Required fields are shown with yellow backgrounds and asterisks.

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

File No.* SR - 2016 - * 40

Amendment No. (req. for Amendments *)

Filing by   NASDAQ PHLX LLC

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

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

Rule

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

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

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

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

Section 806(e)(1) * ☐	Section 806(e)(2) * ☐	Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ▣

Exhibit 3 Sent As Paper Document ▣

Description

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

A proposal to amend Phlx Rule 1080, entitled Phlx XL and Phlx XL II.

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 *	Angela	Last Name *	Dunn

Title *   Associate General Counsel

E-mail *   angela.dunn@nasdaq.com

Telephone *   (215) 496-5692   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   03/24/2016

By   Edward S. Knight

        (Name *)

Executive Vice President and General Counsel

edward.knight@nasdaq.com

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 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

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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

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

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

1.   Text of the Proposed Rule Change

        (a)   NASDAQ PHLX LLC ("Exchange" or "Phlx"), pursuant to Section

19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] is

filing with the Securities and Exchange Commission ("Commission") a proposal to

amend Phlx Rule 1080, entitled "Phlx XL and Phlx XL II" to amend the length of time of

a Price Improvement XL or PIXL[SM] Auction and make other rule changes.

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

Exhibit 1. The text of the proposed rule change is at Exhibit 5.

        (b)   Not applicable.

        (c)   Not applicable.

2.   Procedures of the Self-Regulatory Organization

        Senior management of the Exchange approved the proposed rule change under

authority delegated by the Exchange's Board of Directors ("Board") on July 1, 2015.

The Exchange's staff will advise the Board of any action taken pursuant to delegated

authority. No other action by the Exchange is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to Angela

Saccomandi Dunn, Associate General Counsel, Nasdaq, Inc. at (215) 496-5692.

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

        a.   Purpose

        The Exchange proposes to amend Phlx Rule 1080(n) to amend the length of time

of a PIXL[SM] Auction and make other clarifying rule changes. PIXL is a component of

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

[2]   17 CFR 240.19b-4.

the Exchange's fully automated options trading system, PHLX XL that allows a member

to 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 it represents as agent (an "Initiating Order") provided it submits

the PIXL Order for electronic execution into the PIXL Auction ("Auction'). The

Exchange adopted PIXL in October 2010 as a price-improvement mechanism on the

Exchange.[3] The Exchange proposes the below changes.

PIXL Timer

Today, a PIXL Auction lasts for one second, unless it is concluded early.[4] The

Exchange proposes to amend Rule 1080(n)(ii)(A)(4) to state, "the Auction will last for a

period of time, as determined by the Exchange and announced on the Nasdaq Trader

website. The Auction period will be no less than one hundred milliseconds and no more

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[3]   See Securities Exchange Act Release Nos. 63027 (October 1, 2010), 75 FR 62160
        (October 7, 2010) (SR-Phlx-2010-108) (Order Granting Approval to a Proposed
        Rule Change Relating to a Proposed Price Improvement System, Price
        Improvement XL); 65043 (August 5, 2011), 76 FR 49824 (August 11, 2011) (SR-
        Phlx-2011-104) (Extending Pilot for Price Improvement System, Price
        Improvement XL); 67399 (July 11, 2012), 77 FR 42048 (July 17, 2012) (SR-
        Phlx-2012-94) (Extending Pilot for Price Improvement System, Price
        Improvement XL); 69845 (June 25, 2013), 78 FR 39429 (July 1, 2013) (SR-Phlx-
        2013-46) (Order Granting Approval To Proposed Rule Change, as Modified by
        Amendment No. 1, Regarding Complex Order PIXL); 69989 (July 16, 2013), 78
        FR 43950 (July 22, 2013) (SR-Phlx-2013-74) (Extending Pilot for Price
        Improvement System, Price Improvement XL); and 72619 (July 16, 2014), 79 FR
        42613 (July 22, 2014) (Extending Pilot for Price Improvement System, Price
        Improvement XL).

[4]   The PIXL Auction shall conclude at the earlier to occur of (1) The end of the
        Auction period; (2) For a PIXL Auction (except if it is a Complex Order), any
        time the PBBO crosses the PIXL Order stop price on the same side of the market
        as the PIXL Order; (3) For a Complex Order PIXL Auction, any time the cPBBO
        or the Complex Order book crosses the PIXL Order stop price on the same side of
        the market as the PIXL Order; or (4) Any time there is a trading halt on the
        Exchange in the affected series.

than one second." This timer is similar to the current timer length in the newly adopted

BX PRISM.[5] The selected timer would be the same length of time for all auctions in all

options pursuant to Phlx Rule 1080(n).

The Exchange believes that a shorter duration of time for the Auction will reduce

market risk for all members executing trades in PIXL. Initiating Participants are required

to guarantee an execution at the NBBO[6] or at a better price, and are subject to market risk

while their PIXL Order is exposed to other Phlx members. While other Participants are

also subject to market risk, those providing responses in PIXL may cancel or modify their

orders. Phlx believes that the Initiating Participant acts in a critical role within the PIXL

Auction. Their willingness to guarantee the orders entered into PIXL an execution at

NBBO or a better price is the keystone to an order gaining the opportunity for price

improvement. Phlx believes that allowing for an Auction period of no less than one

hundred milliseconds and no more than one second will benefit members trading in

PIXL. Phlx believes it is in these members' best interests to minimize the auction time

while continuing to allow members adequate time to electronically respond. Both the

order being exposed and the responding orders are subject to market risk during the

Auction.

<u>Immediate or Cancel</u>

The Exchange is amending the Phlx Rule 1080(n) to remove certain uses of the

term "rejected" to instead refer to the term "immediately cancelled." Specifically, the

Exchange is amending Phlx Rule 1080(n)(ii)(A)(8)-(10). These orders are not rejected,

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[5]   <u>See</u> NASDAQ BX, Inc. ("BX") Rules at Chapter VI, Section 9(ii)(A)(3).

[6]   For Complex Orders, Initiating Members are required to guarantee an execution at
        the cPBBO or better.

rather they are immediately cancelled because technically they are accepted into the

trading system. The Exchange believes this non-substantive change adds more clarity to

the rule text. This distinction is made throughout the newly adopted BX PRISM rule,

where applicable.[7]

The Exchange notes that its proposed rule text at Rule 1080(n)(ii)(A)(9) states

that a PAN or Complex Order PAN response which is inferior to the stop price of the

PIXL order will be cancelled. In this particular instance, the order is not immediately

cancelled to prevent information leakage as to possible stop price. The order is cancelled

at the end of the Auction instead.

Allocations

The Exchange is amending Phlx Rule 1080(n)(ii)(A)(1) to first make clear that

under no circumstances will the Initiating Participant receive an allocation percentage, at

the final price point, of more than 50% with one competing quote, order or PAN response

or 40% with multiple competing quotes, orders or PAN responses, when competing

quotes, orders or PAN responses have contracts available for execution. This change

adds more clarity to the rule text as this limitation is present today. The Exchange

recently included this clarifying rule text in the newly adopted BX PRISM rule[8] and

seeks to conform the PIXL rule text to that of BX PRISM.

The Exchange is also amending Phlx Rule 1080(n)(ii)(E)(2)(b) and

1080(n)(ii)(E)(2)(c)(ii) to provide more specificity concerning the allocation to which an

Initiating Participant is entitled. The amendments make clear that the allocations can be

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[7]   See BX Rules at Chapter VI, Section 9.

[8]   See BX Rules at Chapter VI, Section 9(ii)(A)(1).

either 40% or 50% depending on whether there are one or more competing quotes, orders

or PAN responses. Also, the rule text notes that public customer interest must be

satisfied first. This change adds more clarity to the rule text as this allocation method is

present today. The Exchange recently included this clarifying rule text in the newly

adopted BX PRISM rule[9] and seeks to conform the PIXL rule text to that of BX PRISM.

Stop Price

The Exchange is amending Phlx Rule 1080(n)(ii)(C) to revise language where the

entire PIXL Order will be executed at, including, in the case of the internal BBO

("Reference BBO") crossing the PIXL Order stop price, the best response price(s) or, if

the stop price is the best price in the Auction, at the stop price, unless the best response

price is equal to or better than the price of a limit order resting on the PHLX book on the

same side of the market as the PIXL Order, in which case the PIXL Order will be

executed against that response, but at a price that is at least one minimum price

improvement increment better than the price of such limit order at the time of the

conclusion of the Auction. This new "better than" language is currently also utilized in

the newly adopted BX PRISM rule.[10] The Auction would look for the best price, which

is this instance may be through a limit order on the same side as the PIXL Order.

For example, assume the Reference BBO and NBBO are both .97 – 1.03. A PIXL

Order to buy 100 contracts is submitted with a contra-side Initiating Order to stop the

PIXL Order at 1.01. Assume a PAN response is submitted to sell 10 contracts at .97 and

another to sell 10 contracts at 1.00. Then assume an unrelated buy order is received to

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[9]   See BX Rules at Chapter VI, Section 9(ii)(E)(2)(b), (ii)(E)(2)(c)(ii), (ii)(F)(2)(b)
        and (ii)(F)(2)(c)(ii).

[10]   See BX Rules at Chapter VI, Section 9(ii)(C).

pay .98 for 10 contracts. The order is placed on the PHLX book and the Reference BBO

becomes .98 – 1.03. Then assume, a participant submits a quote of 1.02 -1.05, crossing

the 1.01 stop price on the same side of the PIXL Order and concluding the PIXL Auction

prior to the expiration of one second. Therefore, 10 contracts from the PIXL Order will

be executed at .99 against the best response price of .97 which is 'better than' the price of

the .98 limit order resting on the PHLX book on the same side of the market as the PIXL

Order. Also, 10 contracts will be executed at 1.00 (the next best response price after the

execution at .98) and the remaining 80 contracts will be executed at 1.01 (the stop price)

against the Initiating Order. The Exchange believes that this language clarifies the

current rule text by providing the "better than" language, which accounts for responses

that are priced more aggressively than a later arriving resting limit order on the book.

Professional Order

The Exchange is amending Phlx Rule 1080(n) in the first paragraph and also

1080(n)(ii)(E)(1) to make clear that a public customer order does not include a

professional[11] order. Professionals are not entitled to priority as described within the

Phlx Rule 1080(n). This non-substantive change adds more clarity to the rule text. The

Exchange recently included this clarifying rule text in the newly adopted BX PRISM

rule[12] and seeks to conform the PIXL rule text to that of BX PRISM.

Rounding

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[11]   Phlx Rule 1000(b)(14) currently states that 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).

[12]   See BX Rules at Chapter VI, Section 9 in the first paragraph and also at Section
         9(ii)(E)(1).

The Exchange is amending Phlx Rule 1080(n)(ii)(E)(2)(f) to add clarifying rule text concerning the manner in which the Exchange will round shares and allocate remaining contracts, commonly known in the industry as odd lots.[13] Rule 1014 provides for the manner in which the Phlx XL electronic match engine (hereinafter "System") allocates simple interest. Within Rule 1014, the Exchange allocates shares in Price-Time priority[14] first to public customers. Thereafter, the Exchange allocates interest to Specialists[15] and Registered Options Traders[16] (hereinafter collectively "ROTs") utilizing a pro-rata allocation model.[17] Finally, the Exchange allocates remaining interest to off-floor broker dealers[18] also utilizing a pro-rata allocation model.

The Exchange proposes to precisely describe that, with respect to pro-rata allocations, the Exchange will round shares down to the nearest integer when determining

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[13]   The Exchange rounds shares and allocates remaining shares in the manner described herein. This rule change memorializes this practice within its rules.

[14]   Price-Time allocations are filled among Customer Orders in time priority.

[15]   A Specialist is an Exchange member who is registered as an options specialist. See Phlx Rule 1020(a).

[16]   A Registered Options Trader ("ROT") includes a Streaming Quote Trader or "SQT," a Remote Streaming Quote Trader or "RSQT" and a Non-SQT, which by definition is neither a SQT nor a RSQT. A ROT is defined in Exchange Rule 1014(b) as a regular member of the Exchange located on the trading floor who has received permission from the Exchange to trade in options for his own account. See Exchange Rule 1014 (b)(i) and (ii).

[17]   Pro-rata allocations may result in remaining shares as orders are allocated based on the size of the orders as a percentage of the total size among all interest at that price level.

[18]   The term "off-floor broker-dealer order" means an order delivered from off the floor of the Exchange by or on behalf of a broker-dealer for the proprietary account(s) of such broker-dealer, including an order for a market maker located on an exchange or trading floor other than the Exchange's trading floor delivered for the proprietary account(s) of such market maker.

the amount of the allocation in Rule 1080(n)(ii)(E)(2)(f). The Exchange believes that this detail will provide market participants with information to determine the method in which the Exchange shall allocate remaining shares.

The Exchange proposes to amend Rule 1080(n)(ii)(E)(2)(f) to add rule text to describe the manner in which remaining shares will be allocated for ROTs and also for off-floor broker dealers. If remaining shares result, from the allocation of simple interest among equally priced ROTs, remaining shares are allocated by daily random assignments of ROTs. Each ROT is assigned an order of allocation, each trading day. Trading interest, which includes orders, quotes and sweeps, are allocated in accordance with the trading day's order assignment, provided the ROT is at the best price at which the order, quote or sweep is being traded. The assignment continues throughout the trading for each allocation, picking up where it dropped off from the last allocation, provided the ROT is entitled to an allocation. If odd lots arise when allocating interest among equally priced off-floor broker-dealers, such odd lots are allocated in time priority, provided the off-floor broker-dealers is at the best price at which the order is being traded. Finally, with respect to Complex Orders, the Exchange notes in Rule 1080(n)(ii)(E)(2)(f) that residual odd lots will be allocated in time priority for Complex Orders.

The Exchange believes that these amendments will provide market participants with more information on the allocation of these odd lots.

Below are two examples, representing consecutive executions and allocations within the Order Book which demonstrates rounding and the allocation of remaining shares.

Example # 1

       Presume an order of 200 contracts is being allocated in the Exchange's Order Book. Allocation will first occur with public customer orders at the best price filled in time priority, since public customers always have priority on the Exchange. Presume there are 63 contracts remaining after public customer orders are filled. ROTS would be allocated next pursuant to Rule 1014 in pro-rata fashion. Presume 5 ROTs are at the best price and the allocation of the remaining 63 contracts, after public customer orders have been satisfied, is as follows:

       ROT A 1.10(30) x 1.20(30) --- 25.2 rounded down to 25 contracts

       ROT B   1.10(15) x 1.20(15) --- 12.6 rounded down to 12 contracts

       ROT C   1.10(10) x 1.20(10) --- 8.4 rounded down to 8 contracts

       ROT D 1.10 (10) x 1.20(10) --- 8.4 rounded down to 8 contracts

       ROT E 1.10 (10) x 1.20 (10) --- 8.4 rounded down to 8 contracts

After this pro-rata allocation, 2 contracts remain to be allocated. Presume for this trading day these ROTs are assigned the following order of assignment: first is ROT A, second is ROT B, third is ROT C, fourth is ROT D and fifth is ROT E. The 2 remaining contracts would be allocated as follows:

       ROT A 1.10(30) x 1.20(30) --- 1 contract

       ROT B   1.10(15) x 1.20(15) --- 1 contract
       ROT C   1.10(10) x 1.20(10) --- zero

       ROT D 1.10 (10) x 1.20(10) --- zero

       ROT E 1.10 (10) x 1.20 (10) --- zero

The next order which results in contracts remaining after the pro-rata allocation to ROTs will have such remaining contracts allocated one at a time beginning with ROT C since he was next in line based on that trading day's order of assignment, provided ROT C is at the best price with remaining interest.

Example # 2

       Presume an order of 200 contracts is being allocated in the Exchange's Order Book. Presume all public customer orders and ROT interest that was at the best price have been filled and there remains 9 contracts to be executed.

Off-floor broker-dealers would be allocated next pursuant to Rule 1014 in a pro-rata fashion. Presume 3 off-floor broker-dealers are at the best price and their interest had arrived in the following order. The allocation of the remaining 9 contracts is as follows:

Off-floor broker-dealer C 1.10 (5) x 1.20 (5) – 4.09 contracts rounded down to 4

Off-floor broker-dealer B 1.10 (3) x 1.20(3) – 2.45 contracts rounded down to 2

Off-floor broker-dealer A 1.10 (3) x 1.20(3) – 2.45 contracts rounded down to 2

After this pro-rata allocation, there remains one contract to be allocated. This residual contract will be allocated in time priority as follows:

Off-floor broker-dealer C 1.10 (5) x 1.20 (5) – 1 contract

Off-floor broker-dealer B 1.10 (3) x 1.20(3) – zero

Off-floor broker-dealer A 1.10 (3) x 1.20(3) -- zero

Public Customers

The Exchange is amending Phlx Rule 1080(n)(vi) to add more specificity concerning public customer orders. An Initiating Participant may enter a PIXL Order for the account of a public customer paired with an order for the account of another Public Customer and such paired orders will be automatically executed without a PIXL Auction, provided there is not currently an Auction in progress in the same series or the same strategy, in which case the orders will be rejected. This rule text makes clear that with respect to Customer-to-Customer[19] PIXL Orders, those orders will be rejected when an Auction is in progress. This non-substantive change adds more clarity to the rule text. The Exchange recently included this clarifying rule text in the newly adopted BX PRISM

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[19]   These orders are customer retail orders.

rule[20] and seeks to conform the PIXL rule text to that of BX PRISM. Conforming

changes are also made in Phlx Rule 1080(n)(ii).

The words "or strategy" in this context are not included in the BX PRISM rule

because this language specifically relates to Complex Orders,[21] which are not transacted

on BX, but may be transacted on Phlx within PIXL.[22] A Complex Order Strategy means

a particular combination of components of a Complex Order and their ratios to one

another. The Exchange will calculate both a bid price and an offer price for each

Complex Order Strategy based on the current PBBO (as defined below) for each

component of the Complex Order. Each Complex Order Strategy is assigned a strategy

identifier by the System. With respect to Complex Order Strategies, the Exchange will

permit an Initiating Participant to enter a PIXL Order for the account of a public

customer paired with an order for the account of another public customer and such paired

orders will be automatically executed without a PIXL Auction as long as there is not

currently an Auction in progress in the same strategy. If there is an Auction in progress

in the same strategy, the Customer-to Customer cross will be rejected.

To further explain same strategy, where a PIXL Order creates a second Auction

where there was already an a Complex Order Strategy Auction in progress with the same

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[20]   See BX Rules at Chapter VI, Section 9(vi).

[21]   A Complex Order is any order involving the simultaneous purchase and/or sale of
         two or more different options series in the same underlying security, priced at a
         net debit or credit based on the relative prices of the individual components, for
         the same account, for the purpose of executing a particular investment strategy.
         Furthermore, a Complex Order can also be a stock-option order, which is an order
         to buy or sell a stated number of units of an underlying stock or ETF coupled with
         the purchase or sale of options contract(s). See Exchange Rule 1080,
         Commentary .08(a)(i).

[22]   See Phlx Rule 1080(n).

combination of components and the same ratios, that PIXL Order would be rejected. If

the combination of components and ratios were not the same, the PIXL Order would not

be rejected. Also, a simple and Complex Order Strategy Auction may occur at the same

time. The Exchange believes that this approach is consistent with the general caveat in

the PIXL Auction Rule 1080(n)(ii) that only one Auction may be conducted at a time in

any given series or strategy.[23]

Non-Displayed Prices

In certain instances, a resting order or quote may be internally priced at a non-

displayed price and would differ from the PBBO. The Internal BBO or "Reference

BBO" would differ from the PBBO in a situation where the System prevents trade-

throughs and locked and crossed markets. Interest will not be executed at a price that

trades through another market or is displayed at a price that would lock or cross another

market. If, at the time of entry, an order or quote would cause a locked or crossed market

violation or would cause a trade-through violation, it will be re-priced to the current

national best offer (for bids) or the current national best bid (for offers) and displayed at

one minimum price variance above (for offers) or below (for bids) the national best price.

The Exchange is proposing more precise rule text to account for these situations

where there is an automatic repricing in order to prevent trade-throughs and locked and

crossed markets. The Exchange proposes to change the rule text in relevant instances to

acknowledge that repricing would result in the better of the NBBO (or PBBO) or the

Reference BBO.

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[23]   Rule 1080(n)(2) is being amended to conform to newly added rule text. While
         this section is being amended, the Exchange notes that the amendment is not
         material and the general caveat continues to apply.

Conforming Change

The Exchange proposes a change to Rule 1080(n)(ii)(G). The Exchange proposes

to amend the sentence which states, "[i]f the PIXL Auction price (except if it is a

Complex Order) is the same as that of an order on the limit order book <u>represented in the</u>

<u>PBBO</u> on the same side of the market as the PIXL Order, the PIXL Order may only be

executed at a price that is at least one minimum price improvement increment better than

the resting order's limit price or, if such resting order's limit price is equal to or crosses

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

interest being considered for execution at the stop price," to include the "represented in

the PBBO text. The Exchange believes that this clarifying rule text conforms the

sentence to the remainder of the rule text by referencing the relation to the PBBO. This is

not a substantive rule change.

b.   <u>Statutory Basis</u>

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

Act[24] in general, and furthers the objectives of Section 6(b)(5) of the Act[25] 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 allowing for

an Auction period of no less than one hundred (100) milliseconds and no more than one

(1) second and providing a meaningful opportunity for Phlx members to respond to the

PIXL Auction while at the same time facilitating the prompt execution of orders.

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[24]   15 U.S.C. 78f(b).

[25]   15 U.S.C. 78f(b)(5).

PIXL Timer

Phlx believes the proposed rule change could provide orders within PIXL an

opportunity for price improvement. Also, the shorter duration of time for the Auction

reduce the market risk for all members executing trades in PIXL. Initiating Participants

are required to guarantee an execution at the NBBO or at a better price, and are subject to

market risk while their PIXL Order is exposed to other Phlx members. While other

participants are also subject to market risk, those providing responses in PIXL may

cancel or modify their orders. Phlx believes that the Initiating Participant acts in a critical

role within the PIXL Auction. Their willingness to guarantee the orders entered into

PIXL an execution at NBBO or a better price is the keystone to an order gaining the

opportunity for price improvement. Phlx believes that allowing for an auction period of

no less than one hundred milliseconds and no more than one second will benefit members

trading in PIXL. Phlx believes it is in these members' best interests to minimize the

Auction time while continuing to allow members adequate time to electronically respond.

Both the order being exposed and the responding orders are subject to market risk during

the Auction.

While some members may wait to respond until later in the Auction, presumably

to minimize their market risk, the Exchange believes that a majority of the orders would

respond earlier in the Auction. Based on the Exchange's experience with the PIXL

mechanism,[26] Phlx believes that an Auction of no less than one hundred milliseconds and

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26   Phlx staff distributed a survey to all Phlx market maker firms inquiring as to the
        timeframe within which these market participants respond to an auction with a
        duration time ranging from less than fifty (50) milliseconds to more than one (1)
        second. An overwhelming number of the market maker firms that responded to
        the survey indicated that they were capable of responding to auctions with a

no more than one second will continue to provide all market participants with sufficient time to respond, compete, and provide price improvement for orders and will provide investors and other market participants with more timely executions, thereby reducing their market risk. The proposed rule allows people to respond quickly at the most favorable price while reducing the risk that the market will move against the response.

Phlx believes that its members operate electronic systems that enable them to react and respond to orders in a meaningful way in fractions of a second. Phlx believes that its members will be able to compete within no less than one hundred milliseconds and no more than one second and this is a sufficient amount of time to respond to, compete for, and provide price improvement for orders, and will provide investors and other market participants with more timely executions, and reduce their market risk.

Finally, with respect to system capacity, Phlx has analyzed its capacity and represents that it and the Options Price Reporting Authority ("OPRA") have the necessary systems capacity to handle the potential additional traffic associated with auction transactions resulting specifically from the implementation of the Auction period of no less than one hundred milliseconds and no more than one second.

Immediate or Cancel

The Exchange's amendment to remove certain uses of the term "rejected" to instead refer to the term "immediately cancelled" complies with the Exchange Act because the replacement words provide more specificity to the rule text. Today, PAN

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duration time of at least 50 milliseconds. Of the thirty five (35) Phlx market maker firms that were surveyed, twenty (20) of these market makers responded to the survey and of those respondents 100% indicated that that their firm could respond to auctions with a duration time of at least 50 milliseconds. This survey was conducted in May 2014.

Responses that do not comply with PIXL requirements are not eligible to participant in an

Auction and will be immediately cancelled, after being reviewed by the trading system.

The Exchange believes that system enforced criteria will promote just and equitable

principles of trade and protect investors and the public interest. The Exchange believes

this change adds more clarity to the rule text to differentiate rejections and cancellations.

Allocations

The Exchange's amendment to make clear that under no circumstances will the

Initiating Participant receive an allocation percentage, at the final price point, of more

than 50% with one competing quote, order or PAN response or 40% with multiple

competing quotes, orders or PAN responses, when competing quotes, orders or PAN

responses have contracts available for execution is a rule change that makes clear that

limitation to allocation in PIXL. This rule change adds more clarity to the rule text. This

amendment is consistent with the Act in that it identifies the limitation in the PIXL

allocation more specifically and memorializes that limitation.

The Exchange's amendment to provide more specificity concerning the allocation

to which an Initiating Participant is entitled, either 40% or 50% depending on whether

there are one or more competing quotes, orders or PAN responses, is a change which

adds more clarity to the rule text. This amendment is consistent with the Act in that it

identifies with specificity the manner in which PIXL will allocate to an Initiating

Participant.

The Exchange believes that the new language of "or 50%" is consistent with the

Act because the value added from Initiating Participants guaranteeing execution of

Agency Orders at a price equal to or better than the NBBO warrants (to the extent that the

Initiating Participants is on the final Auction price), an Auction allocation priority of at

least the same percentage of the order as any competing Auction response, quote, or order

when there is only one such response, quote, or order. The Exchange also believes that

the proposed rule change, like other price improvement allocation programs currently

offered by competitor exchanges, will benefit investors by attracting more order flow as

well as increasing the frequency that Participants initiate Auctions, which may result in

greater opportunities for customer order price improvement. These percentages remain

competitive with the percentage of allocations currently available on other options

markets.[27]

Stop Price

        The Exchange's amendment to revise language where the entire PIXL Order will

be executed at, including, in the case of the PBBO crossing the PIXL Order stop price,

the best response price(s) or, if the stop price is the best price in the Auction, at the stop

price, unless the best response price is equal to or better than the price of a limit order

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

case the PIXL Order will be executed against that response…"adds more specificity to

the current rule text and accounts for responses at the best price, not just equal to other

prices. The Exchange believes that the ability to price improve is consistent with the Act

because it removes impediments to and perfects the mechanism of a free and open market

and a national market system.

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[27]   See BX Rules at Chapter VI, Section 9.

Professional Order

The Exchange's amendment to make clear that a public customer order does not include a professional order is a non-substantive change which adds more clarity to the rule text. This amendment is consistent with the Act and other rule changes which make clear the distinction between professional and public customer orders.[28]

Rounding

With respect to rounding, all rounding is down to the nearest integer. If rounding of the Initiating Participant's allocation results in an allocation of less than one contract, then one contract will be allocated to the Initiating Participant, only if the Initiating Participant did not otherwise receive an allocation. The Exchange is permitting the Initiating Participant to receive the benefit of the rounding in an allocation of less than one contract, only if the Initiating Participant did not otherwise receive an allocation, because the Initiating Participant is not eligible to receive residual contracts. The Exchange believes that rounding differently for the Initiating Participant as compared to all other market participants is not unfairly discriminatory since the Initiating Participant is not eligible to receive residual contracts as are other market participants, unless no other interest is available to trade. The Exchange currently provides that rounding shall occur in a fair and equitable manner. The Exchange proposes to amend this rule to provide that rounding shall be down to the nearest integer. The Exchange believes that rounding down uniformly is consistent with the Exchange Act because it provides for the equitable allocation of shares among the Exchange's market participants. Also, this rule

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[28]   See Securities Exchange Act Release No. 61426 (January 26, 2010), 75 FR 5360 (February 2, 2010) (SR-Phlx-2010-05) (Notice of Filing of Proposed Rule Change Relating to Professional Orders).

change will provide market participants with transparency as to the number of shares that they are entitled to receive as the result of rounding.

The Exchange's amendment to indicate the manner in which odd lots are allocated among market participants for simple interest specifies that for ROTS, odd lots allocated among equally priced ROTs are by random assignment of ROTs each trading day in accordance with the trading day's order assignment, provided the ROT is at the best price at which the order is being traded. For off-floor broker-dealers, odd lots are allocated in time priority, provided the off-floor broker-dealers are at the best price at which the order is being traded. The Exchange believes that the allocation of odd lots uniformly for all ROTs, and separately for all off-floor broker-dealers, is consistent with the Exchange Act because it provides for the equitable allocation of shares among the Exchange's market participants. With respect to off-floor broker-dealers, the method is consistent with the Act because it relies simply on time priority, an accepted method of allocation utilized by many options exchange to prioritize orders.

Specifically, with respect to the allocation method for odd lots for ROTs, this random assignment is basically a round robin approach to the allocation. The Exchange believes that this method results in a fair and equitable allocation of shares of these market participants because each trading day the Exchange creates a new order of assignment to allocate ROTs and that order provided an independent method to assign evenly among ROTs. Also, each trading day that assignment changes so that no one ROT would have the ability to receive a greater allocation than another ROT. The Exchange believes that its assignment method is not subject to gaming since it is random and therefore complies with the Act because it is aimed at the protection of investors.

Also, this rule change will provide market participants will transparency as to the number of shares that they are entitled to receive as the result of allocation odd lots.

With respect to the allocation of odd lots for Complex Orders, the Exchange will allocate in time priority. The Exchange believes that allocating Complex Orders in time priority uniformly is consistent with the Exchange Act because it provides for the equitable allocation of shares among the Exchange's market participants. Also, this rule change will provide market participants will transparency as to the number of shares that they are entitled to receive as the result of allocating odd lots.

Public Customers

The Exchange's amendment to add more specificity concerning public customer orders to indicate that a public customer paired with an order for the account of another public customer will be automatically executed without a PIXL Auction, <u>provided there is not currently an Auction in progress in the same series or same strategy, in which case the orders will be rejected.</u> This amendment makes clear that only one Auction may be conducted at a time in any given series is consistent with the Act and the PIXL approval order.[29] This rule text makes clear that with respect to Customer-to-Customer PIXL Orders, those orders will be rejected when an Auction is in progress in the same series. This non-substantive change adds more clarity to the rule text.

With respect to the words "or strategy," the BX PRISM rule does not contain similar language because this language specifically relates to Complex Orders, which are not transacted on BX, but may be transacted on Phlx within PIXL. Similar to the manner in which the Exchange would treat two Auctions in the same series, the Exchange will

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[29]   <u>See</u> Securities Exchange Act 63027 (October 1, 2010), 75 FR 62160 (October 7, 2010) (SR-Phlx-2010-108).

permit an Initiating Participant to enter a PIXL Order for the account of a public

customer paired with an order for the account of another public customer and such paired

orders will be automatically executed without a PIXL Auction as long as there is not

currently an Auction in progress in the same strategy. With respect to Complex Order

Strategies, the Exchange will permit an Initiating Participant to enter a PIXL Order for

the account of a public customer paired with an order for the account of another public

customer and such paired orders will be automatically executed without a PIXL Auction

as long as there is not currently an Auction in progress in the same strategy. If there is an

Auction in progress in the same strategy, the Customer-to-Customer cross will be

rejected. To further explain same strategy, where a PIXL Order would create a second

Auction where there was already an a Complex Order Strategy Auction in progress with

the same combination of components and the same ratios, that PIXL Order would be

rejected. If the combination of components and ratios were not the same, the PIXL Order

would not be rejected. Also, a simple and Complex Order Strategy Auction may occur at

the same time. The Exchange believes that this approach is consistent with the general

caveat in the PIXL Auction that only one Auction may be conducted at a time in any

given series or strategy.[30] The Exchange does not permit more than one Auction to be

conducted at a time in any given series and in this case also in a given strategy because

the Exchange does not desire to have competing Auctions for the same series or strategy.

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[30]   See Securities Exchange Act 63027 (October 1, 2010), 75 FR 62160 (October 7, 2010) (SR-Phlx-2010-108). See also Phlx Rule 1080(n)(ii) which states, in part, "Auction Process. Only one Auction may be conducted at a time in any given series or strategy."

Non-Displayed Prices

The Exchange's proposal to amend Rule 1080(n) for the addition of language to include the "Reference BBO" to clarify where the price is equal to or better than the NBBO or PBBO and the Reference BBO (internal market BBO), due to repricing for trade-throughs or locked and crossed markets, adds clarity and precision to the current rule text. The Exchange believes that it is consistent with the Act and does not otherwise create an impediment to a free and open market because today investors are subject to this repricing and have the opportunity to trade at a better price, which could result in better executions for investors. Also, by reflecting the proper rule text to account for these order types the Exchange is providing Participants with additional information with which to anticipate the manner in which the Exchange's trading system reprices interest to prevent a trade-through or locked and crossed market.

Conforming Change

The Exchange's proposal to clarify Rule 1080(n)(ii)(G) to include a reference to the PBBO will conform the Exchange's PIXL rule text. This is not a substantive amendment. The Exchange believes that this amendment will provide further clarity to the PIXL rules.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change will conform the PIXL rule with the PRISM rule. The Exchange does not believe that the proposed changes produce an undue burden on inter-market competition because these changes will afford Phlx the opportunity to compete

for order flow by offering an auction mechanism similar to that of other exchanges, specifically BX.

PIXL Timer

Phlx's amendment to the timer to a shorter duration of time for the Auction does not impose an undue burden on intra-market competition because Phlx believes that allowing for an auction period of no less than one hundred milliseconds and no more than one second will benefit members trading in PIXL. Phlx believes it is in these members' best interests to minimize the Auction time while continuing to allow members adequate time to electronically respond. The proposed rule allows people to respond quickly at the most favorable price while reducing the risk that the market will move against the response. Phlx believes that its members will be able to compete in no less than one hundred milliseconds and no more than one second and this is a sufficient amount of time to respond to, compete for, and provide price improvement for orders, and will provide investors and other market participants with more timely executions, and reduce their market risk.

Immediate or Cancel

The Exchange's amendment to remove certain uses of the term "rejected" to instead refer to the term "immediately cancelled" does not impose an undue burden on intra-market competition because PAN Responses that do not comply with PIXL requirements are not eligible to participate in an Auction and will be immediately cancelled after being reviewed by the trading system. The system enforced criteria will be applied uniformly to all Phlx members. The Exchange believes this non-substantive change adds more clarity to the rule text.

Allocations

The Exchange's amendment to make clear that under no circumstances will the Initiating Participant receive an allocation percentage, at the final price point, of more than 50% with one competing quote, order or PAN response or 40% with multiple competing quotes, orders or PAN responses, when competing quotes, orders or PAN responses have contracts available for execution does not impose an undue burden on intra-market competition. This rule change adds more clarity to the rule text. This amendment is consistent with the Act in that it identifies an existing limitation in the PIXL allocation more specifically and memorializes that limitation. The Exchange believes that the new language of "or 50%" does not create an undue burden on competition because this language is similar to language in BX PRISM and applies to all market participants utilizing Phlx.[31] The Exchange's amendment to provide more specificity concerning the allocation to which an Initiating Participant is entitled, either 40% or 50% depending on whether there are one or more competing quotes, orders or PAN responses does not impose an undue burden on intra-market competition. This is a rule change adds more clarity to the rule text. This amendment does not impose an undue burden on intra-market competition, rather, it identifies with specificity the manner in which PIXL will allocate to an Initiating Participant.

Stop Price

The Exchange's amendment to revise language where the entire PIXL Order will be executed at, including, in the case of the PBBO crossing the PIXL Order stop price, the best response price(s) or, if the stop price is the best price in the Auction, at the stop

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[31]   See NASDAQ BX, Inc. ("BX") Rules at Chapter VI, Section 9.

price, unless the best response price is equal to <u>or better than</u> the price of a limit order

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

case the PIXL Order will be executed against that response…" does not impose an undue

burden on intra-market competition. Rather, this language adds more specificity to the

current rule text and accounts for better priced orders.

<u>Professional Order</u>

      The Exchange's amendment to make clear that a public customer order does not

include a professional order does not impose an undue burden on intra-market

competition this rule change is consistent with the distinction between professional and

public customer orders.

<u>Rounding</u>

      With respect to rounding, all rounding is down to the nearest integer. If rounding

of the Initiating Participant's allocation results in an allocation of less than one contract,

then one contract will be allocated to the Initiating Participant, only if the Initiating

Participant did not otherwise receive an allocation. The Exchange is permitting the

Initiating Participant to receive the benefit of the rounding in an allocation of less than

one contract, only if the Initiating Participant did not otherwise receive an allocation,

because the Initiating Participant is not eligible to receive residual contracts. The

Exchange does not believe that the proposal to round all remaining shares down to the

nearest integer imposes an undue burden on competition because the Exchange will

uniformly round in this matter.

      If there are contracts remaining, such contracts shall be allocated for simple

interest after rounding by randomly assigning all ROTs an order of allocation each

trading day, and allocating orders, quotes and sweeps in accordance with the trading

day's order assignment, provided the ROT is at the best price at which the order, quote or

sweep is being traded, except with respect to Complex Orders, which allocation is

described in Rule 1080, Commentary .07. In the event that there are remaining contracts

to be allocated for interest after rounding, such remaining contacts will be allocated in

time priority, provided the off-floor broker-dealers are at the best price at which the order

is being traded. Residual remaining shares will be allocated in time priority for Complex

Orders.

        With respect to allocating remaining contracts, the Exchange does not believe that

the proposal to allocate remaining contracts for ROTs by random assignment creates an

undue burden on competition because the method, which is basically round robin, results

in a fair and equitable allocation of shares of these market participants. The Exchange

does not believe that allocating remaining contracts to off-floor broker-dealers in time

priority creates an undue burden on competition because the method will be applied

uniformly among these participants. Finally, the Exchange does not believe that

allocating remaining contracts to Complex Orders in time priority creates an undue

burden on competition because the method will be applied uniformly to all transactions

involving Complex Orders.

Public Customers

        The Exchange's amendment to add more specificity concerning public customer

orders to indicate that a public customer paired with an order for the account of another

public customer will be automatically executed without a PIXL Auction, provided there

is not currently an Auction in progress in the same series or same strategy, in which case

the orders will be rejected does not impose an undue burden on intra-market competition.

This non-substantive change adds more clarity to the rule text. Also, the Exchange's

amendment to add more specificity concerning public customer orders to indicate that a

public customer paired with an order for the account of another public customer will be

automatically executed without a PIXL Auction, provided there is not currently an

Auction in progress in the same strategy, does not impose an undue burden on intra-

market competition because this is consistent with the general caveat in the PIXL

Auction that only one Auction may be conducted at a time in any given series or strategy.

Non-Displayed Prices

   The Exchange's proposal to amend Rule 1080(n) for the addition of language to

include the "Reference BBO" to clarify where the price is equal to or better than the

NBBO or PBBO and the Reference BBO (internal market BBO), due to repricing for

trade-throughs or locked and crossed markets, does not impose an udue burden on intra-

market competition, rather the more precise language adds clarity and precision to the

current rule text. This additional information will provide all market participants with

information to anticipate the manner in which the Exchange's trading system operates in

PIXL Auctions.

Conforming Change

   The Exchange's proposal to clarify Rule 1080(n)(ii)(G) to include a reference to

the PBBO to conform the Exchange's PIXL rule text does not impose an undue burden

on intra-market competition because the amendment is non-substantive.

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

   No written comments were either solicited or received.

6.   Extension of Time Period for Commission Action

        Not Applicable.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)[32]

of the Act and Rule 19b-4(f)(6) thereunder[33] in that it 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's

amendment to shorten the duration time of the PIXL timer does not significantly affect

the protection of investors or the public interest because this timer already exists today on

BX in the BX PRISM Auction.[34] Phlx's amendment to the timer does not impose any

significant burden on competition because Phlx believes that allowing for an auction

period of no less than one hundred milliseconds and no more than one second will benefit

members trading in PIXL. Phlx believes it is in these members' best interests to

minimize the auction time while continuing to allow members adequate time to

electronically respond. The amendments to the immediate or cancel, allocations, stop

price, professional order, and public customers do not significantly affect the protection

of investors or the public interest because these amendments do not raise novel or new

issues. These amendments conform the rule text to that of BX PRISM, which operates

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[32]   15 U.S.C. 78s(b)(3)(A).

[33]   17 CFR 240.19b-4(f)(6).

[34]   BX Rules at Chapter VI, Section 9.

similarly as mentioned herein regarding the proposed amendments. The amendments to the immediate or cancel, allocations, stop price, professional order, and public customers do not impose any significant burden on competition because the amendments are non-substantive and apply to all Phlx members utilizing PIXL.

With respect to rounding, round down to the nearest integer significantly affects the protection of investors or the public interest because rounding down uniformly for all members and member organizations provides for the equitable allocation of shares among the Exchange's market participants. The Exchange does not believe that rounding down imposes any significant burden on competition because the Exchange will uniformly apply this method of rounding among market participants.

The Exchange does not believe that its proposal to allocate odd lots among ROTs in a random fashion, for simple interest, significantly affects the protection of investors or the public interest because each trading day the Exchange creates a new order of assignment to allocate ROTs and that order provided an independent method to assign evenly among ROTs. Also, each trading day that assignment changes so that no one ROT would have the ability to receive a greater allocation than another ROT. The Exchange does not believe that its proposal to allocate odd lots among ROTs in a random fashion, for simple interest, imposes any significant burden on competition because this random method of allocation results in a fair and equitable allocation of shares of these market participants. The Exchange does not believe that its proposal to allocate odd lots among off-floor broker-dealers in time priority, for simple interest, significantly affects the protection of investors or the public interest because off-floor broker-dealers will be all be subject to this methodology. The Exchange does not believe that its proposal to

allocate odd lots among off-floor broker-dealers in time priority, for simple interest,

imposes any significant burden on competition because this method of allocation results

in a fair and equitable allocation of shares of these market participants. Finally, the

Exchange does not believe that its proposal to allocate Complex Orders in time priority,

significantly affects the protection of investors or the public interest because all Complex

Orders will be subject to this methodology. The Exchange does not believe that its

proposal to allocate Complex Orders in time priority, for simple interest, imposes any

significant burden on competition because this method of allocation results in a fair and

equitable allocation of shares of these market participants.

The Exchange's proposal to amend Rule 1080(n) to indicate that a trade-through

or locked and crossed market may cause an automatic pricing which results in a better

Reference BBO does not significantly affect the protection of investors because the

Exchange's automatic repricing is intended to avoid trade-throughs and locked and

crossed markets. The Exchange's proposal to amend Rule 1080(n) to indicate that a

trade-through or locked and crossed market may cause an automatic pricing which results

in a better Reference BBO does not impose a significant burden on competition because

this rule change results from an automatic repricing in the trading system which applies

to all market participants. The Exchange's proposal to clarify Rule 1080(n)(ii)(G) to

include a reference to the PBBO to conform the Exchange's PIXL rule text does not

significantly affect the protection of investors and does not impose a significant burden

on competition because the amendment seeks to clarify the current rule text..

Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give

the Commission written notice of its intent to file a proposed rule change under that

subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

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. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the 30-day pre-operative waiting period contained in Rule 19b-4(f)(6)(iii) so that Phlx make conform its current rule text to that of BX PRISM and add clarifying changes and compete effectively against this market. By providing Phlx with the ability to shorten its Auction, similar to BX, will provide market participants an additional venue to submit Auction orders, which offer the reduced timer and opportunity to respond quicker.

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

This proposal is similar to a BX PRISM.[35]

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[35]   See BX Rules at Chapter VI, Section 9. With respect to the rounding, the manner in which Phlx rounds is different than BX. Phlx rounds down for all market participants, while BX rounds up or down to the nearest integer for the Initiating Member and all other rounding is down to the nearest integer.

With respect to the amendment concerning public customers, the language related to strategies is not present in the BX PRISM Rule because that Rules does not

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

        Not applicable.

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

        Not applicable.

11.   Exhibits

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

        5.   Text of the proposed rule change.

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permit Complex Orders. PIXL does permit Complex Orders and the addition of
the words "in the same strategy" relate to the transaction of such orders. The
Exchange believes the addition of the words "same strategy" in the PIXL Rule is
consistent with the BX PRISM Rule, which does not permit more than one
Auction to occur in the same option series at the same time. The same rationale
for not permitting two simultaneous Auctions that compete for the same interest
to be conducted should apply to both simple and Complex Orders.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No.   ; File No. SR-Phlx-2016-40)

March __, 2016

Self-Regulatory Organizations; NASDAQ PHLX LLC; Notice of Filing and Immediate
Effectiveness of Proposed Rule Change Relating to PIXL

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

Rule 19b-4 thereunder,[2] notice is hereby given that on March 24, 2016, NASDAQ PHLX

LLC ("Exchange") filed with the Securities and Exchange Commission ("SEC" or

"Commission") the proposed rule change as described in Items I, II, and III, below,

which Items have been prepared by the Exchange. The Commission is publishing this

notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend Phlx Rule 1080, entitled "Phlx XL and Phlx XL

II" to amend the length of time of a Price Improvement XL or PIXL^{SM} Auction and make

other rule changes.

The text of the proposed rule change is available on the Exchange's Website at

http://nasdaqomxphlx.cchwallstreet.com/, at the principal office of the Exchange, and at

the Commission's Public Reference Room.

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[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 Exchange proposes to amend Phlx Rule 1080(n) to amend the length of time of a PIXL[SM] Auction and make other clarifying rule changes. PIXL is a component of the Exchange's fully automated options trading system, PHLX XL that allows a member to 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 it represents as agent (an "Initiating Order") provided it submits the PIXL Order for electronic execution into the PIXL Auction ("Auction'). The Exchange adopted PIXL in October 2010 as a price-improvement mechanism on the Exchange.[3] The Exchange proposes the below changes.

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[3]   See Securities Exchange Act Release Nos. 63027 (October 1, 2010), 75 FR 62160 (October 7, 2010) (SR-Phlx-2010-108) (Order Granting Approval to a Proposed Rule Change Relating to a Proposed Price Improvement System, Price Improvement XL); 65043 (August 5, 2011), 76 FR 49824 (August 11, 2011) (SR-Phlx-2011-104) (Extending Pilot for Price Improvement System, Price Improvement XL); 67399 (July 11, 2012), 77 FR 42048 (July 17, 2012) (SR-Phlx-2012-94) (Extending Pilot for Price Improvement System, Price Improvement XL); 69845 (June 25, 2013), 78 FR 39429 (July 1, 2013) (SR-Phlx-2013-46) (Order Granting Approval To Proposed Rule Change, as Modified by Amendment No. 1, Regarding Complex Order PIXL); 69989 (July 16, 2013), 78

PIXL Timer

Today, a PIXL Auction lasts for one second, unless it is concluded early.[4] The Exchange proposes to amend Rule 1080(n)(ii)(A)(4) to state, "the Auction will last for a period of time, as determined by the Exchange and announced on the Nasdaq Trader website. The Auction period will be no less than one hundred milliseconds and no more than one second." This timer is similar to the current timer length in the newly adopted BX PRISM.[5] The selected timer would be the same length of time for all auctions in all options pursuant to Phlx Rule 1080(n).

The Exchange believes that a shorter duration of time for the Auction will reduce market risk for all members executing trades in PIXL. Initiating Participants are required to guarantee an execution at the NBBO[6] or at a better price, and are subject to market risk while their PIXL Order is exposed to other Phlx members. While other Participants are also subject to market risk, those providing responses in PIXL may cancel or modify their orders. Phlx believes that the Initiating Participant acts in a critical role within the PIXL

FR 43950 (July 22, 2013) (SR-Phlx-2013-74) (Extending Pilot for Price Improvement System, Price Improvement XL); and 72619 (July 16, 2014), 79 FR 42613 (July 22, 2014) (Extending Pilot for Price Improvement System, Price Improvement XL).

[4] The PIXL Auction shall conclude at the earlier to occur of (1) The end of the Auction period; (2) For a PIXL Auction (except if it is a Complex Order), any time the PBBO crosses the PIXL Order stop price on the same side of the market as the PIXL Order; (3) For a Complex Order PIXL Auction, any time the cPBBO or the Complex Order book crosses the PIXL Order stop price on the same side of the market as the PIXL Order; or (4) Any time there is a trading halt on the Exchange in the affected series.

[5] See NASDAQ BX, Inc. ("BX") Rules at Chapter VI, Section 9(ii)(A)(3).

[6] For Complex Orders, Initiating Members are required to guarantee an execution at the cPBBO or better.

Auction. Their willingness to guarantee the orders entered into PIXL an execution at

NBBO or a better price is the keystone to an order gaining the opportunity for price

improvement. Phlx believes that allowing for an Auction period of no less than one

hundred milliseconds and no more than one second will benefit members trading in

PIXL. Phlx believes it is in these members' best interests to minimize the auction time

while continuing to allow members adequate time to electronically respond. Both the

order being exposed and the responding orders are subject to market risk during the

Auction.

Immediate or Cancel

The Exchange is amending the Phlx Rule 1080(n) to remove certain uses of the

term "rejected" to instead refer to the term "immediately cancelled." Specifically, the

Exchange is amending Phlx Rule 1080(n)(ii)(A)(8)-(10). These orders are not rejected,

rather they are immediately cancelled because technically they are accepted into the

trading system. The Exchange believes this non-substantive change adds more clarity to

the rule text. This distinction is made throughout the newly adopted BX PRISM rule,

where applicable.[7]

The Exchange notes that its proposed rule text at Rule 1080(n)(ii)(A)(9) states

that a PAN or Complex Order PAN response which is inferior to the stop price of the

PIXL order will be cancelled. In this particular instance, the order is not immediately

cancelled to prevent information leakage as to possible stop price. The order is cancelled

at the end of the Auction instead.

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[7]   See BX Rules at Chapter VI, Section 9.

Allocations

The Exchange is amending Phlx Rule 1080(n)(ii)(A)(1) to first make clear that

under no circumstances will the Initiating Participant receive an allocation percentage, at

the final price point, of more than 50% with one competing quote, order or PAN response

or 40% with multiple competing quotes, orders or PAN responses, when competing

quotes, orders or PAN responses have contracts available for execution. This change

adds more clarity to the rule text as this limitation is present today. The Exchange

recently included this clarifying rule text in the newly adopted BX PRISM rule[8] and

seeks to conform the PIXL rule text to that of BX PRISM.

The Exchange is also amending Phlx Rule 1080(n)(ii)(E)(2)(b) and

1080(n)(ii)(E)(2)(c)(ii) to provide more specificity concerning the allocation to which an

Initiating Participant is entitled. The amendments make clear that the allocations can be

either 40% or 50% depending on whether there are one or more competing quotes, orders

or PAN responses. Also, the rule text notes that public customer interest must be

satisfied first. This change adds more clarity to the rule text as this allocation method is

present today. The Exchange recently included this clarifying rule text in the newly

adopted BX PRISM rule[9] and seeks to conform the PIXL rule text to that of BX PRISM.

Stop Price

The Exchange is amending Phlx Rule 1080(n)(ii)(C) to revise language where the

entire PIXL Order will be executed at, including, in the case of the internal BBO

("Reference BBO") crossing the PIXL Order stop price, the best response price(s) or, if

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[8]   See BX Rules at Chapter VI, Section 9(ii)(A)(1).

[9]   See BX Rules at Chapter VI, Section 9(ii)(E)(2)(b), (ii)(E)(2)(c)(ii), (ii)(F)(2)(b)
        and (ii)(F)(2)(c)(ii).

the stop price is the best price in the Auction, at the stop price, unless the best response

price is equal to or better than the price of a limit order resting on the PHLX book on the

same side of the market as the PIXL Order, in which case the PIXL Order will be

executed against that response, but at a price that is at least one minimum price

improvement increment better than the price of such limit order at the time of the

conclusion of the Auction. This new "better than" language is currently also utilized in

the newly adopted BX PRISM rule.[10] The Auction would look for the best price, which

is this instance may be through a limit order on the same side as the PIXL Order.

For example, assume the Reference BBO and NBBO are both .97 – 1.03. A PIXL

Order to buy 100 contracts is submitted with a contra-side Initiating Order to stop the

PIXL Order at 1.01. Assume a PAN response is submitted to sell 10 contracts at .97 and

another to sell 10 contracts at 1.00. Then assume an unrelated buy order is received to

pay .98 for 10 contracts. The order is placed on the PHLX book and the Reference BBO

becomes .98 – 1.03. Then assume, a participant submits a quote of 1.02 -1.05, crossing

the 1.01 stop price on the same side of the PIXL Order and concluding the PIXL Auction

prior to the expiration of one second. Therefore, 10 contracts from the PIXL Order will

be executed at .99 against the best response price of .97 which is 'better than' the price of

the .98 limit order resting on the PHLX book on the same side of the market as the PIXL

Order. Also, 10 contracts will be executed at 1.00 (the next best response price after the

execution at .98) and the remaining 80 contracts will be executed at 1.01 (the stop price)

against the Initiating Order. The Exchange believes that this language clarifies the

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[10]   See BX Rules at Chapter VI, Section 9(ii)(C).

current rule text by providing the "better than" language, which accounts for responses

that are priced more aggressively than a later arriving resting limit order on the book.

Professional Order

The Exchange is amending Phlx Rule 1080(n) in the first paragraph and also

1080(n)(ii)(E)(1) to make clear that a public customer order does not include a

professional[11] order. Professionals are not entitled to priority as described within the

Phlx Rule 1080(n). This non-substantive change adds more clarity to the rule text. The

Exchange recently included this clarifying rule text in the newly adopted BX PRISM

rule[12] and seeks to conform the PIXL rule text to that of BX PRISM.

Rounding

The Exchange is amending Phlx Rule 1080(n)(ii)(E)(2)(f) to add clarifying rule

text concerning the manner in which the Exchange will round shares and allocate

remaining contracts, commonly known in the industry as odd lots.[13] Rule 1014 provides

for the manner in which the Phlx XL electronic match engine (hereinafter "System")

allocates simple interest. Within Rule 1014, the Exchange allocates shares in Price-Time

priority[14] first to public customers. Thereafter, the Exchange allocates interest to

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[11]   Phlx Rule 1000(b)(14) currently states that 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).

[12]   See BX Rules at Chapter VI, Section 9 in the first paragraph and also at Section
         9(ii)(E)(1).

[13]   The Exchange rounds shares and allocates remaining shares in the manner
         described herein. This rule change memorializes this practice within its rules.

[14]   Price-Time allocations are filled among Customer Orders in time priority.

Specialists[15] and Registered Options Traders[16] (hereinafter collectively "ROTs") utilizing a pro-rata allocation model.[17] Finally, the Exchange allocates remaining interest to off-floor broker dealers[18] also utilizing a pro-rata allocation model.

The Exchange proposes to precisely describe that, with respect to pro-rata allocations, the Exchange will round shares down to the nearest integer when determining the amount of the allocation in Rule 1080(n)(ii)(E)(2)(f). The Exchange believes that this detail will provide market participants with information to determine the method in which the Exchange shall allocate remaining shares.

The Exchange proposes to amend Rule 1080(n)(ii)(E)(2)(f) to add rule text to describe the manner in which remaining shares will be allocated for ROTs and also for off-floor broker dealers. If remaining shares result, from the allocation of simple interest among equally priced ROTs, remaining shares are allocated by daily random assignments of ROTs. Each ROT is assigned an order of allocation, each trading day. Trading

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[15]   A Specialist is an Exchange member who is registered as an options specialist. See Phlx Rule 1020(a).

[16]   A Registered Options Trader ("ROT") includes a Streaming Quote Trader or "SQT," a Remote Streaming Quote Trader or "RSQT" and a Non-SQT, which by definition is neither a SQT nor a RSQT. A ROT is defined in Exchange Rule 1014(b) as a regular member of the Exchange located on the trading floor who has received permission from the Exchange to trade in options for his own account. See Exchange Rule 1014 (b)(i) and (ii).

[17]   Pro-rata allocations may result in remaining shares as orders are allocated based on the size of the orders as a percentage of the total size among all interest at that price level.

[18]   The term "off-floor broker-dealer order" means an order delivered from off the floor of the Exchange by or on behalf of a broker-dealer for the proprietary account(s) of such broker-dealer, including an order for a market maker located on an exchange or trading floor other than the Exchange's trading floor delivered for the proprietary account(s) of such market maker.

interest, which includes orders, quotes and sweeps, are allocated in accordance with the

trading day's order assignment, provided the ROT is at the best price at which the order,

quote or sweep is being traded. The assignment continues throughout the trading for

each allocation, picking up where it dropped off from the last allocation, provided the

ROT is entitled to an allocation. If odd lots arise when allocating interest among equally

priced off-floor broker-dealers, such odd lots are allocated in time priority, provided the

off-floor broker-dealers is at the best price at which the order is being traded. Finally,

with respect to Complex Orders, the Exchange notes in Rule 1080(n)(ii)(E)(2)(f) that

residual odd lots will be allocated in time priority for Complex Orders.

The Exchange believes that these amendments will provide market participants

with more information on the allocation of these odd lots.

Below are two examples, representing consecutive executions and allocations

within the Order Book which demonstrates rounding and the allocation of remaining

shares.

Example # 1

Presume an order of 200 contracts is being allocated in the Exchange's Order
Book. Allocation will first occur with public customer orders at the best price filled in
time priority, since public customers always have priority on the Exchange. Presume
there are 63 contracts remaining after public customer orders are filled. ROTS would be
allocated next pursuant to Rule 1014 in pro-rata fashion. Presume 5 ROTs are at the best
price and the allocation of the remaining 63 contracts, after public customer orders have
been satisfied, is as follows:

ROT A 1.10(30) x 1.20(30) --- 25.2 rounded down to 25 contracts

ROT B   1.10(15) x 1.20(15) --- 12.6 rounded down to 12 contracts

ROT C   1.10(10) x 1.20(10) --- 8.4 rounded down to 8 contracts

ROT D 1.10 (10) x 1.20(10) --- 8.4 rounded down to 8 contracts

       ROT E 1.10 (10) x 1.20 (10) --- 8.4 rounded down to 8 contracts

After this pro-rata allocation, 2 contracts remain to be allocated. Presume for this trading day these ROTs are assigned the following order of assignment: first is ROT A, second is ROT B, third is ROT C, fourth is ROT D and fifth is ROT E. The 2 remaining contracts would be allocated as follows:

       ROT A 1.10(30) x 1.20(30) --- 1 contract

       ROT B   1.10(15) x 1.20(15) --- 1 contract
       ROT C   1.10(10) x 1.20(10) --- zero

       ROT D 1.10 (10) x 1.20(10) --- zero

       ROT E 1.10 (10) x 1.20 (10) --- zero

The next order which results in contracts remaining after the pro-rata allocation to ROTs will have such remaining contracts allocated one at a time beginning with ROT C since he was next in line based on that trading day's order of assignment, provided ROT C is at the best price with remaining interest.

Example # 2

       Presume an order of 200 contracts is being allocated in the Exchange's Order Book. Presume all public customer orders and ROT interest that was at the best price have been filled and there remains 9 contracts to be executed.

       Off-floor broker-dealers would be allocated next pursuant to Rule 1014 in a pro-rata fashion. Presume 3 off-floor broker-dealers are at the best price and their interest had arrived in the following order. The allocation of the remaining 9 contracts is as follows:

       Off-floor broker-dealer C 1.10 (5) x 1.20 (5) – 4.09 contracts rounded down to 4

       Off-floor broker-dealer B 1.10 (3) x 1.20(3) – 2.45 contracts rounded down to 2

       Off-floor broker-dealer A 1.10 (3) x 1.20(3) – 2.45 contracts rounded down to 2

After this pro-rata allocation, there remains one contract to be allocated. This residual contract will be allocated in time priority as follows:

       Off-floor broker-dealer C 1.10 (5) x 1.20 (5) – 1 contract

       Off-floor broker-dealer B 1.10 (3) x 1.20(3) – zero

       Off-floor broker-dealer A 1.10 (3) x 1.20(3) -- zero

Public Customers

The Exchange is amending Phlx Rule 1080(n)(vi) to add more specificity

concerning public customer orders. An Initiating Participant may enter a PIXL Order for

the account of a public customer paired with an order for the account of another Public

Customer and such paired orders will be automatically executed without a PIXL Auction,

provided there is not currently an Auction in progress in the same series or the same

strategy, in which case the orders will be rejected. This rule text makes clear that with

respect to Customer-to-Customer[19] PIXL Orders, those orders will be rejected when an

Auction is in progress. This non-substantive change adds more clarity to the rule text.

The Exchange recently included this clarifying rule text in the newly adopted BX PRISM

rule[20] and seeks to conform the PIXL rule text to that of BX PRISM. Conforming

changes are also made in Phlx Rule 1080(n)(ii).

The words "or strategy" in this context are not included in the BX PRISM rule

because this language specifically relates to Complex Orders,[21] which are not transacted

on BX, but may be transacted on Phlx within PIXL.[22] A Complex Order Strategy means

a particular combination of components of a Complex Order and their ratios to one

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[19]   These orders are customer retail orders.

[20]   See BX Rules at Chapter VI, Section 9(vi).

[21]   A Complex Order is any order involving the simultaneous purchase and/or sale of
         two or more different options series in the same underlying security, priced at a
         net debit or credit based on the relative prices of the individual components, for
         the same account, for the purpose of executing a particular investment strategy.
         Furthermore, a Complex Order can also be a stock-option order, which is an order
         to buy or sell a stated number of units of an underlying stock or ETF coupled with
         the purchase or sale of options contract(s). See Exchange Rule 1080,
         Commentary .08(a)(i).

[22]   See Phlx Rule 1080(n).

another. The Exchange will calculate both a bid price and an offer price for each

Complex Order Strategy based on the current PBBO (as defined below) for each

component of the Complex Order. Each Complex Order Strategy is assigned a strategy

identifier by the System. With respect to Complex Order Strategies, the Exchange will

permit an Initiating Participant to enter a PIXL Order for the account of a public

customer paired with an order for the account of another public customer and such paired

orders will be automatically executed without a PIXL Auction as long as there is not

currently an Auction in progress in the same strategy. If there is an Auction in progress

in the same strategy, the Customer-to Customer cross will be rejected.

To further explain same strategy, where a PIXL Order creates a second Auction

where there was already an a Complex Order Strategy Auction in progress with the same

combination of components and the same ratios, that PIXL Order would be rejected. If

the combination of components and ratios were not the same, the PIXL Order would not

be rejected. Also, a simple and Complex Order Strategy Auction may occur at the same

time. The Exchange believes that this approach is consistent with the general caveat in

the PIXL Auction Rule 1080(n)(ii) that only one Auction may be conducted at a time in

any given series or strategy.[23]

Non-Displayed Prices

In certain instances, a resting order or quote may be internally priced at a non-

displayed price and would differ from the PBBO. The Internal BBO or "Reference

BBO" would differ from the PBBO in a situation where the System prevents trade-

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[23]   Rule 1080(n)(2) is being amended to conform to newly added rule text. While
        this section is being amended, the Exchange notes that the amendment is not
        material and the general caveat continues to apply.

throughs and locked and crossed markets. Interest will not be executed at a price that trades through another market or is displayed at a price that would lock or cross another market. If, at the time of entry, an order or quote would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

The Exchange is proposing more precise rule text to account for these situations where there is an automatic repricing in order to prevent trade-throughs and locked and crossed markets. The Exchange proposes to change the rule text in relevant instances to acknowledge that repricing would result in the better of the NBBO (or PBBO) or the Reference BBO.

Conforming Change

The Exchange proposes a change to Rule 1080(n)(ii)(G). The Exchange proposes to amend the sentence which states, "[i]f the PIXL Auction price (except if it is a Complex Order) is the same as that of an order on the limit order book represented in the PBBO on the same side of the market as the PIXL Order, the PIXL Order may only be executed at a price that is at least one minimum price improvement increment better than the resting order's limit price or, if such resting order's limit price is equal to or crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price," to include the "represented in the PBBO text. The Exchange believes that this clarifying rule text conforms the sentence to the remainder of the rule text by referencing the relation to the PBBO. This is not a substantive rule change.

2.   Statutory Basis

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

Act[24] in general, and furthers the objectives of Section 6(b)(5) of the Act[25] 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 allowing for

an Auction period of no less than one hundred (100) milliseconds and no more than one

(1) second and providing a meaningful opportunity for Phlx members to respond to the

PIXL Auction while at the same time facilitating the prompt execution of orders.

PIXL Timer

Phlx believes the proposed rule change could provide orders within PIXL an

opportunity for price improvement. Also, the shorter duration of time for the Auction

reduce the market risk for all members executing trades in PIXL. Initiating Participants

are required to guarantee an execution at the NBBO or at a better price, and are subject to

market risk while their PIXL Order is exposed to other Phlx members. While other

participants are also subject to market risk, those providing responses in PIXL may

cancel or modify their orders. Phlx believes that the Initiating Participant acts in a critical

role within the PIXL Auction. Their willingness to guarantee the orders entered into

PIXL an execution at NBBO or a better price is the keystone to an order gaining the

opportunity for price improvement. Phlx believes that allowing for an auction period of

no less than one hundred milliseconds and no more than one second will benefit members

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[24]   15 U.S.C. 78f(b).

[25]   15 U.S.C. 78f(b)(5).

trading in PIXL. Phlx believes it is in these members' best interests to minimize the

Auction time while continuing to allow members adequate time to electronically respond.

Both the order being exposed and the responding orders are subject to market risk during

the Auction.

      While some members may wait to respond until later in the Auction, presumably

to minimize their market risk, the Exchange believes that a majority of the orders would

respond earlier in the Auction. Based on the Exchange's experience with the PIXL

mechanism,[26] Phlx believes that an Auction of no less than one hundred milliseconds and

no more than one second will continue to provide all market participants with sufficient

time to respond, compete, and provide price improvement for orders and will provide

investors and other market participants with more timely executions, thereby reducing

their market risk. The proposed rule allows people to respond quickly at the most

favorable price while reducing the risk that the market will move against the response.

      Phlx believes that its members operate electronic systems that enable them to

react and respond to orders in a meaningful way in fractions of a second. Phlx believes

that its members will be able to compete within no less than one hundred milliseconds

and no more than one second and this is a sufficient amount of time to respond to,

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[26]   Phlx staff distributed a survey to all Phlx market maker firms inquiring as to the
        timeframe within which these market participants respond to an auction with a
        duration time ranging from less than fifty (50) milliseconds to more than one (1)
        second. An overwhelming number of the market maker firms that responded to
        the survey indicated that they were capable of responding to auctions with a
        duration time of at least 50 milliseconds. Of the thirty five (35) Phlx market
        maker firms that were surveyed, twenty (20) of these market makers responded to
        the survey and of those respondents 100% indicated that that their firm could
        respond to auctions with a duration time of at least 50 milliseconds. This survey
        was conducted in May 2014.

compete for, and provide price improvement for orders, and will provide investors and other market participants with more timely executions, and reduce their market risk.

Finally, with respect to system capacity, Phlx has analyzed its capacity and represents that it and the Options Price Reporting Authority ("OPRA") have the necessary systems capacity to handle the potential additional traffic associated with auction transactions resulting specifically from the implementation of the Auction period of no less than one hundred milliseconds and no more than one second.

Immediate or Cancel

The Exchange's amendment to remove certain uses of the term "rejected" to instead refer to the term "immediately cancelled" complies with the Exchange Act because the replacement words provide more specificity to the rule text. Today, PAN Responses that do not comply with PIXL requirements are not eligible to participant in an Auction and will be immediately cancelled, after being reviewed by the trading system. The Exchange believes that system enforced criteria will promote just and equitable principles of trade and protect investors and the public interest. The Exchange believes this change adds more clarity to the rule text to differentiate rejections and cancellations.

Allocations

The Exchange's amendment to make clear that under no circumstances will the Initiating Participant receive an allocation percentage, at the final price point, of more than 50% with one competing quote, order or PAN response or 40% with multiple competing quotes, orders or PAN responses, when competing quotes, orders or PAN responses have contracts available for execution is a rule change that makes clear that limitation to allocation in PIXL. This rule change adds more clarity to the rule text. This

amendment is consistent with the Act in that it identifies the limitation in the PIXL

allocation more specifically and memorializes that limitation.

The Exchange's amendment to provide more specificity concerning the allocation

to which an Initiating Participant is entitled, either 40% or 50% depending on whether

there are one or more competing quotes, orders or PAN responses, is a change which

adds more clarity to the rule text. This amendment is consistent with the Act in that it

identifies with specificity the manner in which PIXL will allocate to an Initiating

Participant.

The Exchange believes that the new language of "or 50%" is consistent with the

Act because the value added from Initiating Participants guaranteeing execution of

Agency Orders at a price equal to or better than the NBBO warrants (to the extent that the

Initiating Participants is on the final Auction price), an Auction allocation priority of at

least the same percentage of the order as any competing Auction response, quote, or order

when there is only one such response, quote, or order. The Exchange also believes that

the proposed rule change, like other price improvement allocation programs currently

offered by competitor exchanges, will benefit investors by attracting more order flow as

well as increasing the frequency that Participants initiate Auctions, which may result in

greater opportunities for customer order price improvement. These percentages remain

competitive with the percentage of allocations currently available on other options

markets.[27]

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[27]   See BX Rules at Chapter VI, Section 9.

Stop Price

The Exchange's amendment to revise language where the entire PIXL Order will

be executed at, including, in the case of the PBBO crossing the PIXL Order stop price,

the best response price(s) or, if the stop price is the best price in the Auction, at the stop

price, unless the best response price is equal to <u>or better than</u> the price of a limit order

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

case the PIXL Order will be executed against that response…"adds more specificity to

the current rule text and accounts for responses at the best price, not just equal to other

prices. The Exchange believes that the ability to price improve is consistent with the Act

because it removes impediments to and perfects the mechanism of a free and open market

and a national market system.

Professional Order

The Exchange's amendment to make clear that a public customer order does not

include a professional order is a non-substantive change which adds more clarity to the

rule text. This amendment is consistent with the Act and other rule changes which make

clear the distinction between professional and public customer orders.[28]

Rounding

With respect to rounding, all rounding is down to the nearest integer. If rounding

of the Initiating Participant's allocation results in an allocation of less than one contract,

then one contract will be allocated to the Initiating Participant, only if the Initiating

Participant did not otherwise receive an allocation. The Exchange is permitting the

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[28]   <u>See</u> Securities Exchange Act Release No. 61426 (January 26, 2010), 75 FR 5360
         (February 2, 2010) (SR-Phlx-2010-05) (Notice of Filing of Proposed Rule Change
         Relating to Professional Orders).

Initiating Participant to receive the benefit of the rounding in an allocation of less than

one contract, only if the Initiating Participant did not otherwise receive an allocation,

because the Initiating Participant is not eligible to receive residual contracts. The

Exchange believes that rounding differently for the Initiating Participant as compared to

all other market participants is not unfairly discriminatory since the Initiating Participant

is not eligible to receive residual contracts as are other market participants, unless no

other interest is available to trade. The Exchange currently provides that rounding shall

occur in a fair and equitable manner. The Exchange proposes to amend this rule to

provide that rounding shall be down to the nearest integer. The Exchange believes that

rounding down uniformly is consistent with the Exchange Act because it provides for the

equitable allocation of shares among the Exchange's market participants. Also, this rule

change will provide market participants with transparency as to the number of shares that

they are entitled to receive as the result of rounding.

The Exchange's amendment to indicate the manner in which odd lots are

allocated among market participants for simple interest specifies that for ROTS, odd lots

allocated among equally priced ROTs are by random assignment of ROTs each trading

day in accordance with the trading day's order assignment, provided the ROT is at the

best price at which the order is being traded. For off-floor broker-dealers, odd lots are

allocated in time priority, provided the off-floor broker-dealers are at the best price at

which the order is being traded. The Exchange believes that the allocation of odd lots

uniformly for all ROTs, and separately for all off-floor broker-dealers, is consistent with

the Exchange Act because it provides for the equitable allocation of shares among the

Exchange's market participants. With respect to off-floor broker-dealers, the method is

consistent with the Act because it relies simply on time priority, an accepted method of allocation utilized by many options exchange to prioritize orders.

Specifically, with respect to the allocation method for odd lots for ROTs, this random assignment is basically a round robin approach to the allocation. The Exchange believes that this method results in a fair and equitable allocation of shares of these market participants because each trading day the Exchange creates a new order of assignment to allocate ROTs and that order provided an independent method to assign evenly among ROTs. Also, each trading day that assignment changes so that no one ROT would have the ability to receive a greater allocation than another ROT. The Exchange believes that its assignment method is not subject to gaming since it is random and therefore complies with the Act because it is aimed at the protection of investors. Also, this rule change will provide market participants will transparency as to the number of shares that they are entitled to receive as the result of allocation odd lots.

With respect to the allocation of odd lots for Complex Orders, the Exchange will allocate in time priority. The Exchange believes that allocating Complex Orders in time priority uniformly is consistent with the Exchange Act because it provides for the equitable allocation of shares among the Exchange's market participants. Also, this rule change will provide market participants will transparency as to the number of shares that they are entitled to receive as the result of allocating odd lots.

Public Customers

The Exchange's amendment to add more specificity concerning public customer orders to indicate that a public customer paired with an order for the account of another public customer will be automatically executed without a PIXL Auction, provided there

is not currently an Auction in progress in the same series or same strategy, in which case

the orders will be rejected. This amendment makes clear that only one Auction may be

conducted at a time in any given series is consistent with the Act and the PIXL approval

order.[29] This rule text makes clear that with respect to Customer-to-Customer PIXL

Orders, those orders will be rejected when an Auction is in progress in the same series.

This non-substantive change adds more clarity to the rule text.

      With respect to the words "or strategy," the BX PRISM rule does not contain

similar language because this language specifically relates to Complex Orders, which are

not transacted on BX, but may be transacted on Phlx within PIXL. Similar to the manner

in which the Exchange would treat two Auctions in the same series, the Exchange will

permit an Initiating Participant to enter a PIXL Order for the account of a public

customer paired with an order for the account of another public customer and such paired

orders will be automatically executed without a PIXL Auction as long as there is not

currently an Auction in progress in the same strategy. With respect to Complex Order

Strategies, the Exchange will permit an Initiating Participant to enter a PIXL Order for

the account of a public customer paired with an order for the account of another public

customer and such paired orders will be automatically executed without a PIXL Auction

as long as there is not currently an Auction in progress in the same strategy. If there is an

Auction in progress in the same strategy, the Customer-to-Customer cross will be

rejected. To further explain same strategy, where a PIXL Order would create a second

Auction where there was already an a Complex Order Strategy Auction in progress with

the same combination of components and the same ratios, that PIXL Order would be

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[29]   See Securities Exchange Act 63027 (October 1, 2010), 75 FR 62160 (October 7, 2010) (SR-Phlx-2010-108).

rejected. If the combination of components and ratios were not the same, the PIXL Order

would not be rejected. Also, a simple and Complex Order Strategy Auction may occur at

the same time. The Exchange believes that this approach is consistent with the general

caveat in the PIXL Auction that only one Auction may be conducted at a time in any

given series or strategy.[30] The Exchange does not permit more than one Auction to be

conducted at a time in any given series and in this case also in a given strategy because

the Exchange does not desire to have competing Auctions for the same series or strategy.

Non-Displayed Prices

The Exchange's proposal to amend Rule 1080(n) for the addition of language to

include the "Reference BBO" to clarify where the price is equal to or better than the

NBBO or PBBO and the Reference BBO (internal market BBO), due to repricing for

trade-throughs or locked and crossed markets, adds clarity and precision to the current

rule text. The Exchange believes that it is consistent with the Act and does not otherwise

create an impediment to a free and open market because today investors are subject to

this repricing and have the opportunity to trade at a better price, which could result in

better executions for investors. Also, by reflecting the proper rule text to account for

these order types the Exchange is providing Participants with additional information with

which to anticipate the manner in which the Exchange's trading system reprices interest

to prevent a trade-through or locked and crossed market.

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30   See Securities Exchange Act 63027 (October 1, 2010), 75 FR 62160 (October 7,
         2010) (SR-Phlx-2010-108). See also Phlx Rule 1080(n)(ii) which states, in part,
         "Auction Process. Only one Auction may be conducted at a time in any given
         series or strategy."

Conforming Change

The Exchange's proposal to clarify Rule 1080(n)(ii)(G) to include a reference to the PBBO will conform the Exchange's PIXL rule text. This is not a substantive amendment. The Exchange believes that this amendment will provide further clarity to the PIXL rules.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change will conform the PIXL rule with the PRISM rule. The Exchange does not believe that the proposed changes produce an undue burden on inter-market competition because these changes will afford Phlx the opportunity to compete for order flow by offering an auction mechanism similar to that of other exchanges, specifically BX.

PIXL Timer

Phlx's amendment to the timer to a shorter duration of time for the Auction does not impose an undue burden on intra-market competition because Phlx believes that allowing for an auction period of no less than one hundred milliseconds and no more than one second will benefit members trading in PIXL. Phlx believes it is in these members' best interests to minimize the Auction time while continuing to allow members adequate time to electronically respond. The proposed rule allows people to respond quickly at the most favorable price while reducing the risk that the market will move against the response. Phlx believes that its members will be able to compete in no less than one hundred milliseconds and no more than one second and this is a sufficient amount of time to respond to, compete for, and provide price improvement for orders, and will provide

investors and other market participants with more timely executions, and reduce their

market risk.

Immediate or Cancel

The Exchange's amendment to remove certain uses of the term "rejected" to

instead refer to the term "immediately cancelled" does not impose an undue burden on

intra-market competition because PAN Responses that do not comply with PIXL

requirements are not eligible to participate in an Auction and will be immediately

cancelled after being reviewed by the trading system. The system enforced criteria will

be applied uniformly to all Phlx members. The Exchange believes this non-substantive

change adds more clarity to the rule text.

Allocations

The Exchange's amendment to make clear that under no circumstances will the

Initiating Participant receive an allocation percentage, at the final price point, of more

than 50% with one competing quote, order or PAN response or 40% with multiple

competing quotes, orders or PAN responses, when competing quotes, orders or PAN

responses have contracts available for execution does not impose an undue burden on

intra-market competition. This rule change adds more clarity to the rule text. This

amendment is consistent with the Act in that it identifies an existing limitation in the

PIXL allocation more specifically and memorializes that limitation. The Exchange

believes that the new language of "or 50%" does not create an undue burden on

competition because this language is similar to language in BX PRISM and applies to all

market participants utilizing Phlx.[31] The Exchange's amendment to provide more

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[31]   See NASDAQ BX, Inc. ("BX") Rules at Chapter VI, Section 9.

specificity concerning the allocation to which an Initiating Participant is entitled, either 40% or 50% depending on whether there are one or more competing quotes, orders or PAN responses does not impose an undue burden on intra-market competition. This is a rule change adds more clarity to the rule text. This amendment does not impose an undue burden on intra-market competition, rather, it identifies with specificity the manner in which PIXL will allocate to an Initiating Participant.

Stop Price

The Exchange's amendment to revise language where the entire PIXL Order will be executed at, including, in the case of the PBBO crossing the PIXL Order stop price, the best response price(s) or, if the stop price is the best price in the Auction, at the stop price, unless the best response price is equal to or better than the price of a limit order resting on the PHLX book on the same side of the market as the PIXL Order, in which case the PIXL Order will be executed against that response…" does not impose an undue burden on intra-market competition. Rather, this language adds more specificity to the current rule text and accounts for better priced orders.

Professional Order

The Exchange's amendment to make clear that a public customer order does not include a professional order does not impose an undue burden on intra-market competition this rule change is consistent with the distinction between professional and public customer orders.

Rounding

With respect to rounding, all rounding is down to the nearest integer. If rounding of the Initiating Participant's allocation results in an allocation of less than one contract,

then one contract will be allocated to the Initiating Participant, only if the Initiating

Participant did not otherwise receive an allocation. The Exchange is permitting the

Initiating Participant to receive the benefit of the rounding in an allocation of less than

one contract, only if the Initiating Participant did not otherwise receive an allocation,

because the Initiating Participant is not eligible to receive residual contracts. The

Exchange does not believe that the proposal to round all remaining shares down to the

nearest integer imposes an undue burden on competition because the Exchange will

uniformly round in this matter.

        If there are contracts remaining, such contracts shall be allocated for simple

interest after rounding by randomly assigning all ROTs an order of allocation each

trading day, and allocating orders, quotes and sweeps in accordance with the trading

day's order assignment, provided the ROT is at the best price at which the order, quote or

sweep is being traded, except with respect to Complex Orders, which allocation is

described in Rule 1080, Commentary .07. In the event that there are remaining contracts

to be allocated for interest after rounding, such remaining contacts will be allocated in

time priority, provided the off-floor broker-dealers are at the best price at which the order

is being traded. Residual remaining shares will be allocated in time priority for Complex

Orders.

        With respect to allocating remaining contracts, the Exchange does not believe that

the proposal to allocate remaining contracts for ROTs by random assignment creates an

undue burden on competition because the method, which is basically round robin, results

in a fair and equitable allocation of shares of these market participants. The Exchange

does not believe that allocating remaining contracts to off-floor broker-dealers in time

priority creates an undue burden on competition because the method will be applied

uniformly among these participants. Finally, the Exchange does not believe that

allocating remaining contracts to Complex Orders in time priority creates an undue

burden on competition because the method will be applied uniformly to all transactions

involving Complex Orders.

Public Customers

The Exchange's amendment to add more specificity concerning public customer

orders to indicate that a public customer paired with an order for the account of another

public customer will be automatically executed without a PIXL Auction, provided there

is not currently an Auction in progress in the same series or same strategy, in which case

the orders will be rejected does not impose an undue burden on intra-market competition.

This non-substantive change adds more clarity to the rule text. Also, the Exchange's

amendment to add more specificity concerning public customer orders to indicate that a

public customer paired with an order for the account of another public customer will be

automatically executed without a PIXL Auction, provided there is not currently an

Auction in progress in the same strategy, does not impose an undue burden on intra-

market competition because this is consistent with the general caveat in the PIXL

Auction that only one Auction may be conducted at a time in any given series or strategy.

Non-Displayed Prices

The Exchange's proposal to amend Rule 1080(n) for the addition of language to

include the "Reference BBO" to clarify where the price is equal to or better than the

NBBO or PBBO and the Reference BBO (internal market BBO), due to repricing for

trade-throughs or locked and crossed markets, does not impose an udue burden on intra-

market competition, rather the more precise language adds clarity and precision to the

current rule text. This additional information will provide all market participants with

information to anticipate the manner in which the Exchange's trading system operates in

PIXL Auctions.

Conforming Change

        The Exchange's proposal to clarify Rule 1080(n)(ii)(G) to include a reference to

the PBBO to conform the Exchange's PIXL rule text does not impose an undue burden

on intra-market competition because the amendment is non-substantive.

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

        No written comments were either solicited or received.

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

        Because the foregoing proposed rule change does not: (i) significantly affect the

protection of investors or the public interest; (ii) impose any significant burden on

competition; and (iii) become operative for 30 days 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)(iii) of the Act[32] and subparagraph (f)(6) of Rule 19b-4

thereunder.[33]

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[32]   15 U.S.C. 78s(b)(3)(a)(iii).

[33]   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.

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. If

the Commission takes such action, the Commission shall institute proceedings to

determine whether the proposed rule should be approved or 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-2016-40 on the subject line.

  Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and

  Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2016-40. 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-2016-40 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.[34]

Robert W. Errett
Deputy Secretary

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[34]   17 CFR 200.30-3(a)(12).

EXHIBIT 5

New text is underlined; deleted text is in brackets.

NASDAQ OMX PHLX Rules

* * * * *

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. For purposes of this Rule, a public customer order does not include a professional order.

> (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 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") and the internal market BBO (the "Reference BBO") 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.
>
> (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 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]Reference BBO 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 the Reference BBO.
>
> (C) - (G) No change.

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

(A) No change.

(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 better of the NBBO or the Reference BBO on the Initiating Order side; 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 better of the NBBO or Reference BBO on the Initiating Order side, 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. Under no circumstances will the Initiating Member receive an allocation percentage, at the final price point, of more than 50% with one competing quote, order or PAN response or 40% with multiple competing quotes, orders or PAN responses, when competing quotes, orders or PAN responses have contracts available for execution.

(2) No change.

(3) When the Exchange receives a PIXL Order for Auction processing, a PAN detailing the side and size and option series of the PIXL Order will be sent over the Exchange's TOPO Plus Orders data feed and Specialized Quote Feed.

(4) The Auction will last [for one second] for a period of time, as determined by the Exchange and announced on the Nasdaq Trader website. The Auction period will be no less than one hundred milliseconds and no more than one second.

(5) – (7) No change.

(b) No change.

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

(9) A PAN response (except if it is a Complex Order) must be equal to or better than the NBBO and the Reference BBO at the time of receipt of the PAN response. A Complex Order PAN response must be equal to or better than the cPBBO, as defined in Commentary .07(a) of this Rule 1080 at the time of receipt of the PAN response. PAN responses may be modified or cancelled during the Auction. A PAN response (except if it is a Complex Order) submitted with a price that is outside the better of the NBBO or Reference BBO will be [rejected]immediately cancelled. A Complex Order PAN response submitted with a price that is outside the cPBBO will be rejected. A PAN or Complex Order PAN response which is inferior to the stop price of the PIXL order will be [rejected] cancelled.

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

(11) No change.

(B) Conclusion of Auction. The PIXL Auction shall conclude at the earlier to occur of (1) through (4) below, with the PIXL Order executing pursuant to paragraph (C)(1) through (3) below.

(1) No change.

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

(3) – (5) No change.

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

(D) No change.

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

(1) Public customer orders shall have priority at each price level. For purposes of this Rule, a public customer order does not include a professional order.

(2) No change.

  (a) No change.

  (b) If the Initiating Member selected the auto-match option of the PIXL Auction (except if it is a Complex Order), the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point until a price point is reached where the balance of the order can be fully executed, except that the Initiating Member shall be entitled to receive up to 40% (if there are multiple competing quotes, orders or PAN responses) or 50% (if there is only one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the stop price is the final price) after public customer interest has been satisfied but before remaining interest. If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in Exchange Rules 1014(g)(vii)(B)(1)(b) and (d). Any remaining contracts shall be allocated to the Initiating Member.

  (c) No change.

    (i) No change.

    (ii) next, to quotes, orders and PAN responses at prices at the Initiating Member's NWT price and better than the Initiating Member's stop price, beginning with the NWT price. The Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point, except that the Initiating Member shall be entitled to receive up to 40% (if there are multiple competing quotes, orders or PAN responses) or 50% (if there is only one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the final price is the stop price) after public customer interest has been satisfied but before remaining interest. In the case of an Initiating Order with a NWT price at the market, the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at all price points, except that the Initiating Member shall be entitled to receive up to 40% (if there are multiple competing quotes, orders or PAN responses) or 50% (if there is only one competing quote, order or PAN response) of the

contracts remaining at the final price point (including situations where the final price is the stop price) after public customer interest has been satisfied but before remaining interest. If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to the algorithm set forth in Exchange Rules 1014(g)(vii)(B)(1)(b) and (d). Any remaining contracts shall be allocated to the Initiating Member.

   (d) and (e) No change.

(f) A single quote, order or PAN response shall not be allocated a number of contracts that is greater than its size. Where the allocation of contracts results in remaining amounts, the number of contracts to be allocated shall be rounded down to the nearest integer. If rounding would result in an allocation of less than one contract, then one contract will be allocated to the Initiating Member only if the Initiating Member did not otherwise receive an allocation. If there are contracts remaining, such contracts shall be allocated for simple interest after rounding by randomly assigning all ROTs an order of allocation each trading day, and allocating orders, quotes and sweeps in accordance with the trading day's order assignment, provided the ROT is at the best price at which the order, quote or sweep is being traded, except with respect to Complex Orders, which allocation is described in Rule 1080, Commentary .07. In the event that there are remaining contracts to be allocated for interest after rounding, such remaining contacts will be allocated in time priority, provided the off-floor broker-dealers are at the best price at which the order is being traded. Residual remaining shares will be allocated in time priority for Complex Orders.

   (g) No change.

(F) No change

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

(H) - (J) No change.

(iii) – (v) No change.

(vi) In lieu of the procedures in paragraphs (i) - (ii) above, an Initiating Member may enter a PIXL Order for the account of a public customer paired with an order for the account of a public customer and such paired orders will be automatically executed without a PIXL Auction, provided there is not currently an Auction in progress in the same series

or same strategy, in which case the orders will be rejected. The execution price for such a PIXL Order (except if it is a Complex Order) must be expressed in the quoting increment applicable to the affected series. Such an execution may not trade through the better of the NBBO or Reference BBO or at the same price as any resting customer order. The execution price for such a Complex Order PIXL may be in .01 increments and may not trade at a price equal to or through the cPBBO or at the same price as a resting customer Complex Order.

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

(vii) No change.

(o) and (p) No change.

••• *Commentary:* ------------------

.01 – 08 No change.

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