increment better than the resting order's limit price; or if such resting order's limit price crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price.

([H]I) Any unexecuted PAN responses will be cancelled.

(J) Complex PIXL Orders with stock/ETF components.

(1) Member organizations may only submit Complex PIXL Orders, Complex Orders, and/or PAN responses with a stock/ETF component if such orders/responses comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS. Member organizations submitting such orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption. Members of FINRA or the NASDAQ Stock Market ("NASDAQ") are required to have a Uniform Service Bureau/Executing Broker Agreement ("AGU") with Nasdaq Options Services LLC in order to trade orders containing a stock/ETF component; firms that are not members of FINRA or NASDAQ are required to have a Qualified Special Representative ("QSR") arrangement with Nasdaq Options Services LLC ("NOS") in order to trade orders containing a stock/ETF component.

(2) Where one component of a Complex PIXL Order is the underlying security, the Exchange shall electronically communicate the underlying security component of a Complex PIXL Order to NOS, its designated broker-dealer, for immediate execution. Such execution and reporting will occur otherwise than on the Exchange and will be handled by NOS pursuant to applicable rules regarding equity trading.

(3) When the short sale price test in Rule 201 of Regulation SHO is triggered for a covered security, NOS will not execute a short sale order in the underlying covered security component of a Complex PIXL Order, Complex Order, or PAN response if the price is equal to or below the current national best bid. However, NOS will execute a short sale order in the underlying covered security component of a Complex PIXL Order if such order was stopped at price which was equal to or better than the national best bid at the time of order receipt and is being executed by the Initiating Member or when the Complex PIXL Order, Complex Order, or PAN response being executed is marked "short exempt," regardless of whether it is at a price that is equal to or below the current national best bid. If NOS cannot execute the underlying covered security component of a Complex PIXL Order in accordance with Rule 201 of Regulation SHO, the Exchange will cancel back the Complex PIXL Order, Complex Order, or PAN response to the entering member organization. For purposes of this

paragraph, the term "covered security" shall have the same meaning as in Rule 201(a)(1) of Regulation SHO.

(iii) The PIXL Auction may be used only where there is a genuine intention to execute a bona fide transaction. It will be considered a violation of this Rule 1080(n) and will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 707 if an Initiating Member submits a PIXL Order (initiating an Auction) and also submits its own PAN response in the same Auction.

(iv) A pattern or practice of submitting multiple orders in response to a PAN at a particular price point that exceed, in the aggregate, the size of the PIXL Order, will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 707.

(v) A pattern or practice of submitting unrelated orders or quotes that cross the stop price, causing a PIXL Auction to conclude before the end of the PIXL Auction period will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 707. It will also be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 707 to engage in a pattern of conduct where the Initiating Member breaks up a PIXL Order into separate orders for the purpose of gaining a higher allocation percentage than the Initiating Member would have otherwise received in accordance with the allocation procedures contained in subparagraph (ii)(E) above.

(vi) In lieu of the procedures in paragraphs (i) - (ii) above, an Initiating Member may enter a PIXL Order for the account of a public customer paired with an order for the account of a public customer and such paired orders will be automatically executed without a PIXL Auction. The execution price for such a PIXL Order (except if it is a Complex Order) must be expressed in the quoting increment applicable to the affected series. Such an execution may not trade through the NBBO or at the same price as any resting customer order. The execution price for such a Complex Order PIXL may be in .01 increments and may not trade through the cPBBO or at the same price as a resting customer Complex Order.

Rule 1080(c)(ii)(C) prevents an Order Entry Firm from executing agency orders to increase its economic gain from trading against the order without first giving other trading interests on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the member was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for a firm to establish a relationship with a customer or other person to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. It would be a violation of Rule 1080(c)(ii)(C) for a firm to circumvent Rule 1080(c)(ii)(C) by providing an opportunity for (i) a customer affiliated with the firm, or (ii) a customer with whom the firm has an arrangement that allows

the firm to realize similar economic benefits from the transaction as the firm would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as PIXL customer-to-customer immediate crosses.

(vii) Initially, and for at least a Pilot Period expiring on July 18, 2013, there will be no minimum size requirement for orders to be eligible for the Auction. During this Pilot Period, the Exchange will submit certain data, periodically as required by the Commission, to provide supporting evidence that, among other things, there is meaningful competition for all size orders and that there is an active and liquid market functioning on the Exchange outside of the Auction mechanism. Any data which is submitted to the Commission will be provided on a confidential basis.

(o)   No Change.

••• *Commentary:* ------------------

     .01 - .07 No Change.

     .08 Complex Orders on Phlx XL.

(a) - (d)   No Change.

(e) Process for Complex Order Live Auction ("COLA"). Complex Orders on the Complex Order Book ("CBOOK," as defined below) may be subject to an automated auction process.

(i) For purposes of paragraph (e):

(A) COLA is the automated Complex Order Live Auction process. A COLA may take place upon identification of the existence of a COLA-eligible order either: (1) following a COOP, or (2) during normal trading if the Phlx XL system receives a Complex Order that improves the cPBBO.

(B) (1) A "COLA-eligible order" means a Complex Order (a) identified by way of a COOP, or (b) that, upon receipt, improves the cPBBO respecting the specific Complex Order Strategy that is the subject of the Complex Order. If the Phlx XL system identifies the existence of a COLA-eligible order following a COOP or by way of receipt during normal trading of a Complex Order that improves the cPBBO, such COLA-eligible order will initiate a COLA, during which Phlx XL participants may bid and offer against the COLA-eligible order pursuant to this rule. COLA-eligible orders will be executed without consideration of any prices that might be available on other exchanges trading the same options contracts.

(2) Notwithstanding the foregoing, a Complex Order that would otherwise be a COLA-eligible order that is received in <u>a strategy where there is currently a Complex Order PIXL auction in progress or by</u> the Phlx XL system during the final seconds of any trading session shall not be COLA-eligible. The Exchange shall establish the number of seconds, not to exceed 10 seconds, in an Options Trader Alert.

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