

*Required fields are shown with yellow backgrounds and asterisks.*

Filing by NASDAQ OMX PHLX LLC.  
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

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

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

<b>Exhibit 2 Sent As Paper Document</b>	<b>Exhibit 3 Sent As Paper Document</b>
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

**Description**

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

A proposed rule change to provide additional trading information and rule clarity to Phlx participants.

**Contact Information**

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

First Name \* Edith Last Name \* Hallahan

Title \* Principal Associate General Counsel

E-mail \* edith.hallahan@nasdaqomx.com

Telephone \* (215) 496-5179 Fax

**Signature**

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

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

(Title \*)

Date 08/21/2013 Executive Vice President and General Counsel

By Edward S. Knight Edward S Knight,

(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.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information \***

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

**Exhibit 1 - Notice of Proposed Rule Change \***

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

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

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

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

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Exhibit Sent As Paper Document

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

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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

**Partial Amendment**

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

1. Text of Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> NASDAQ OMX PHLX LLC ("Exchange" or "Phlx"), is filing with the Securities and Exchange Commission ("Commission") a proposed rule change to amend Rule 1080.08(e) in three ways: (1) to include the price and side of the market of a Complex Order in the broadcast message to Phlx XL participants indicating that a Complex Order Live Auction ("COLA") has been initiated; (2) to add multiple clarifying references to COLA Sweeps; and (3) to specify the prices at which remaining interest trades after a COLA.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1. Proposed new language is underlined; proposed deletions are in brackets.

\* \* \* \* \*

**Rule 1080. Phlx XL and Phlx XL II**

(a) – (p) 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.

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

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

(i) No change.

(ii) Initiation of a COLA. Upon the identification of the COLA-eligible order by the Phlx XL system, the Exchange will send a broadcast message to Phlx XL participants indicating that a COLA has been initiated. The broadcast message will identify the Complex Order Strategy, and the size, side and price of the COLA-eligible order and any contingencies, if applicable (such as, without limitation, All-Or-None)[, but will not identify the side of the market or the price].

(iii) – (vi) No change.

(vii) Firm Quote Requirement for COLA-Eligible Orders. COLA Sweeps in response to a COLA broadcast represent non-firm interest that can be modified at any time prior to the end of the COLA Timer. At the end of the COLA Timer, COLA Sweeps shall be firm only with respect to the COLA-eligible order for which it is submitted, provided that COLA Sweeps that exceed the size of a COLA-eligible order are also eligible to trade with other incoming COLA-eligible orders, COLA Sweeps and any other interest [that are] received during the COLA Timer after the initial COLA-eligible order has been executed in its entirety. Remaining interest trades at its entered price. If such interest crosses, the execution price is based on the price of the smaller sized interest. If the interest is equal in size, the execution price is the midpoint of the two prices, rounded, if necessary, up to the closest minimum trading increment. Any COLA Sweeps not accepted in whole or in a permissible ratio will expire at the end of the COLA Timer once all executions are complete.

(viii) Complex Orders resting on the CBOOK, and incoming electronic Complex Orders and COLA Sweeps that are received prior to the expiration of the COLA Timer, (collectively, for purposes of this rule, "incoming Complex Orders") representing the same Complex Order Strategy as a COLA-eligible order will impact the original COLA as follows:

(A) At the end of the COLA Timer, the Phlx XL system will determine the price and size of COLA Sweeps and any orders that were received during the COLA Timer that are unrelated to the COLA but nonetheless are eligible to participate in the COLA as set forth below.

(B) Incoming Complex Orders on the same side of the market as the COLA-eligible order. Incoming Complex Orders that were received during the COLA Timer for the same Complex Order Strategy as the COLA-eligible order that are on the same side of the market will join the COLA. The original COLA-eligible order has priority at all price points (i.e., multiple COLA Sweep Prices) over the incoming Complex Order(s), regardless of the price of the incoming Complex Order. The incoming Complex Order shall not be eligible for execution against interest on the opposite side of the market from the COLA-eligible order until the COLA-eligible order is executed in its entirety. If the incoming Complex Order is not executed in its entirety, the system will not

initiate a new COLA. Any remaining contracts, other than COLA Sweeps, will be placed on the CBOOK, subject to other instructions.

- (C) Incoming Complex Orders on the opposite side of the market from the COLA-eligible order.
- (1) Incoming customer Complex Orders that are received during the COLA Timer on the opposite side of the market from the COLA-eligible order with a price equal to or better than the best priced Complex Order or COLA Sweep [Price] will be executed against the COLA eligible order (which will be executed in its entirety first as described in sub-paragraph (B) above) or other Complex Orders or COLA Sweeps as follows:
- (a) If such incoming customer Complex Order is a limit order at the same price as the best priced Complex Order or COLA Sweep [Price], the incoming Complex Order will be executed at such [the Sweep P]price.
- (b) If such incoming Complex Order is a limit order that improved the best priced Complex Order or COLA Sweep [Price], the incoming customer Complex Order will be executed at the mid-point of the best priced Complex Order or COLA Sweep [Price] and the limit order price, rounded, if necessary, to the closest minimum trading increment to the benefit of the COLA-eligible order.
- (c) If such incoming customer Complex Order is a market order or a limit order that crosses the cPBBO, the incoming Complex Order will be executed at the mid-point of the cPBBO on the same side of the market as the COLA-eligible order and the best priced Complex Order or COLA Sweep [Price], rounded, if necessary, to the closest minimum trading increment to the benefit of the COLA-eligible order.
- (d) If multiple customer Complex Orders are received on the opposite side of the market from the COLA-eligible order, such orders will be executed in the order in which they were received at each price level.
- (e) If the COLA-eligible order is executed in its entirety and there are remaining bids or offers from the incoming Complex Order(s), the Phlx XL system will execute such interest against other Complex Orders or COLA Sweeps in the COLA and subsequently place [such] residual bids or offers, other than COLA Sweeps, onto the CBOOK, subject to other instructions.
- (2) Incoming non-customer Complex Orders that are received during the COLA Timer on the opposite side of the market from the COLA-eligible order with a price equal to or better than the best priced Complex Order or COLA Sweep [Price] will be executed against the COLA eligible order (which will be executed in its entirety first as described in sub-paragraph (B) above) or other Complex Orders or COLA Sweeps as follows:

- (a) If such incoming non-customer Complex Order is a limit order at the same price as the best priced Complex Order or COLA Sweep [Price], the incoming non-customer Complex Order will be executed at such [the Sweep P]price, subject to the provisions set forth sub-paragraph (e) above.
  - (b) If such incoming non-customer Complex Order is a limit order that improved the best priced Complex Order or COLA Sweep [Price], the incoming non-customer Complex Order will be executed at the limit order price.
  - (c) If such incoming non-customer Complex Order is a market order or a limit order that crosses the cPBBO, the incoming non-customer Complex Order will be executed at a price of \$0.01 better than the cPBBO on the same side of the market as the COLA-eligible order.
  - (d) If multiple non-customer Complex Orders are received on the opposite side of the market from the COLA-eligible order, such orders will be executed in the order in which they were received at each price level.
  - (e) If the COLA-eligible order is executed in its entirety and there are remaining bids or offers from the incoming non-customer Complex Order(s), the Phlx XL system will execute such interest against other Complex Orders or COLA Sweeps in the COLA and subsequently place [such] residual bids or offers, other than COLA Sweeps, onto the CBOOK, subject to other instructions.
- (3) Incoming Complex Orders that were received during the COLA Timer on the opposite side of the market from the COLA-eligible order with a price inferior to any other COLA Sweep [Price(s)] or Complex Order will be executed against the COLA-eligible order after all interest at the better [COLA Sweep P]price(s)] has/have been executed. After the initial COLA-eligible order has been executed in its entirety, incoming Complex Orders remaining unexecuted shall be eligible to trade with other Complex Orders and COLA Sweeps at their entered price. If, after the COLA-eligible order has been executed, there exist Complex Orders and/or COLA Sweeps on the opposite side of the market from the COLA-eligible order which cross the price of other Complex Orders or COLA Sweeps on the same side of the market from the COLA-eligible order, the execution price of such crossing interest is based on the price of the smaller sized interest. If the crossing interest is equal in size, the execution price is the midpoint of the two prices, rounded, if necessary, up to the closest minimum trading increment. The system will treat any unexecuted remaining contracts in the incoming Complex Order as a new Complex Order, and will not initiate a new COLA. Such unexecuted remaining contracts, other than COLA Sweeps, will be placed on the CBOOK, subject to other instructions.
- (ix) No change.

(f) – (i) No change.

\* \* \* \* \*

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors on July 17, 2013. No other action by the Exchange is necessary for the filing of the proposed rule change.

Questions regarding this rule filing may be directed to Edith Hallahan, Principal Associate General Counsel, The NASDAQ OMX Group, Inc., at 215-496-5179.

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

(a) Purpose

The purpose of the proposal is to provide additional trading information and rule clarity to Phlx Participants to attract their Complex Orders to the Exchange. The Exchange's Complex Order System, which is governed by Rule 1080.08, includes the COLA, an automated auction for seeking additional liquidity and price improvement for Complex Orders. When the Exchange receives a COLA-eligible order that triggers a COLA, the system broadcasts information about the COLA-eligible order – the “COLA Message.” The duration of the COLA is fixed and measured by the COLA Timer. During the COLA Timer, Phlx XL participants<sup>3</sup> may submit “COLA Sweeps,” which are

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<sup>3</sup> COLA Sweeps can only be entered by Phlx XL Participants who quote electronically as market makers for their own account (Streaming Quote Traders (“SQTs”), Remote Streaming Quote Traders (“RSQTs”) and specialists).

bids and/or offers on either or both side(s) of the market by submitting one or more bids or offers that improve the cPBBO. Also during the COLA Timer, Phlx members may enter other Complex Orders or COLA Sweeps at any price, as explained further below. These COLA Sweeps and Complex Orders may or may not be submitted in direct response to the COLA-eligible-order. How the XL System processes such COLA Messages and COLA Sweeps is explained further below.

### ***COLA Message***

Currently, upon the identification of the COLA-eligible order by the Phlx XL system, the Exchange will broadcast a COLA Message to Phlx XL participants indicating that a COLA has been initiated. The COLA Message identifies the Complex Order Strategy, the size of the COLA-eligible order, and any contingencies, if applicable (such as, without limitation, All-Or-None), but it does not identify the side of the market or the price. The COLA Message is sent over TOPO Plus Orders,<sup>4</sup> the Exchange's market data feed for subscribers interested in the detailed information it offers, including messages relating to Complex Orders. The Specialized Quote Feed ("SQF") also contains COLA Messages.<sup>5</sup> Like auction messages on multiple exchanges, the COLA Message is designed to attract responsive interest.

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Because non-SQT ROTs do not quote electronically, they cannot enter COLA Sweeps, which are electronic. See Rule 1014(b)(ii)(C) and Rule 1080.08(e)(ix).

<sup>4</sup> Securities Exchange Act Release No. 60877 (October 26, 2009), 74 FR 56255 (October 30, 2009) (SR-Phlx-2009-92).

<sup>5</sup> Securities Exchange Act Release No. 63034 (October 2, 2010), 75 FR 62441 (October 8, 2010) (SR-Phlx-2010-124).



The Exchange now proposes to add the side and price of the Complex Order to the COLA Message. The Exchange believes that including the side and price of the order is helpful to users, may attract additional auction responses, and therefore increase Complex Order fill rates. The Exchange notes that other exchanges include such additional information (side and price) respecting their various auctions and, therefore, that broadcasting such information is consistent with the Exchange Act.<sup>6</sup>

### ***COLA Responses and Processing***

Currently, during the COLA, participant responses can be entered at multiple prices and can take the form of Complex Orders or COLA Sweeps. Specifically, Complex Orders can be entered into the COLA<sup>7</sup> by non-broker-dealer customers, non-market-maker off-floor broker-dealers,<sup>8</sup> Floor Brokers,<sup>9</sup> professional customers<sup>10</sup> and non-Phlx market makers,<sup>11</sup> as well as Exchange SQTs, RSQTs, non-SQT ROTs and

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<sup>6</sup> See CBOE Rule 6.53C(d)(ii) and ISE Rule 723(c). However, the CBOE does not broadcast the price of the complex order and rejects same side responses to its COA under its Rule 6.53C(d)(iii)(1). ISE sends a broadcast message when there is a crossing transaction in ISE's Price Improvement Mechanism that includes the series, size, side and price of the order (including complex orders).

<sup>7</sup> In each case, Complex Orders can be entered, generally, not just into the COLA, by all of these types of market participants.

<sup>8</sup> Rule 1080.08(b)(i).

<sup>9</sup> Rule 1080.08(b)(iii).

<sup>10</sup> Rule 1000(b)(14). The term "professional" means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). A professional will be treated in the same manner as an off-floor broker-dealer for purposes of Rule 1080.08.

<sup>11</sup> Rule 1080.08(b)(ii).

specialists (together, market makers)<sup>12</sup> Exchange SQTs, RSQTs, and specialists also can participate in a COLA by submitting COLA Sweeps.

Today, in the absence of information about the price and side of a COLA-eligible order, orders submitted in response to a COLA Message can be on either the same side or the opposite side of the COLA-eligible order. When a market maker submits a COLA Sweep or a Complex Order on the opposite side of the market from the COLA-eligible order during a COLA, those orders are treated identically in the COLA, *except* that unexecuted COLA Sweeps expire and unexecuted Complex Orders are eligible for the Complex Order Book (“CBOOK”).<sup>13</sup> In other words, there is no meaningful advantage to submitting a COLA Sweep versus a Complex Order.

The same is true regarding Complex Orders submitted during a COLA. Because Complex Orders are not specifically marked as “COLA responses,” the Phlx XL System cannot identify which Complex Orders are truly intended to respond to the auction and which are merely coincidental.<sup>14</sup> In any case, there is no difference in treatment between any participant submitting a Complex Order (or in the case of certain market makers, a COLA Sweep), whether intended to respond to a COLA message or submitted coincidentally.

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<sup>12</sup> Rules 1014(b) and 1080.08(b)(ii).

<sup>13</sup> See Rules 1080.08(e)(vii), (viii)(B), (viii)(C)(1)(e), and (viii)(C)(2)(e).

<sup>14</sup> See e.g., Rule 1080.08(e)(viii)(B), which addresses incoming Complex Orders on the same side of the market as the COLA-eligible order. The Exchange is modifying the term “incoming Complex Order” to provide that it includes both responsive Complex Orders and COLA Sweeps, as well as Complex Orders.

This is true of orders on both the same side of the market as the COLA-eligible order as well as those on the opposite side.<sup>15</sup> The Exchange currently takes into account COLA responses and Complex Orders on the same side of the market as the COLA-eligible order and it will continue to do so. Again, market makers can submit Complex Orders or COLA Sweeps on the same side of the market as the COLA-eligible order. Such orders are treated the same, except COLA Sweeps expire. As with opposite side interest, there is no advantage to submitting a COLA Sweep versus a Complex Order on the same side of the market.

Both currently and under this proposal, orders submitted on the same side of the market as the COLA-eligible order are and will be considered for execution only after the Complex Order that initiated the COLA is executed.<sup>16</sup> Today, orders may be submitted on the same side of the COLA-eligible order because market participants are unaware of whether the COLA-eligible order is a buy or a sell order. Same-side interest does not and will not interact with the COLA-eligible order; however, it may still interact with orders on the opposite side of the market that are submitted during the COLA Timer. This would occur when the COLA is over-subscribed. This ensures that the COLA-eligible order that initiated the COLA maintains priority over any interest that was entered during the COLA on the same side as the COLA-eligible order. It also ensures that there is no advantage to submitting interest on the same side as the COLA-eligible order. This

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<sup>15</sup> See e.g., Rule 1080.08(e)(viii)(C), which the Exchange is amending to address incoming Complex Orders on the opposite side of the market as the COLA-eligible order, which includes both Complex Orders and COLA Sweeps.

<sup>16</sup> See Rule 1080.08(e)(viii)(C)(3), which the Exchange is modifying to explain in greater detail how the Phlx XL system currently processes orders on either side of the COLA-eligible order after the COLA-eligible order is fully executed.

structure maximizes the interest executed in the COLA, whether on the same side of the market or the opposite side of the market from the COLA-eligible order, and whether it is a responsive Complex Order, a COLA Sweep, or a coincidental Complex Order.

Under the proposal, participants will still be permitted to submit orders on the same side of the market as the COLA-eligible order even though they will be aware of whether the COLA-eligible order is a buy or a sell order. Such behavior is neither irrational nor nefarious because, as stated above, same side interest may be executed in the COLA after the COLA-eligible order has been fully executed. While some options exchanges do not accept same side interest or responses from certain types of market participants in their respective auctions for complex orders, the Exchange opted not to change its current practice of accepting same side interest for several reasons. First, accepting same side interest is rational and consistent with the Exchange Act, given the possibility of execution. Second, the Exchange believes that continuing to allow the entry of same-side interest does not increase the potential for manipulation or gaming because same-side interest, along with all other interest, is processed according to strict and transparent priority rules.<sup>17</sup> Third, continuing to accept same side interest will not affect the outcome of the COLA; conversely, a change to current behavior could cause issues for participants currently utilizing the Phlx Complex Orders system.

The Exchange also notes that the proposal to show the price of the COLA-eligible order does not provide any advantage to same side or opposite side COLA Sweeps or Complex Orders in relation to their execution. COLA executions will continue to occur

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<sup>17</sup> The Exchange will, of course, monitor COLAs, including the entry and execution of such same side orders, to detect and punish gaming and manipulation.

at best price(s) available at the end of the COLA Timer. However, it would not be irrational to submit responsive COLA Sweeps or Complex Orders that are priced inferior to the COLA-eligible order because such interest may be executed in the COLA after the COLA-eligible order is fully executed. Interest that is priced away from the COLA-eligible order will only be executed if it is executable against other remaining interest after the COLA-eligible order has been executed in its entirety. Again, the Exchange believes that there is no increased potential for gaming and manipulation in this case, and the Exchange will surveil to ensure that this is true in practice.

### ***COLA Sweeps Trading with COLA Sweeps***

The Exchange proposes to amend Rule 1080.08(e)(vii) and (viii) to provide that COLA Sweeps can trade not only with the COLA-eligible order, but also with COLA Sweeps and other Complex Orders, both on the same side and on the opposite side of the market as the COLA-eligible order.<sup>18</sup> The proposed new language in Rule 1080.08(e)(vii) and (viii) is consistent with the current processing and purposes of the COLA, which is to attract and execute as much interest as possible at the best price(s) without causing some responses to remain unexecuted. The Exchange also proposes to

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<sup>18</sup> Rule 1080.08(e)(viii)(A) currently states that at the end of the COLA Timer, the Phlx XL system will determine the price and size of COLA Sweeps and any orders that were received during the COLA Timer that are unrelated to the COLA but nonetheless are eligible to participate in the COLA. This was intended to cover COLA Sweeps both on the opposite side and on the same side of the market as the COLA-eligible order. The Exchange never intended to disregard COLA Sweeps on the same side of the market as the COLA-eligible order, and, instead, believes that this language contemplated including all interest received in response to a COLA regardless of the side of the market. Nonetheless, the Exchange is modifying Rule 1080.08(e)(viii) in multiple places to establish its proper application to orders on either side of the market as the COLA-eligible order.

amend Rule 1080.08(e)(viii) to provide that the COLA-eligible order is executed at the best prices available, inclusive of both COLA Sweeps and Complex Orders, at the end of the COLA Timer. The Exchange currently takes into account both COLA Sweeps and Complex Orders at the best prices when executing the COLA-eligible order. The proposed new language in Rule 1080.08(e)(viii) provides that both COLA Sweeps and Complex Orders at the best prices are considered for execution at the end of the COLA.

### ***Execution Prices***

The Exchange is proposing to add to Rule 1080.08(e)(vii) and (viii) language stating that, at the end of the COLA, remaining interest trades at its entered price. If such interest crosses, the execution price is based on the price of the smaller sized interest. If the interest is equal in size, the execution price is the midpoint of the two prices, rounded, if necessary, up to the closest minimum trading increment. The COLA-eligible order is executed first and then all other interest is addressed, taking into account its price.<sup>19</sup> The Rule does not currently specify how the execution prices of the remaining interest are determined.

#### (b) Statutory Basis

The Exchange believes the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>20</sup> in general, and with Section 6(b)(5) of the Act,<sup>21</sup> in particular,

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<sup>19</sup> Pursuant to Rule 1080.08(e)(viii)(A), at the end of the COLA Timer, the Phlx XL system will determine the price and size of COLA Sweeps and any orders that were received during the COLA Timer that are unrelated to the COLA but nonetheless are eligible to participate.

<sup>20</sup> 15 U.S.C. 78f.

<sup>21</sup> 15 U.S.C. 78f(b)(5).

which requires, among other things, that the rules of an exchange be designed to promote just and equitable principles of trade and foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities. Specifically, providing additional information to market participants interested in Complex Orders should promote just and equitable principles of trade by reducing the risk that a COLA-eligible Complex Order does not trade and increasing the potential for responses to the COLA. It should also foster cooperation and coordination with persons engaged in facilitating transactions in securities, particularly the COLA-eligible order, by attracting additional responsive interest and thereby increasing the likelihood of a trade. More responsive interest should result in more trading and more efficient trading. By providing more information, the proposal should also result in better prices, as responding market participants will be better able to manage their capital and focus on responding to orders they are truly interested in trading against. Because the proposal is likely to lead to an increase in Exchange volume, it is pro-competitive and should enable the Exchange to better compete against other markets that provide complex order functionality. Accordingly, consistent with Section 6(b)(8),<sup>22</sup> the Exchange believes that the proposal does not impose a burden on competition not necessary or appropriate in furtherance of the purposes of the Act, as described further below.

The Exchange is also proposing to correct the rule text to reflect that COLA Sweeps on the same side of the market as a COLA-eligible Complex Order can be executed in the COLA, and that COLA Sweeps can trade with other COLA Sweeps. The

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<sup>22</sup> 15 U.S.C. 78f(b)(8).

Exchange believes that it is consistent with promoting just and equitable principles of trade to include same side COLA Sweeps in the COLA, because it results in more interest being executed in the COLA. The Exchange also believes that the proposal is not unfairly discriminatory, because it includes same side COLA Sweeps in executions after the COLA. At the same time, the COLA-eligible order which initiated the COLA maintains priority over any interest that was received during the COLA on the same side as the COLA-eligible order, which ensures that there is no advantage to submitting interest on the same side as the COLA-eligible order. Thus, the Exchange believes that this is consistent with just and equitable principles of trade.

The Exchange believes that its proposal to add to the rule text the price at which remaining interest is executed is consistent with the Act. Specifically, Rule 1080.08(e)(vii) and (viii) will provide that, at the end of the COLA, remaining interest trades at its entered price, and if such prices cross each other, the execution price is based on the price of the smaller sized interest. If the interest is equal in size, the execution price is the midpoint of the two prices, rounded, if necessary, up to the closest minimum trading increment. The COLA-eligible order is executed first and all other interest is addressed, taking into account its price.<sup>23</sup> The Exchange believes that this approach is consistent with promoting just and equitable principles of trade, because responsive interest is addressed in a reasonable way, after the COLA-eligible order is executed, at the best prices possible and executing as much of the interest as possible. The Exchange

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<sup>23</sup> Pursuant to Rule 1080.08(e)(viii)(A), at the end of the COLA Timer, the Phlx XL system will determine the price and size of COLA Sweeps and any orders that were received during the COLA Timer that are unrelated to the COLA but nonetheless are eligible to participate.



believes that this approach is reasonable, because, in a situation where a choice has to be made between execution prices, the Exchange has chosen to benefit the smaller sized order, execute at the midpoint and round up, all of which are choices based on what the Exchange deemed a fair approach given the choice of benefitting the larger order, not executing at all, or rounding down. Most importantly, the Exchange seeks to execute as much of the remaining interest as possible. This should facilitate more executions of Complex Orders.

The Exchange further believes that the proposed modifications to Rule 1080.08(e)(viii) are consistent with the Act. That subsection has always governed the processing of orders resting on the CBOOK and entered during a COLA; has always permitted the entry of such orders on the same side of the market as the COLA-eligible order; and has always permitted the entry of Complex Orders and COLA Sweeps at prices both superior and inferior to the COLA-eligible order. The proposed changes to subsection (e)(viii) do not alter the current processing of COLA Sweeps or other Complex Orders.

As stated above,<sup>24</sup> the Exchange believes that it is consistent with the Act to continue to permit the entry of orders on both sides of the COLA-eligible order when the COLA Message reveals the side of the COLA-eligible order. As stated above, it is rational for participants to enter orders on the same side of the market as the COLA-eligible order or at inferior prices to the COLA-eligible order because such orders can participate in the COLA after the COLA-eligible order is fully executed. COLA executions continue to occur at best price(s) available at the end of the COLA with the

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<sup>24</sup> See supra at text accompanying note 17.

COLA-eligible order being executed first with interest on the same side of the market as the COLA-eligible order or interest at prices inferior to the COLA-eligible order considered for execution only after the COLA-eligible order has been satisfied. Thus, maintaining the current functionality will facilitate transactions in securities by maximizing opportunities for order execution in the COLA. Allowing such behavior is consistent with just and equitable principles of trade because the behavior is not advantaged in the Phlx XL system; for this reason, the Exchange does not believe that the system processing of such orders is subject to manipulation or gaming. The Exchange will, of course, surveil COLAs diligently to guard against manipulation and gaming.

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. Specifically, the proposal does not impose an intra-market burden on competition, because it will be available to all Phlx participants who receive Complex Order Messages and such messages are available to those who choose to subscribe, for a fee. Furthermore, the proposal should promote competition for complex orders by drawing more and better responses to the COLA, which, in turn, should make the COLA more robust and competitive. Nor will the proposal impose a burden on competition among the options exchanges, because, in addition to the vigorous competition for order flow among the options exchanges, the proposal adds information that certain other options exchanges broadcast, which should be helpful to market participants.

With respect to the aspect of the proposal that adds reference to COLA Sweeps, the Exchange believes that this change does not impose a burden on competition, because

it *includes* same side COLA Sweeps in executions after the COLA; it merely addresses how COLA Sweeps execute against each other. With respect to the aspect of the proposal that addresses the price at which remaining interest is executed, the Exchange believes that the proposal does not impose a burden on competition, because it merely specifies, in connection with executing as much interest as possible, the prices at which such interest trades, regardless of the type of market participant submitting such interest. To the extent that market participants disagree with the particular approach taken by the Exchange herein, market participants can easily and readily direct complex order flow to competing venues.

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

Written comments were neither solicited nor 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)

Pursuant to Section 19(b)(3)(A) of the Act<sup>25</sup> and Rule 19b-4(f)(6)<sup>26</sup> thereunder, Phlx has designated this proposal as one that effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. Phlx

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<sup>25</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>26</sup> 17 CFR 240.19b-4(f)(6).

believes that the proposal to add side and price information does not significantly affect the protection of investors or the public interest and does not impose any significant burden on competition because it does not raise any novel regulatory issues, as it is similar to messages sent by other exchanges. The proposal adds certain information to a broadcast message, which benefits market participants. To the extent that the ISE's Price Improvement Mechanism is different than the COLA, the Exchange does not believe that this difference raises any new regulatory issues, because the purpose of adding the price to the message is to attract relevant responses, which is likely also the purpose of ISE showing the price of an order in its Price Improvement Mechanism. Because the purposes are the same, the Exchange does not believe that the fact that ISE's Price Improvement Mechanism is different from the COLA is material to considering whether a message should contain price.

The Exchange further believes that continuing to allow same-side responses, unlike the CBOE, which rejects same-side responses, does not significantly affect the protection of investors or the public interest, and does not impose a significant burden on competition, because same-side Complex Orders on the Exchange are treated, generally, the same as COLA Sweeps, and the same whether submitted in direct response to a COLA message or not.<sup>27</sup> More specifically, as discussed above,<sup>28</sup> there is no advantage to using one over the other, nor is there any advantage to submitting a Complex Order in response to a COLA as opposed to coincidentally. Thus, the Exchange believes that

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<sup>27</sup> However, COLA Sweeps expire at the end of the COLA, while Complex Orders can go on the CBOOK.

<sup>28</sup> See supra at text accompanying notes 13-16.

maintaining the current functionality will maximize opportunities for execution of trading interest without creating opportunities for manipulation or gaming. Moreover, the Exchange does not believe that the resulting structure of the Exchange's auction burdens competition because it provides a competitive alternative to CBOE; to the extent that this change benefits the Exchange, CBOE may readily respond by adjusting its own rules.

The correction that permits COLA Sweeps to trade with other COLA Sweeps does not significantly affect the protection of investors and the public interest or impose a significant burden on competition, because it maximizes the interest that trades after a COLA. The change to specify the prices used to execute remaining interest after a COLA also does not significantly affect the protection of investors and the public interest or impose a significant burden on competition, because it lays out a reasonable method for pricing such interest, as explained above.<sup>29</sup>

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

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

The proposal is substantially similar to CBOE Rule 6.53C(d)(ii), except that the CBOE does not broadcast the price of the complex order.<sup>30</sup> The Exchange does not believe that this is a significant difference, because another exchange does disseminate

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<sup>29</sup> See supra at text accompanying note 17.

<sup>30</sup> Also, CBOE rejects same side responses to its COA under its Rule 6.53C(d)(iii)(1).

the price of an order in a similar message. Specifically, under ISE Rule 723(c), a broadcast message is sent to ISE members when there is a crossing transaction in ISE's Price Improvement Mechanism that includes the series, size, side and price of the order. The Exchange believes that this is similar, because complex orders can be entered into ISE's Price Improvement Mechanism.<sup>31</sup> In addition, the Exchange does not believe that the showing of the price of a Complex Order in the COLA is significantly different, nor does it raise novel regulatory issues, from the showing of price in the PIM, even though the PIM is not just for complex orders (but accepts single-sided orders also) and even though it only accepts crosses and displays responses. Although the PIM and COLA are different mechanisms, both mechanisms are intended to attract relevant responsive interest and secure the best price possible for the order. Accordingly, the Exchange does not believe that displaying price in the PIM is materially different than displaying the price of a COLA-eligible order, as proposed herein.

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

Not applicable.

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

Not applicable.

11. Exhibits

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

Register.

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<sup>31</sup> ISE's Price Improvement Mechanism is different than the Exchange's Complex Orders system, because ISE's system is not just for complex orders; it also differs in that ISE's system only accepts crosses and it displays responses.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
 (Release No. \_\_\_\_\_ ; File No. SR-Phlx-2013-88)

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and  
 Immediate Effectiveness of Proposed Rule Change to Provide Additional Trading  
 Information and Rule Clarity to Phlx Participants

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 21, 2013, NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a 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 provide additional trading information and rule clarity to Phlx Participants to attract their Complex Orders to the Exchange.

The text of the proposed rule change is below. Proposed new language is underlined; proposed deletions are in brackets.

\* \* \* \* \*

**Rule 1080. Phlx XL and Phlx XL II**

(a) – (p) No change.

••• *Commentary:* -----

**.01- .07** No change.

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

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

**.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) No change.

(ii) Initiation of a COLA. Upon the identification of the COLA-eligible order by the Phlx XL system, the Exchange will send a broadcast message to Phlx XL participants indicating that a COLA has been initiated. The broadcast message will identify the Complex Order Strategy, and the size, side and price of the COLA-eligible order and any contingencies, if applicable (such as, without limitation, All-Or-None)[, but will not identify the side of the market or the price].

(iii) – (vi) No change.

(vii) Firm Quote Requirement for COLA-Eligible Orders. COLA Sweeps in response to a COLA broadcast represent non-firm interest that can be modified at any time prior to the end of the COLA Timer. At the end of the COLA Timer, COLA Sweeps shall be firm only with respect to the COLA-eligible order for which it is submitted, provided that COLA Sweeps that exceed the size of a COLA-eligible order are also eligible to trade with other incoming COLA-eligible orders, COLA Sweeps and any other interest [that are] received during the COLA Timer after the initial COLA-eligible order has been executed in its entirety. Remaining interest trades at its entered price. If such interest crosses, the execution price is based on the price of the smaller sized interest. If the interest is



equal in size, the execution price is the midpoint of the two prices, rounded, if necessary, up to the closest minimum trading increment. Any COLA Sweeps not accepted in whole or in a permissible ratio will expire at the end of the COLA Timer once all executions are complete.

(viii) Complex Orders resting on the CBOOK, and incoming electronic Complex Orders and COLA Sweeps that are received prior to the expiration of the COLA Timer, (collectively, for purposes of this rule, "incoming Complex Orders") representing the same Complex Order Strategy as a COLA-eligible order will impact the original COLA as follows:

(A) At the end of the COLA Timer, the Phlx XL system will determine the price and size of COLA Sweeps and any orders that were received during the COLA Timer that are unrelated to the COLA but nonetheless are eligible to participate in the COLA as set forth below.

(B) Incoming Complex Orders on the same side of the market as the COLA-eligible order. Incoming Complex Orders that were received during the COLA Timer for the same Complex Order Strategy as the COLA-eligible order that are on the same side of the market will join the COLA. The original COLA-eligible order has priority at all price points (i.e., multiple COLA Sweep Prices) over the incoming Complex Order(s), regardless of the price of the incoming Complex Order. The incoming Complex Order shall not be eligible for execution against interest on the opposite side of the market from the COLA-eligible order until the COLA-eligible order is executed in its entirety. If the incoming Complex Order is not executed in its entirety, the system will not

initiate a new COLA. Any remaining contracts, other than COLA Sweeps, will be placed on the CBOOK, subject to other instructions.

(C) Incoming Complex Orders on the opposite side of the market from the COLA-eligible order.

(1) Incoming customer Complex Orders that are received during the COLA Timer on the opposite side of the market from the COLA-eligible order with a price equal to or better than the best priced Complex Order or COLA Sweep [Price] will be executed against the COLA eligible order (which will be executed in its entirety first as described in sub-paragraph (B) above) or other Complex Orders or COLA Sweeps as follows:

- (a) If such incoming customer Complex Order is a limit order at the same price as the best priced Complex Order or COLA Sweep [Price], the incoming Complex Order will be executed at such [the Sweep P]price.
- (b) If such incoming Complex Order is a limit order that improved the best priced Complex Order or COLA Sweep [Price], the incoming customer Complex Order will be executed at the mid-point of the best priced Complex Order or COLA Sweep [Price] and the limit order price, rounded, if necessary, to the closest minimum trading increment to the benefit of the COLA-eligible order.
- (c) If such incoming customer Complex Order is a market order or a limit order that crosses the cPBBO, the incoming Complex Order will be executed at the mid-point of the cPBBO on the same side of the market as the COLA-eligible order and the best priced Complex Order or COLA

Sweep [Price], rounded, if necessary, to the closest minimum trading increment to the benefit of the COLA-eligible order.

(d) If multiple customer Complex Orders are received on the opposite side of the market from the COLA-eligible order, such orders will be executed in the order in which they were received at each price level.

(e) If the COLA-eligible order is executed in its entirety and there are remaining bids or offers from the incoming Complex Order(s), the Phlx XL system will execute such interest against other Complex Orders or COLA Sweeps in the COLA and subsequently place [such] residual bids or offers, other than COLA Sweeps, onto the CBOOK, subject to other instructions.

(2) Incoming non-customer Complex Orders that are received during the COLA Timer on the opposite side of the market from the COLA-eligible order with a price equal to or better than the best priced Complex Order or COLA Sweep [Price] will be executed against the COLA eligible order (which will be executed in its entirety first as described in sub-paragraph (B) above) or other Complex Orders or COLA Sweeps as follows:

(a) If such incoming non-customer Complex Order is a limit order at the same price as the best priced Complex Order or COLA Sweep [Price], the incoming non-customer Complex Order will be executed at such [the Sweep P]price, subject to the provisions set forth sub-paragraph (e) above.

(b) If such incoming non-customer Complex Order is a limit order that improved the best priced Complex Order or COLA Sweep [Price], the

incoming non-customer Complex Order will be executed at the limit order price.

- (c) If such incoming non-customer Complex Order is a market order or a limit order that crosses the cPBBO, the incoming non-customer Complex Order will be executed at a price of \$0.01 better than the cPBBO on the same side of the market as the COLA-eligible order.
- (d) If multiple non-customer Complex Orders are received on the opposite side of the market from the COLA-eligible order, such orders will be executed in the order in which they were received at each price level.
- (e) If the COLA-eligible order is executed in its entirety and there are remaining bids or offers from the incoming non-customer Complex Order(s), the Phlx XL system will execute such interest against other Complex Orders or COLA Sweeps in the COLA and subsequently place [such] residual bids or offers, other than COLA Sweeps, onto the CBOOK, subject to other instructions.
- (3) Incoming Complex Orders that were received during the COLA Timer on the opposite side of the market from the COLA-eligible order with a price inferior to any other COLA Sweep [Price(s)] or Complex Order will be executed against the COLA-eligible order after all interest at the better [COLA Sweep P]price(s) has/have been executed. After the initial COLA-eligible order has been executed in its entirety, incoming Complex Orders remaining unexecuted shall be eligible to trade with other Complex Orders and COLA Sweeps at their entered price. If, after the COLA-eligible order

has been executed, there exist Complex Orders and/or COLA Sweeps on the opposite side of the market from the COLA-eligible order which cross the price of other Complex Orders or COLA Sweeps on the same side of the market from the COLA-eligible order, the execution price of such crossing interest is based on the price of the smaller sized interest. If the crossing interest is equal in size, the execution price is the midpoint of the two prices, rounded, if necessary, up to the closest minimum trading increment. The system will treat any unexecuted remaining contracts in the incoming Complex Order as a new Complex Order, and will not initiate a new COLA. Such unexecuted remaining contracts, other than COLA Sweeps, will be placed on the CBOOK, subject to other instructions.

(ix) No change.

(f) – (i) No change.

\* \* \* \* \*

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 proposal is to provide additional trading information and rule clarity to Phlx Participants to attract their Complex Orders to the Exchange. The Exchange's Complex Order System, which is governed by Rule 1080.08, includes the COLA, an automated auction for seeking additional liquidity and price improvement for Complex Orders. When the Exchange receives a COLA-eligible order that triggers a COLA, the system broadcasts information about the COLA-eligible order – the “COLA Message.” The duration of the COLA is fixed and measured by the COLA Timer. During the COLA Timer, Phlx XL participants<sup>3</sup> may submit “COLA Sweeps,” which are bids and/or offers on either or both side(s) of the market by submitting one or more bids or offers that improve the cPBBO. Also during the COLA Timer, Phlx members may enter other Complex Orders or COLA Sweeps at any price, as explained further below. These COLA Sweeps and Complex Orders may or may not be submitted in direct response to the COLA-eligible-order. How the XL System processes such COLA Messages and COLA Sweeps is explained further below.

***COLA Message***

Currently, upon the identification of the COLA-eligible order by the Phlx XL system, the Exchange will broadcast a COLA Message to Phlx XL participants indicating that a COLA has been initiated. The COLA Message identifies the Complex Order

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<sup>3</sup> COLA Sweeps can only be entered by Phlx XL Participants who quote electronically as market makers for their own account (Streaming Quote Traders (“SQTs”), Remote Streaming Quote Traders (“RSQTs”) and specialists). Because non-SQT ROTs do not quote electronically, they cannot enter COLA Sweeps, which are electronic. See Rule 1014(b)(ii)(C) and Rule 1080.08(e)(ix).

Strategy, the size of the COLA-eligible order, and any contingencies, if applicable (such as, without limitation, All-Or-None), but it does not identify the side of the market or the price. The COLA Message is sent over TOPO Plus Orders,<sup>4</sup> the Exchange's market data feed for subscribers interested in the detailed information it offers, including messages relating to Complex Orders. The Specialized Quote Feed ("SQF") also contains COLA Messages.<sup>5</sup> Like auction messages on multiple exchanges, the COLA Message is designed to attract responsive interest.

The Exchange now proposes to add the side and price of the Complex Order to the COLA Message. The Exchange believes that including the side and price of the order is helpful to users, may attract additional auction responses, and therefore increase Complex Order fill rates. The Exchange notes that other exchanges include such additional information (side and price) respecting their various auctions and, therefore, that broadcasting such information is consistent with the Exchange Act.<sup>6</sup>

### ***COLA Responses and Processing***

Currently, during the COLA, participant responses can be entered at multiple prices and can take the form of Complex Orders or COLA Sweeps. Specifically,

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<sup>4</sup> Securities Exchange Act Release No. 60877 (October 26, 2009), 74 FR 56255 (October 30, 2009) (SR-Phlx-2009-92).

<sup>5</sup> Securities Exchange Act Release No. 63034 (October 2, 2010), 75 FR 62441 (October 8, 2010) (SR-Phlx-2010-124).

<sup>6</sup> See CBOE Rule 6.53C(d)(ii) and ISE Rule 723(c). However, the CBOE does not broadcast the price of the complex order and rejects same side responses to its COA under its Rule 6.53C(d)(iii)(1). ISE sends a broadcast message when there is a crossing transaction in ISE's Price Improvement Mechanism that includes the series, size, side and price of the order (including complex orders).

Complex Orders can be entered into the COLA<sup>7</sup> by non-broker-dealer customers, non-market-maker off-floor broker-dealers,<sup>8</sup> Floor Brokers,<sup>9</sup> professional customers<sup>10</sup> and non-Phlx market makers,<sup>11</sup> as well as Exchange SQTs, RSQTs, non-SQT ROTs and specialists (together, market makers)<sup>12</sup> Exchange SQTs, RSQTs, and specialists also can participate in a COLA by submitting COLA Sweeps.

Today, in the absence of information about the price and side of a COLA-eligible order, orders submitted in response to a COLA Message can be on either the same side or the opposite side of the COLA-eligible order. When a market maker submits a COLA Sweep or a Complex Order on the opposite side of the market from the COLA-eligible order during a COLA, those orders are treated identically in the COLA, *except* that unexecuted COLA Sweeps expire and unexecuted Complex Orders are eligible for the Complex Order Book (“CBOOK”).<sup>13</sup> In other words, there is no meaningful advantage to submitting a COLA Sweep versus a Complex Order.

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<sup>7</sup> In each case, Complex Orders can be entered, generally, not just into the COLA, by all of these types of market participants.

<sup>8</sup> Rule 1080.08(b)(i).

<sup>9</sup> Rule 1080.08(b)(iii).

<sup>10</sup> Rule 1000(b)(14). The term "professional" means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). A professional will be treated in the same manner as an off-floor broker-dealer for purposes of Rule 1080.08.

<sup>11</sup> Rule 1080.08(b)(ii).

<sup>12</sup> Rules 1014(b) and 1080.08(b)(ii).

<sup>13</sup> See Rules 1080.08(e)(vii), (viii)(B), (viii)(C)(1)(e), and (viii)(C)(2)(e).



The same is true regarding Complex Orders submitted during a COLA. Because Complex Orders are not specifically marked as “COLA responses,” the Phlx XL System cannot identify which Complex Orders are truly intended to respond to the auction and which are merely coincidental.<sup>14</sup> In any case, there is no difference in treatment between any participant submitting a Complex Order (or in the case of certain market makers, a COLA Sweep), whether intended to respond to a COLA message or submitted coincidentally.

This is true of orders on both the same side of the market as the COLA-eligible order as well as those on the opposite side.<sup>15</sup> The Exchange currently takes into account COLA responses and Complex Orders on the same side of the market as the COLA-eligible order and it will continue to do so. Again, market makers can submit Complex Orders or COLA Sweeps on the same side of the market as the COLA-eligible order. Such orders are treated the same, except COLA Sweeps expire. As with opposite side interest, there is no advantage to submitting a COLA Sweep versus a Complex Order on the same side of the market.

Both currently and under this proposal, orders submitted on the same side of the market as the COLA-eligible order are and will be considered for execution only after the

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<sup>14</sup> See e.g., Rule 1080.08(e)(viii)(B), which addresses incoming Complex Orders on the same side of the market as the COLA-eligible order. The Exchange is modifying the term “incoming Complex Order” to provide that it includes both responsive Complex Orders and COLA Sweeps, as well as Complex Orders.

<sup>15</sup> See e.g., Rule 1080.08(e)(viii)(C), which the Exchange is amending to address incoming Complex Orders on the opposite side of the market as the COLA-eligible order, which includes both Complex Orders and COLA Sweeps.

Complex Order that initiated the COLA is executed.<sup>16</sup> Today, orders may be submitted on the same side of the COLA-eligible order because market participants are unaware of whether the COLA-eligible order is a buy or a sell order. Same-side interest does not and will not interact with the COLA-eligible order; however, it may still interact with orders on the opposite side of the market that are submitted during the COLA Timer. This would occur when the COLA is over-subscribed. This ensures that the COLA-eligible order that initiated the COLA maintains priority over any interest that was entered during the COLA on the same side as the COLA-eligible order. It also ensures that there is no advantage to submitting interest on the same side as the COLA-eligible order. This structure maximizes the interest executed in the COLA, whether on the same side of the market or the opposite side of the market from the COLA-eligible order, and whether it is a responsive Complex Order, a COLA Sweep, or a coincidental Complex Order.

Under the proposal, participants will still be permitted to submit orders on the same side of the market as the COLA-eligible order even though they will be aware of whether the COLA-eligible order is a buy or a sell order. Such behavior is neither irrational nor nefarious because, as stated above, same side interest may be executed in the COLA after the COLA-eligible order has been fully executed. While some options exchanges do not accept same side interest or responses from certain types of market participants in their respective auctions for complex orders, the Exchange opted not to change its current practice of accepting same side interest for several reasons. First, accepting same side interest is rational and consistent with the Exchange Act, given the

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<sup>16</sup> See Rule 1080.08(e)(viii)(C)(3), which the Exchange is modifying to explain in greater detail how the Phlx XL system currently processes orders on either side of the COLA-eligible order after the COLA-eligible order is fully executed.

possibility of execution. Second, the Exchange believes that continuing to allow the entry of same-side interest does not increase the potential for manipulation or gaming because same-side interest, along with all other interest, is processed according to strict and transparent priority rules.<sup>17</sup> Third, continuing to accept same side interest will not affect the outcome of the COLA; conversely, a change to current behavior could cause issues for participants currently utilizing the Phlx Complex Orders system.

The Exchange also notes that the proposal to show the price of the COLA-eligible order does not provide any advantage to same side or opposite side COLA Sweeps or Complex Orders in relation to their execution. COLA executions will continue to occur at best price(s) available at the end of the COLA Timer. However, it would not be irrational to submit responsive COLA Sweeps or Complex Orders that are priced inferior to the COLA-eligible order because such interest may be executed in the COLA after the COLA-eligible order is fully executed. Interest that is priced away from the COLA-eligible order will only be executed if it is executable against other remaining interest after the COLA-eligible order has been executed in its entirety. Again, the Exchange believes that there is no increased potential for gaming and manipulation in this case, and the Exchange will surveil to ensure that this is true in practice.

#### ***COLA Sweeps Trading with COLA Sweeps***

The Exchange proposes to amend Rule 1080.08(e)(vii) and (viii) to provide that COLA Sweeps can trade not only with the COLA-eligible order, but also with COLA Sweeps and other Complex Orders, both on the same side and on the opposite side of the

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<sup>17</sup> The Exchange will, of course, monitor COLAs, including the entry and execution of such same side orders, to detect and punish gaming and manipulation.

market as the COLA-eligible order.<sup>18</sup> The proposed new language in Rule 1080.08(e)(vii) and (viii) is consistent with the current processing and purposes of the COLA, which is to attract and execute as much interest as possible at the best price(s) without causing some responses to remain unexecuted. The Exchange also proposes to amend Rule 1080.08(e)(viii) to provide that the COLA-eligible order is executed at the best prices available, inclusive of both COLA Sweeps and Complex Orders, at the end of the COLA Timer. The Exchange currently takes into account both COLA Sweeps and Complex Orders at the best prices when executing the COLA-eligible order. The proposed new language in Rule 1080.08(e)(viii) provides that both COLA Sweeps and Complex Orders at the best prices are considered for execution at the end of the COLA.

### ***Execution Prices***

The Exchange is proposing to add to Rule 1080.08(e)(vii) and (viii) language stating that, at the end of the COLA, remaining interest trades at its entered price. If such interest crosses, the execution price is based on the price of the smaller sized interest. If the interest is equal in size, the execution price is the midpoint of the two prices, rounded, if necessary, up to the closest minimum trading increment. The COLA-eligible order is

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<sup>18</sup> Rule 1080.08(e)(viii)(A) currently states that at the end of the COLA Timer, the Phlx XL system will determine the price and size of COLA Sweeps and any orders that were received during the COLA Timer that are unrelated to the COLA but nonetheless are eligible to participate in the COLA. This was intended to cover COLA Sweeps both on the opposite side and on the same side of the market as the COLA-eligible order. The Exchange never intended to disregard COLA Sweeps on the same side of the market as the COLA-eligible order, and, instead, believes that this language contemplated including all interest received in response to a COLA regardless of the side of the market. Nonetheless, the Exchange is modifying Rule 1080.08(e)(viii) in multiple places to establish its proper application to orders on either side of the market as the COLA-eligible order.

executed first and then all other interest is addressed, taking into account its price.<sup>19</sup> The Rule does not currently specify how the execution prices of the remaining interest are determined.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>20</sup> in general, and with Section 6(b)(5) of the Act,<sup>21</sup> in particular, which requires, among other things, that the rules of an exchange be designed to promote just and equitable principles of trade and foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities. Specifically, providing additional information to market participants interested in Complex Orders should promote just and equitable principles of trade by reducing the risk that a COLA-eligible Complex Order does not trade and increasing the potential for responses to the COLA. It should also foster cooperation and coordination with persons engaged in facilitating transactions in securities, particularly the COLA-eligible order, by attracting additional responsive interest and thereby increasing the likelihood of a trade. More responsive interest should result in more trading and more efficient trading. By providing more information, the proposal should also result in better prices, as responding market participants will be better able to manage their capital and focus on responding to orders they are truly

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<sup>19</sup> Pursuant to Rule 1080.08(e)(viii)(A), at the end of the COLA Timer, the Phlx XL system will determine the price and size of COLA Sweeps and any orders that were received during the COLA Timer that are unrelated to the COLA but nonetheless are eligible to participate.

<sup>20</sup> 15 U.S.C. 78f.

<sup>21</sup> 15 U.S.C. 78f(b)(5).

interested in trading against. Because the proposal is likely to lead to an increase in Exchange volume, it is pro-competitive and should enable the Exchange to better compete against other markets that provide complex order functionality. Accordingly, consistent with Section 6(b)(8),<sup>22</sup> the Exchange believes that the proposal does not impose a burden on competition not necessary or appropriate in furtherance of the purposes of the Act, as described further below.

The Exchange is also proposing to correct the rule text to reflect that COLA Sweeps on the same side of the market as a COLA-eligible Complex Order can be executed in the COLA, and that COLA Sweeps can trade with other COLA Sweeps. The Exchange believes that it is consistent with promoting just and equitable principles of trade to include same side COLA Sweeps in the COLA, because it results in more interest being executed in the COLA. The Exchange also believes that the proposal is not unfairly discriminatory, because it includes same side COLA Sweeps in executions after the COLA. At the same time, the COLA-eligible order which initiated the COLA maintains priority over any interest that was received during the COLA on the same side as the COLA-eligible order, which ensures that there is no advantage to submitting interest on the same side as the COLA-eligible order. Thus, the Exchange believes that this is consistent with just and equitable principles of trade.

The Exchange believes that its proposal to add to the rule text the price at which remaining interest is executed is consistent with the Act. Specifically, Rule 1080.08(e)(vii) and (viii) will provide that, at the end of the COLA, remaining interest trades at its entered price, and if such prices cross each other, the execution price is based

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<sup>22</sup> 15 U.S.C. 78f(b)(8).

on the price of the smaller sized interest. If the interest is equal in size, the execution price is the midpoint of the two prices, rounded, if necessary, up to the closest minimum trading increment. The COLA-eligible order is executed first and all other interest is addressed, taking into account its price.<sup>23</sup> The Exchange believes that this approach is consistent with promoting just and equitable principles of trade, because responsive interest is addressed in a reasonable way, after the COLA-eligible order is executed, at the best prices possible and executing as much of the interest as possible. The Exchange believes that this approach is reasonable, because, in a situation where a choice has to be made between execution prices, the Exchange has chosen to benefit the smaller sized order, execute at the midpoint and round up, all of which are choices based on what the Exchange deemed a fair approach given the choice of benefitting the larger order, not executing at all, or rounding down. Most importantly, the Exchange seeks to execute as much of the remaining interest as possible. This should facilitate more executions of Complex Orders.

The Exchange further believes that the proposed modifications to Rule 1080.08(e)(viii) are consistent with the Act. That subsection has always governed the processing of orders resting on the CBOOK and entered during a COLA; has always permitted the entry of such orders on the same side of the market as the COLA-eligible order; and has always permitted the entry of Complex Orders and COLA Sweeps at prices both superior and inferior to the COLA-eligible order. The proposed changes to

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<sup>23</sup> Pursuant to Rule 1080.08(e)(viii)(A), at the end of the COLA Timer, the Phlx XL system will determine the price and size of COLA Sweeps and any orders that were received during the COLA Timer that are unrelated to the COLA but nonetheless are eligible to participate.

subsection (e)(viii) do not alter the current processing of COLA Sweeps or other Complex Orders.

As stated above,<sup>24</sup> the Exchange believes that it is consistent with the Act to continue to permit the entry of orders on both sides of the COLA-eligible order when the COLA Message reveals the side of the COLA-eligible order. As stated above, it is rational for participants to enter orders on the same side of the market as the COLA-eligible order or at inferior prices to the COLA-eligible order because such orders can participate in the COLA after the COLA-eligible order is fully executed. COLA executions continue to occur at best price(s) available at the end of the COLA with the COLA-eligible order being executed first with interest on the same side of the market as the COLA-eligible order or interest at prices inferior to the COLA-eligible order considered for execution only after the COLA-eligible order has been satisfied. Thus, maintaining the current functionality will facilitate transactions in securities by maximizing opportunities for order execution in the COLA. Allowing such behavior is consistent with just and equitable principles of trade because the behavior is not advantaged in the Phlx XL system; for this reason, the Exchange does not believe that the system processing of such orders is subject to manipulation or gaming. The Exchange will, of course, surveil COLAs diligently to guard against manipulation and gaming.

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. Specifically, the proposal does not impose an intra-market

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<sup>24</sup> See supra at text accompanying note 17.



burden on competition, because it will be available to all Phlx participants who receive Complex Order Messages and such messages are available to those who choose to subscribe, for a fee. Furthermore, the proposal should promote competition for complex orders by drawing more and better responses to the COLA, which, in turn, should make the COLA more robust and competitive. Nor will the proposal impose a burden on competition among the options exchanges, because, in addition to the vigorous competition for order flow among the options exchanges, the proposal adds information that certain other options exchanges broadcast, which should be helpful to market participants.

With respect to the aspect of the proposal that adds reference to COLA Sweeps, the Exchange believes that this change does not impose a burden on competition, because it *includes* same side COLA Sweeps in executions after the COLA; it merely addresses how COLA Sweeps execute against each other. With respect to the aspect of the proposal that addresses the price at which remaining interest is executed, the Exchange believes that the proposal does not impose a burden on competition, because it merely specifies, in connection with executing as much interest as possible, the prices at which such interest trades, regardless of the type of market participant submitting such interest. To the extent that market participants disagree with the particular approach taken by the Exchange herein, market participants can easily and readily direct complex order flow to competing venues.

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

Written comments were neither solicited nor received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act<sup>25</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>26</sup>

Phlx believes that the proposal to add side and price information does not significantly affect the protection of investors or the public interest and does not impose any significant burden on competition because it does not raise any novel regulatory issues, as it is similar to messages sent by other exchanges. The proposal adds certain information to a broadcast message, which benefits market participants. To the extent that the ISE's Price Improvement Mechanism is different than the COLA, the Exchange does not believe that this difference raises any new regulatory issues, because the purpose of adding the price to the message is to attract relevant responses, which is likely also the purpose of ISE showing the price of an order in its Price Improvement Mechanism. Because the purposes are the same, the Exchange does not believe that the fact that ISE's Price Improvement Mechanism is different from the COLA is material to considering whether a message should contain price.

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<sup>25</sup> 15 U.S.C. 78s(b)(3)(a)(ii).

<sup>26</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

The Exchange further believes that continuing to allow same-side responses, unlike the CBOE, which rejects same-side responses, does not significantly affect the protection of investors or the public interest, and does not impose a significant burden on competition, because same-side Complex Orders on the Exchange are treated, generally, the same as COLA Sweeps, and the same whether submitted in direct response to a COLA message or not.<sup>27</sup> More specifically, as discussed above,<sup>28</sup> there is no advantage to using one over the other, nor is there any advantage to submitting a Complex Order in response to a COLA as opposed to coincidentally. Thus, the Exchange believes that maintaining the current functionality will maximize opportunities for execution of trading interest without creating opportunities for manipulation or gaming. Moreover, the Exchange does not believe that the resulting structure of the Exchange's auction burdens competition because it provides a competitive alternative to CBOE; to the extent that this change benefits the Exchange, CBOE may readily respond by adjusting its own rules.

The correction that permits COLA Sweeps to trade with other COLA Sweeps does not significantly affect the protection of investors and the public interest or impose a significant burden on competition, because it maximizes the interest that trades after a COLA. The change to specify the prices used to execute remaining interest after a COLA also does not significantly affect the protection of investors and the public interest or impose a significant burden on competition, because it lays out a reasonable method for pricing such interest, as explained above.<sup>29</sup>

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<sup>27</sup> However, COLA Sweeps expire at the end of the COLA, while Complex Orders can go on the CBOOK.

<sup>28</sup> See supra at text accompanying notes 13-16.

<sup>29</sup> See supra at text accompanying note 17.

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

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

#### IV. Solicitation of Comments

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

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2013-88 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-2013-88. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission

will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-Phlx-2013-88 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>30</sup>

Kevin M O'Neill  
Deputy Secretary

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<sup>30</sup> 17 CFR 200.30-3(a)(12).