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

File No.* SR - 2013 - * 76
Amendment No. (req. for Amendments *)

Filing by NASDAQ OMX PHLX LLC.

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

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

Pilot	Extension of Time Period for Commission Action *	Date Expires *
☐	☐	

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

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

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

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

Section 3C(b)(2) ☐

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

Description

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

A proposed rule change relating to the discontinuation of the differentiation of price improvement XL orders of less than 50 contracts.

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 * Steve Last Name * Matthews
Title * Associate General Counsel
E-mail * steve.matthews@nasdaqomx.com
Telephone * (301) 978-8458 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.

Date 07/19/2013
By Edward S. Knight
(Name *)

(Title *)
Executive Vice President and General Counsel

Edward S Knight,

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.

Required fields are shown with yellow backgrounds and asterisks.

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 *

Add Remove View

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

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

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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

Add Remove View

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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Exhibit Sent As Paper Document

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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

Add Remove View

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

Partial Amendment

Add Remove View

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

1. Text of the Proposed Rule Change

(a) Pursuant to 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 discontinue the differentiation in subsection (n)(i)(A)(2) and subsection (n)(i)(B)(2) of Rule 1080 (Phlx XL and Phlx XL II) regarding Price Improvement XL ("PIXL") Orders that are for a size of less than 50 contracts.[3]

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.

2. Procedures of the Self-Regulatory Organization

The Board of Governors of the Exchange (the "Board") approved the proposed rule change on July 12, 2013. 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 Steve Matthews, Senior Associate General Counsel, NASDAQ OMX, at (301) 978-8458.

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

[2] 17 CFR 240.19b-4.

[3] See Exchange Act Release No. 63027 (October 1, 2010), 75 FR 62160 (October 7, 2010)(SR-Phlx-2010-108)(order approving the PIXL electronic price improvement program and the noted pilot programs)(the "PIXL Filing").

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

a. Purpose

The purpose of the proposed rule change is to discontinue the differentiation in subsection (n)(i)(A)(2) and subsection (n)(i)(B)(2) of Rule 1080 regarding PIXL Orders that are for a size of less than 50 contracts.

The PIXL program in Rule 1080(n) provides a price-improvement mechanism in which a member (an "Initiating Member") may electronically submit for execution an order it represents as agent on behalf of a public customer, broker-dealer, or any other entity (known as the "PIXL Order") against principal interest or against any other order it represents as agent, provided that such Initiating Member submits the PIXL Order for electronic execution into the one-second long PIXL Auction ("Auction") pursuant to the rule. In addition, PIXL provides for the automatic execution, under certain conditions, of a crossing transaction where there is a public customer order in the same options series on each side.

Currently, subsection (n)(i)(A) of Rule 1080 states that for public customer orders, if a PIXL Order is for 50 contracts or more, the Initiating Member must stop the entire PIXL Order at a price that is equal to or better than the National Best Bid or 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. Subsection (n)(i)(B) states that for non-public customer orders (*i.e.,* where the order is for the account of a broker-dealer or any other person or entity that is not a public customer), if the order is for 50 contracts or more, the Initiating Member must stop the entire PIXL 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.

Two subsections of Rule 1080 ((n)(i)(A)(2) and (n)(i)(B)(2)) currently require, on a pilot basis expiring July 18, 2014, a separate price improvement process for public customer and non-public customer PIXL Orders that are less than 50 contracts in size. Subsection (n)(i)(A)(2) states that if the PIXL Order is for less than 50 contracts, the Initiating Member must stop the entire PIXL Order at a price that is the better of: (i) the 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 better than the NBBO, and at least one price improvement increment better than any limit order on the book on the same side of the market as the PIXL Order. Subsection (n)(i)(B)(2) states that if the PIXL Order is for less than 50 contracts, the Initiating Member must stop the entire PIXL 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 price improvement increment better than the PBBO on the opposite side of the market from the PIXL Order. Subsections (n)(i)(A)(2) and (n)(i)(B)(2) are together known as the “Differentiation Provision”.

The Exchange is proposing to discontinue the Differentiation Provision and the disparate treatment for PIXL Orders for less than 50 contracts.[4] As a result, all PIXL Orders regardless of their size will be treated the same as PIXL Orders that are 50 contracts or greater in size in current Rule 1080(n).[5] Public customers will continue to have priority at each price level in accordance with PHLX Rule 1080(n)(ii)(E). Consistent with PIXL Orders of 50 contracts or greater in size, PHLX will consider resting quotes and orders for allocation at the end of the Auction with all prices that improve the stop price being considered first. At each given price point, PHLX will execute public customer interest in a price/time fashion such that all public customer interest which was resting on the order book is satisfied before any other interest that arrived after the Auction was initiated. After public customer interest at a given price point has been satisfied, remaining contracts will be allocated among all Exchange quotes, orders and Auction responses in accordance with the rules set forth in 1080(n)(ii)(E)(2) based on the manner in which the PIXL Order was submitted. Interest,

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4 The Exchange is making conforming changes throughout subsection (n) of Rule 1080 to delete any rule text that differentiates PIXL procedures based on size.

5 This proposal refers only to eliminating subsections (n)(i)(A)(2) and (n)(i)(B)(2) and does not refer to or effect the provision at subsection (n)(vii), on a pilot basis expiring July 18, 2014, regarding no required minimum value size for orders to be eligible for PIXL Auctions.

Pursuant to the PIXL Filing, see supra note 3, the Exchange has provided periodic reports to the Commission with detailed information to assist the Commission in ascertaining the level of price improvement attained for orders during the period of the pilot. The Exchange believes that these reports show the effectiveness of the PIXL program in providing price improvement for PIXL Orders. This proposal will not impact the pilot or any of the pilot reports. The Exchange will continue periodically providing the Reports to the Commission through July 18, 2014, or as required pursuant to the subsection (n)(vii) pilot.

whether resting prior to the commencement of the Auction or arriving during the Auction process, will continue to be executed according to the rules set forth in 1080(n)(ii)(E)(2).

The following example illustrates how the proposed rule change would operate:

<u>Example:</u>

PBBO is 2.48-2.51 (60x30) (10 of the 30 on the offer is a public customer; 10 of the 30 on the offer is a market maker (MM) offering 10; 10 of the 30 on the offer is a resting off-floor broker dealer order).

NBBO is 2.48 – 2.51 (100x100).

Under the proposed PIXL Rule with the removal of the Differentiation Provision, a public customer order to buy may be entered into PIXL and stopped at a price equal to or within a range of 2.48-2.51. A non- public customer order to buy may be entered into PIXL and stopped at a price equal to or within a range of 2.49-2.51.

Assume a public customer or non-public customer order to buy 45 contracts is submitted into PIXL with a Stop Price of 2.51. The PIXL Auction will commence with an Auction notification being sent to participants.

Assume, during the Auction, two market makers (MM1 and MM2) respond. MM1 responds to sell 10 contracts at 2.50 and MM2 responds to sell 10 contracts at 2.51.

At the end of the Auction, the PIXL Order will buy 10 contracts from MM1 at 2.50, leaving 35 to be allocated at the Stop Price of 2.51.

The allocation process would continue and 10 contracts will be allocated to the public customer on the book at 2.51, leaving 25 contracts to be allocated among the

Initiating Order[6] which stopped the PIXL Order at 2.51, the two market makers offering at 2.51, and the off-floor broker dealer order on the offer at 2.51.

The remaining 25 contracts will be allocated at a price of 2.51 with 10 contracts (40%) being allocated to the Initiating Order, 8 contracts allocated to MM1, and 7 contracts allocated to MM2. Since all of the contracts have been allocated, the off-floor broker dealer order on the offer at 2.51 will not be allocated any contracts and will remain on the book.

The Exchange believes that the Differentiation Provision is unnecessary, and indeed is counterproductive to the goal of treating all PIXL Orders equally regardless of PIXL Order size. The Exchange believes removing the Differentiation Provision will attract new order flow that might not currently be afforded any price improvement opportunity into PIXL. When PIXL was first implemented, the Differentiation Provision was a means to ensure some level of price improvement for smaller orders. Currently, PIXL is a more mature product with a robust and seasoned price improvement mechanism that has the capacity to benefit all orders regardless of their size. Moreover, the Exchange notes that the Boston Options Exchange ("BOX"), currently has rules that do not differentiate price improvement opportunities based on the order size.[7] BOX's

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6 As defined in Rule 1080(n).

7 See BOX Rules Chapter V, Section 18(e). BOX likewise operates an auction known as the PIP that does not differentiate based on order size. Similarly to PIXL as proposed to be amended, PIP involves a member entering an order into an electronic auction at a price that is at least equal to the NBBO. See Securities Exchange Act Release Nos. 49068 (January 13, 2004), 69 FR 2775 (January 20, 2004)(SR-BSE-2002-15)(order approving trading rules for BOX including PIP).

PIP mechanism was recently modified[8] to commence an auction even when there is resting interest at the PIP start price. When a PIP is initiated at a price equal to the NBBO, regardless of size, the resting quotes and orders on BOX are considered for allocation at the end of the auction. BOX executes interest that existed on the BOX order book prior to the commencement of a PIP before executing any interest which joined during the auction. This behavior aligns with the BOX standard trade allocation rules as they employ a price/time allocation algorithm. Similar to BOX, the PHLX proposed rule change will allow orders of any size to initiate a PIXL Auction at a price which is equal to or better than the NBBO where PHLX may have resting interest. PHLX will execute a PIXL Order against any interest, resting prior to the commencement of a PIXL Auction or interest which arrived during the Auction, in accordance with the rules as stated and illustrated with the example above. While this is different than the allocation algorithm that BOX employs, this behavior is consistent with the allocation algorithm established in the PHLX PIXL rules and employed today in PIXL when an order of 50 contracts or more is entered, regardless of the stop price.

While the removal of the Differentiation Provision removes the guarantee of price improvement in a limited instance, specifically when a PIXL order is for fewer than 50 contracts and PHLX is already present at the NBBO at the commencement of the PIXL auction, the Exchange believes that the proposed rule change will benefit customers because it will ensure that more orders are exposed to PIXL, thus it is more likely that

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8 See Securities Exchange Act Release No. 67592 (August 3, 2012), 77 FR 154 (August 9, 2012)(SR-BOX-2012-03)(order approving rule change to amend the PIP).

such orders may receive price improvement. Similar price improvement mechanisms on both the ISE and BOX do not guarantee price improvement over the NBBO today. ISE's PIM mechanism has no size differentiation and only guarantees price improvement over the ISE BBO.[9] The BOX PIP mechanism allows orders of any size to be stopped at the NBBO or better which also does not guarantee price improvement.

The Exchange believes that because there is no rational need for volume differentiation, and as there is a competitive disadvantage to the Exchange in continuing differentiation, it is appropriate to discontinue the Differentiation Provision and thereby simplify the way PIXL operates.

This proposal would continue to afford the same price improvement opportunities for public customer and non-public customer PIXL Orders as is in operation today, but without differentiating based on order size. By way of example, to initiate a PIXL Auction for public customer orders, the Initiating Member would stop the entire PIXL Order at a price that is equal to or better than the NBBO on the opposite side of the market from the PIXL Order, provided that such price was at least one price improvement increment (no 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. Conversely, to initiate an Auction for non-public customer orders where the order is for the account of a broker-dealer or any other person or entity that is not a public customer, the Initiating Member would stop the entire PIXL 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

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9 See Securities Exchange Act Release No. 50819 (December 8, 2004), 69 FR 75093 (December 15, 2004)(SR-ISE-2003-06)(order approving rules for PIM).

market as the PIXL Order; or (ii) the PIXL Order's limit price (if the order is a limit order), provided that in either case that such price is at or better than the NBBO. A member would initiate a one-second long PIXL Auction by submitting a PIXL Order in one of three ways: (i) a single stop price; (ii) an auto-match price; or (iii) a not-worse-than price. Thus, under this proposal all PIXL Orders would be handled by current procedures for the price improvement of non-public and public PIXL Orders that are of 50 contracts or greater.[10]

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[11] in general, and furthers the objectives of Section 6(b)(5) of the Act[12] 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 by creating positive, beneficial incentives for Initiating Members to provide price improvement opportunities to market participants, most notably public customers. Specifically, the Exchange believes the proposal will result in more orders of less than 50 contracts being executed in PIXL, thus providing an increased probability of price improvement for small orders. By removing the Differentiation Provision market participants would be incentivized to introduce more customer orders to PIXL for the opportunity to receive price improvement. Furthermore, public customers will continue to have priority at each

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10 For a description of all PIXL procedures, see Rule 1080(n).

11 15 U.S.C. 78f(b).

12 15 U.S.C. 78f(b)(5).

price level in accordance with PHLX Rule 1080(n)(ii)(E). The Differentiation Provision as it is presently constructed assumes all broker-dealers have the same view about the price of an options contract. But this assumption is not necessarily true. While the market participant that introduces an order of less than 50 contracts into PIXL may only value that option at the NBBO, another market maker participant may be willing to price improve because their valuation is different. These different opinions make for a robust price discovery system that is the backbone of the U.S. options markets. The Exchange believes strongly that it should encourage such price discovery, and the removal of the Differentiation Provision would help to achieve this and more generally, benefit investors by offering more opportunities for customers and non-customers to receive price improvement. For these reasons, the Exchange believes that the proposal is fair, reasonable and equitable for all market participants.

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 is proposing to amend Rule 1080(n) to offer opportunities found on other options exchanges and to further foster the price discovery process as well as create systems that embolden market participants to seek out price improvement opportunities for customers.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

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

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

Not applicable.

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

The proposed rule change is similar to BOX Chapter V, Section 18(e) in respect of price improvement opportunities in the electronic market that are not based on the number of contracts in the order (order size).[13]

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. Completed notice of proposed rule change for publication in the Federal Register.

5. Text of the proposed rule change.

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13 See Securities Exchange Act Release No. 49068 (January 13, 2004), 69 FR 2775 (January 20, 2004)(SR-BSE-2002-15)(order approving trading rules for BOX including PIP).

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-Phlx-2013-76)

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing of Proposed Rule Change Relating to the Discontinuation of the Differentiation of Price Improvement XL Orders of Less Than 50 Contracts

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 July 18, 2013, NASDAQ OMX PHLX LLC ("PHLX" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to discontinue the differentiation in subsection (n)(i)(A)(2) and subsection (n)(i)(B)(2) of Rule 1080 (Phlx XL and Phlx XL II) regarding Price Improvement XL ("PIXL") Orders that are for a size of less than 50 contracts. The text of the proposed rule change is available on the Exchange's Website at http://nasdaqomxphlx.cchwallstreet.com/nasdaqomxphlx/phlx, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

2 17 CFR 240.19b-4.

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

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

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

1. Purpose

The purpose of the proposed rule change is to discontinue the differentiation in subsection (n)(i)(A)(2) and subsection (n)(i)(B)(2) of Rule 1080 regarding PIXL Orders that are for a size of less than 50 contracts.

The PIXL program in Rule 1080(n) provides a price-improvement mechanism in which a member (an "Initiating Member") may electronically submit for execution an order it represents as agent on behalf of a public customer, broker-dealer, or any other entity (known as the "PIXL Order") against principal interest or against any other order it represents as agent, provided that such Initiating Member submits the PIXL Order for electronic execution into the one-second long PIXL Auction ("Auction") pursuant to the rule. In addition, PIXL provides for the automatic execution, under certain conditions, of a crossing transaction where there is a public customer order in the same options series on each side.

Currently, subsection (n)(i)(A) of Rule 1080 states that for public customer orders, if a PIXL Order is for 50 contracts or more, the Initiating Member must stop the entire PIXL Order at a price that is equal to or better than the National Best Bid or 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. Subsection (n)(i)(B) states that for non-public customer orders (*i.e.*, where the order is for the account of a broker-dealer or any other person or entity that is not a public customer), if the order is for 50 contracts or more, the Initiating Member must stop the entire PIXL 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.

Two subsections of Rule 1080 ((n)(i)(A)(2) and (n)(i)(B)(2)) currently require, on a pilot basis expiring July 18, 2014, a separate price improvement process for public customer and non-public customer PIXL Orders that are less than 50 contracts in size. Subsection (n)(i)(A)(2) states that if the PIXL Order is for less than 50 contracts, the Initiating Member must stop the entire PIXL Order at a price that is the better of: (i) the 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 better than the NBBO, and at least one price improvement increment better than any limit order on the book on the same side of the market as the PIXL Order. Subsection (n)(i)(B)(2) states that if the PIXL Order is for less than 50 contracts, the Initiating Member must stop the entire PIXL 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 price improvement increment better than the PBBO on the opposite side of the market from the PIXL Order. Subsections (n)(i)(A)(2) and (n)(i)(B)(2) are together known as the "Differentiation Provision".

The Exchange is proposing to discontinue the Differentiation Provision and the disparate treatment for PIXL Orders for less than 50 contracts.[3] As a result, all PIXL Orders regardless of their size will be treated the same as PIXL Orders that are 50 contracts or greater in size in current Rule 1080(n).[4] Public customers will continue to have priority at each price level in accordance with PHLX Rule 1080(n)(ii)(E). Consistent with PIXL Orders of 50 contracts or greater in size, PHLX will consider resting quotes and orders for allocation at the end of the Auction with all prices that improve the stop price being considered first. At each given price point, PHLX will execute public customer interest in a price/time fashion such that all public customer

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3 The Exchange is making conforming changes throughout subsection (n) of Rule 1080 to delete any rule text that differentiates PIXL procedures based on size.

4 This proposal refers only to eliminating subsections (n)(i)(A)(2) and (n)(i)(B)(2) and does not refer to or effect the provision at subsection (n)(vii), on a pilot basis expiring July 18, 2014, regarding no required minimum value size for orders to be eligible for PIXL Auctions.

Pursuant to the PIXL Filing, see supra note 3, the Exchange has provided periodic reports to the Commission with detailed information to assist the Commission in ascertaining the level of price improvement attained for orders during the period of the pilot. The Exchange believes that these reports show the effectiveness of the PIXL program in providing price improvement for PIXL Orders. This proposal will not impact the pilot or any of the pilot reports. The Exchange will continue periodically providing the Reports to the Commission through July 18, 2014, or as required pursuant to the subsection (n)(vii) pilot.

interest which was resting on the order book is satisfied before any other interest that arrived after the Auction was initiated. After public customer interest at a given price point has been satisfied, remaining contracts will be allocated among all Exchange quotes, orders and Auction responses in accordance with the rules set forth in 1080(n)(ii)(E)(2) based on the manner in which the PIXL Order was submitted. Interest, whether resting prior to the commencement of the Auction or arriving during the Auction process, will continue to be executed according to the rules set forth in 1080(n)(ii)(E)(2).

The following example illustrates how the proposed rule change would operate:

Example:

PBBO is 2.48-2.51 (60x30) (10 of the 30 on the offer is a public customer; 10 of the 30 on the offer is a market maker (MM) offering 10; 10 of the 30 on the offer is a resting off-floor broker dealer order).

NBBO is 2.48 – 2.51 (100x100).

Under the proposed PIXL Rule with the removal of the Differentiation Provision, a public customer order to buy may be entered into PIXL and stopped at a price equal to or within a range of 2.48-2.51. A non- public customer order to buy may be entered into PIXL and stopped at a price equal to or within a range of 2.49-2.51.

Assume a public customer or non-public customer order to buy 45 contracts is submitted into PIXL with a Stop Price of 2.51. The PIXL Auction will commence with an Auction notification being sent to participants.

Assume, during the Auction, two market makers (MM1 and MM2) respond. MM1 responds to sell 10 contracts at 2.50 and MM2 responds to sell 10 contracts at 2.51.

At the end of the Auction, the PIXL Order will buy 10 contracts from MM1 at 2.50, leaving 35 to be allocated at the Stop Price of 2.51.

The allocation process would continue and 10 contracts will be allocated to the public customer on the book at 2.51, leaving 25 contracts to be allocated among the Initiating Order[5] which stopped the PIXL Order at 2.51, the two market makers offering at 2.51, and the off-floor broker dealer order on the offer at 2.51.

The remaining 25 contracts will be allocated at a price of 2.51 with 10 contracts (40%) being allocated to the Initiating Order, 8 contracts allocated to MM1, and 7 contracts allocated to MM2. Since all of the contracts have been allocated, the off-floor broker dealer order on the offer at 2.51 will not be allocated any contracts and will remain on the book.

The Exchange believes that the Differentiation Provision is unnecessary, and indeed is counterproductive to the goal of treating all PIXL Orders equally regardless of PIXL Order size. The Exchange believes removing the Differentiation Provision will attract new order flow that might not currently be afforded any price improvement opportunity into PIXL. When PIXL was first implemented, the Differentiation Provision was a means to ensure some level of price improvement for smaller orders. Currently, PIXL is a more mature product with a robust and seasoned price improvement mechanism that has the capacity to benefit all orders regardless of their size. Moreover, the Exchange notes that the Boston Options Exchange ("BOX"), currently has rules that do not differentiate price improvement opportunities based on the order size.[6] BOX's

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5 As defined in Rule 1080(n).

6 See BOX Rules Chapter V, Section 18(e). BOX likewise operates an auction known as the PIP that does not differentiate based on order size. Similarly to

PIP mechanism was recently modified[7] to commence an auction even when there is resting interest at the PIP start price. When a PIP is initiated at a price equal to the NBBO, regardless of size, the resting quotes and orders on BOX are considered for allocation at the end of the auction. BOX executes interest that existed on the BOX order book prior to the commencement of a PIP before executing any interest which joined during the auction. This behavior aligns with the BOX standard trade allocation rules as they employ a price/time allocation algorithm. Similar to BOX, the PHLX proposed rule change will allow orders of any size to initiate a PIXL Auction at a price which is equal to or better than the NBBO where PHLX may have resting interest. PHLX will execute a PIXL Order against any interest, resting prior to the commencement of a PIXL Auction or interest which arrived during the Auction, in accordance with the rules as stated and illustrated with the example above. While this is different than the allocation algorithm that BOX employs, this behavior is consistent with the allocation algorithm established in the PHLX PIXL rules and employed today in PIXL when an order of 50 contracts or more is entered, regardless of the stop price.

While the removal of the Differentiation Provision removes the guarantee of price improvement in a limited instance, specifically when a PIXL order is for fewer than 50 contracts and PHLX is already present at the NBBO at the commencement of the PIXL auction, the Exchange believes that the proposed rule change will benefit customers

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PIXL as proposed to be amended, PIP involves a member entering an order into an electronic auction at a price that is at least equal to the NBBO. See Securities Exchange Act Release Nos. 49068 (January 13, 2004), 69 FR 2775 (January 20, 2004)(SR-BSE-2002-15)(order approving trading rules for BOX including PIP).

7 See Securities Exchange Act Release No. 67592 (August 3, 2012), 77 FR 154 (August 9, 2012)(SR-BOX-2012-03)(order approving rule change to amend the PIP).

because it will ensure that more orders are exposed to PIXL, thus it is more likely that such orders may receive price improvement. Similar price improvement mechanisms on both the ISE and BOX do not guarantee price improvement over the NBBO today. ISE's PIM mechanism has no size differentiation and only guarantees price improvement over the ISE BBO.[8] The BOX PIP mechanism allows orders of any size to be stopped at the NBBO or better which also does not guarantee price improvement.

The Exchange believes that because there is no rational need for volume differentiation, and as there is a competitive disadvantage to the Exchange in continuing differentiation, it is appropriate to discontinue the Differentiation Provision and thereby simplify the way PIXL operates.

This proposal would continue to afford the same price improvement opportunities for public customer and non-public customer PIXL Orders as is in operation today, but without differentiating based on order size. By way of example, to initiate a PIXL Auction for public customer orders, the Initiating Member would stop the entire PIXL Order at a price that is equal to or better than the NBBO on the opposite side of the market from the PIXL Order, provided that such price was at least one price improvement increment (no 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. Conversely, to initiate an Auction for non-public customer orders where the order is for the account of a broker-dealer or any other person or entity that is not a public customer, the Initiating Member would stop the entire PIXL 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

8 See Securities Exchange Act Release No. 50819 (December 8, 2004), 69 FR 75093 (December 15, 2004)(SR-ISE-2003-06)(order approving rules for PIM).

market as the PIXL Order; or (ii) the PIXL Order's limit price (if the order is a limit order), provided that in either case that such price is at or better than the NBBO. A member would initiate a one-second long PIXL Auction by submitting a PIXL Order in one of three ways: (i) a single stop price; (ii) an auto-match price; or (iii) a not-worse-than price. Thus, under this proposal all PIXL Orders would be handled by current procedures for the price improvement of non-public and public PIXL Orders that are of 50 contracts or greater.[9]

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[10] in general, and furthers the objectives of Section 6(b)(5) of the Act[11] 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 by creating positive, beneficial incentives for Initiating Members to provide price improvement opportunities to market participants, most notably public customers. Specifically, the Exchange believes the proposal will result in more orders of less than 50 contracts being executed in PIXL, thus providing an increased probability of price improvement for small orders. By removing the Differentiation Provision market participants would be incentivized to introduce more customer orders to PIXL for the opportunity to receive price improvement. Furthermore, public customers will continue to have priority at each

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9 For a description of all PIXL procedures, see Rule 1080(n).

10 15 U.S.C. 78f(b).

11 15 U.S.C. 78f(b)(5).

price level in accordance with PHLX Rule 1080(n)(ii)(E). The Differentiation Provision as it is presently constructed assumes all broker-dealers have the same view about the price of an options contract. But this assumption is not necessarily true. While the market participant that introduces an order of less than 50 contracts into PIXL may only value that option at the NBBO, another market maker participant may be willing to price improve because their valuation is different. These different opinions make for a robust price discovery system that is the backbone of the U.S. options markets. The Exchange believes strongly that it should encourage such price discovery, and the removal of the Differentiation Provision would help to achieve this and more generally, benefit investors by offering more opportunities for customers and non-customers to receive price improvement. For these reasons, the Exchange believes that the proposal is fair, reasonable and equitable for all market participants.

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 is proposing to amend Rule 1080(n) to offer opportunities found on other options exchanges and to further foster the price discovery process as well as create systems that embolden market participants to seek out price improvement opportunities for customers.

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

No written comments were either solicited or received.

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

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

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2013-76 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-2013-76. 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 Website (http://www.sec.gov/rules/sro.shtml).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549, 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 office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-Phlx-2013-76 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.[12]

Kevin M. O'Neill
Deputy Secretary

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

EXHIBIT 5

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

Phlx Options Rules

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Rule 1080. Phlx XL and Phlx XL II

(a) – (m) 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)(F) 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. The contract size specified in Rule 1080(n) as applicable to PIXL Orders shall apply to Mini Options.

(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, 2014.]

(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, 2014.]

(C) – (G) No change.

(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) – (11) No change.

(B) – (J) No change.

(iii) – (vii) No change.

(o) – (p) No change.

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