Required fields are shown with yellow backgrounds and asterisks.

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

File No.* SR - 2017 - * 85

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

Section 806(e)(1) * ☐

Section 806(e)(2) * ☐

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

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ▣

Exhibit 3 Sent As Paper Document ▣

Description

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

Proposal to amend Exchange Rule 1080(n) related to the Price Improvement XL auction.

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 * Principal 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   10/26/2017

By   Edward S. Knight

Executive Vice President and General Counsel

(Name *)

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 *

Add   Remove   View

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

Exhibit 1 - Notice of Proposed Rule Change *

Add   Remove   View

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

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

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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

Add   Remove   View

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

1.   Text of the Proposed Rule Change

         (a)   Nasdaq PHLX LLC ("Phlx" or "Exchange"), 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 ("SEC" or "Commission") a proposal to

amend Rule 1080(n) related to Phlx's Price Improvement XL ("PIXL") auction.

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

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

         (b)   Not applicable.

         (c)   Not applicable.

2.   Procedures of the Self-Regulatory Organization

         The proposed rule change was approved by senior management of the Exchange

pursuant to authority delegated by the Board of Directors of the Exchange (the "Board")

on September 19, 2017. Exchange staff will advise the Board of any action taken

pursuant to delegated authority. No other action is necessary for the filing of the rule

change.

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

Angela Saccomandi Dunn
Principal Associate General Counsel
Nasdaq, Inc.
215-496-5692

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

[2]   17 CFR 240.19b-4.

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 the PIXL rule at 1080(n) to: (1) include a
surrender provision; (2) update a reference to the NBBO to provide specificity to the rule;
and (3) correct a typographical error, update a cross-reference and relocate rule text.

Surrender

The Exchange proposes to adopt a surrender provision within Rule 1080(n) for its
PIXL auction similar to the surrender provision that is applicable to Nasdaq BX, Inc.'s
("BX") surrender provision in the BX price improvement auction ("PRISM") at Chapter
VI, Section 9.

Current PIXL

By way of background, today, only one PIXL Auction may be conducted at a time
in any given series. Once commenced, an Auction may not be cancelled and would
proceed as described herein. To initiate the Auction, the Initiating Member must mark
the PIXL Order for Auction processing, and specify either: (a) a single price at which it
seeks to execute the PIXL Order (a "stop price"); (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
PIXL Auction Notifications ("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[3] on the Initiating Order side;[4] 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

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[3]   The Reference BBO shall mean the internal best bid and offer on Phlx.

[4]   This is accomplished by marking the Initiating Order with a market price.

or prices that improve the stop price to a specified price (a "No 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 as described herein, such

PIXL Order may not be modified or cancelled.[5]

Proposed PIXL Amendment

At this time, the Exchange proposes to add a paragraph to Rule 1080(n)(ii)(A)(1)

stating that, when starting an Auction, the Initiating Member may submit the Initiating

Order with a designation of "surrender" to other PIXL participants ("Surrender"), which

will result in the Initiating Member forfeiting priority and trade allocation privileges

which he or she is otherwise entitled to as per subsection (n)(ii)(E)(a) of Rule 1080(n).[6]

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[5]   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.

[6]   Depending on the option selected, the Initiating Member may elect in the single
        stop option selection to give up the allocation priority, if Surrender is selected, or
        with the auto-match option the Initiating Member will only be allocated the
        remainder in accordance with the allocation percentages specified in Rule
        1080(n)(ii)(E)(2)(b). The Surrender feature only applies to the single stop price
        feature. By definition the purpose of the auto-match feature is that the Initiating
        Member is going to match all responses and seek a greater allocation. This

If Surrender is specified the Initiating Order will only trade if there is not enough interest available to fully execute the PIXL Order at prices which are equal to or improve upon the stop price. Phlx will allow surrender only for the entire amount, not for a partial amount. Surrender will not be applied if both the Initiating Order and PIXL Order are Public Customer Orders.

The Surrender function will never result in more than the maximum allowable allocation percentage to the Initiating Participant than that which the Initiating Member would have otherwise received in accordance with the allocation procedures set forth in this Rule. Surrender information will not be available to other market participants and may not be modified. The proposed provisions are similar to surrender provisions on BX PRISM.[7]

Similarly, the Exchange proposes to add a new paragraph at Rule 1080(n)(ii)(A)(2) which provides a similar provision for Complex Orders[8]. The proposed provision would provide that when starting a PIXL Complex Order Auction, the Initiating Member may submit the Initiating Order with a designation of Surrender to the other PIXL participants which will result in the Initiating Member forfeiting the priority and trade allocation privileges which he is otherwise entitled to as per subsection (n)(ii)(E)(2)(d) of Rule 1080(n). If Surrender is specified the Initiating Order will only trade if there is not enough interest available to fully execute the PIXL Order at prices

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language is at odds with the Surrender feature where the Initiating Member is not seeking allocation.

[7]   See Chapter VI, Section 9(ii)(A)(i).

[8]   Today, BOX Options Exchange LLC ("BOX") utilizes a Surrender feature in its Complex Order Price Improvement Period or "COPIP." See also BOX Rule 7245.

which are equal to or improve upon the stop price. Throughout the rule where allocation

is specified a notation is added to account for any surrender, if applicable such as in

1080(n)(ii)(E)(2)(a) and (d).

NBBO Reference

The Exchange proposes to reword Rule 1080(n)(ii)(F) to add specificity to the

current rule text. The Exchange proposes to state that "If there are PAN responses

(except if it is a Complex Order) that cross the better of the Reference BBO and NBBO

(provided such NBBO is not crossed) or Complex Order PAN responses that cross the

then-existing cPBBO at the time of the conclusion of the Auction, such PAN responses

will be executed, if possible, at their limit price(s)." 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. In

these instances, 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. For this reason, the

Exchange is proposing more precise rule text at Rule 1080(n)(ii)(F) 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 to

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

Reference BBO.

Typographical Error, Clarifying Change, Cross Reference and Relocated Text

The Exchange proposes to correct a word in Rule 1080(n)(i)(C) from "of" to "or" to correct an unintentional typographical error. The Exchange also proposes to replace a reference to "Rule 1080(n) at Commentary .07" to "Rule 1098" to properly reference rule text related to Complex Orders at Rule 1080(n)(ii)(E)(2)(f). A reference to "remaining" shares as Rule 1080(n)(ii)(E)(2)(f) is also proposed to be amended to "residual" simply to conform to the language utilized in other parts of the rule. Finally, rule text related to PIXL ISO in Commentary .08 to Rule 1080(n) is being relocated within the rule to new 1080(n)(ii)(K) simply to add the text in an appropriate location within the rule. A space is also being added within the rule text that was inadvertently left out of a prior version.

Implementation

The Exchange proposes to implement this functionality before Q1 2018. Members will be notified of the deployment date by way of an Options Trader Alert.

Below is an example of the manner in which the Surrender feature would operate:

EXAMPLE (Related to Rule 1080(n)(ii)(A)(i) (Initiating Participant utilizing Surrender):

NBBO = .97 – 1.03

PHLX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each PIXL Order to buy 100 contracts stopped at 1.02 marked as 'Surrender' is received,

Auction begins,

During auction, Market Maker C responds to sell 5 at 1.01, Market Maker A responds to sell 5 contracts at 1.02, Market Maker B responds to sell 40 contracts at 1.02, and Market Maker D responds to sell 20 contracts at 1.02.

During auction, Market Maker A moves his quote and PHLX BBO becomes .95 – 1.02 for 5 contracts and NBBO becomes .97 – 1.02.

Auction ends, Market Maker C trades 5 at 1.01; Remaining Market Maker interest trades 70 contracts in a Pro-Rata fashion: Market Maker A executes 10 contracts with 5 being given to the Market Maker A response at 1.02 and 5 to the Market Maker A quote at 1.02; Market Maker B response executes 40 contracts at 1.02; Market Maker D

response executes 20 contracts at 1.02.   The PIXL Contra executes the remaining 25 contracts at 1.02. This is because the initiator will end up trading if not enough interest is there to satisfy the stop price.

3.   Statutory Basis

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

Act,[9] in general, and furthers the objectives of Section 6(b)(5) of the Act,[10] 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 proposing a

functionality which allows members more optionality to transact orders in the PIXL

auction. The Exchange believes that the proposed feature will provide members with

more flexibility, similar to functionality currently offered on BX. In addition the

Exchange proposes other amendments which add clarity to the rule text so that members

will gain a greater understanding of the rule. Each proposal is discussed below.

Surrender

The Exchange believes that the Surrender feature is consistent with the Act

because it promotes just and equitable principles of trade by allowing members who

submit orders into the PIXL Auction to continue to be executed pursuant to a pre-

determined set of rules which would allow members to forfeit priority and trade

allocation privileges and only trade if there is not enough interest available to fully

execute the PIXL Order at prices which are equal to or improve upon the stop price.

Members are not required to elect this feature, but is would be available, as it is today on

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[9]   15 U.S.C. 78f(b).

[10]   15 U.S.C. 78f(b)(5).

BX, if a member desired to utilize the Surrender feature. The new Surrender feature

would provide the Initiator with flexibility, thereby increasing the likelihood that the

Initiator would be inclined to commence more auctions.

      The feature would only permit the member to surrender the entire amount, not a

partial amount. Also, Surrender will not be applied if both the Initiating Order and PIXL

Order (or PIXL Complex Order) are Public Customer Orders. The Surrender feature will

not permit a member to have any control over an order. Further, the election to Surrender

an order would be available prior to the submission of the order and therefore could not

be utilized to gain influence or guide the execution of the PIXL Order or PIXL Complex

Order. Initiating Members submitting PIXL Orders or PIXL Complex Orders will

relinquish control of their PIXL Orders or PIXL Complex Orders upon transmission to

the Exchange's System. Further, no Participant, including the Initiating Participant, will

see a PAN response submitted into PIXL and therefore and will not be able to influence

or guide the execution of their PIXL Orders or PIXL Complex Orders. The information

provided with respect to the Surrender feature by the member will not be broadcast and

further, the information may not be modified by the member during the auction.

NBBO Reference

      The Exchange's proposal to amend Rule 1080(n)(ii)(F) to amend the current rule

text 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 these proposed

amendments are consistent with the Act and do not otherwise create an impediment to a

free and open market because today investors are subject to this repricing. Also, by

reflecting the proper rule text to account for these order types the Exchange is providing

members 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.

Typographical Error, Clarifying Change, Cross Reference and Relocated Text

The Exchange's proposals to: (a) correct a word in Rule 1080(n)(i)(C) from "of"

to "or"; (b) replace a reference to Rule 1080(n) at Commentary .07 to Rule 1098 to

properly reference rule text related to Complex Orders at Rule 1080(n)(ii)(E)(2)(f); (c)

change a reference to "remaining" shares as Rule 1080(n)(ii)(E)(2)(f) to "residual"; and

(d) relocate PIXL ISO in Commentary .08 to Rule 1080(n) to 1080(n)(ii)(K) are

consistent with the Act because these amendments provide greater detail and clarity to

the rule text.

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 competition among the options exchanges is vigorous and this proposal is

intended to afford the Exchange the opportunity to compete for order flow by offering an

auction mechanism with a surrender feature similar to that of other exchanges.[11]

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[11]   Today, BX offers a surrender feature. See BX Rule at Chapter VI, Section 9. The
         Chicago Board Options Exchange, Incorporated ("CBOE") has a process whereby
         initiating participants may elect to receive last priority in an allocation. See
         CBOE Rule 6.74A(b)(3)(J), entitled Automated Improvement Mechanism
         ("AIM"). Finally, BOX utilizes a Surrender feature in its PIP and COPIP, similar
         to the proposed Phlx Surrender for simple and complex orders. The Exchange
         notes that BOX Initiators may forfeit less than the entire amount pursuant to the
         BOX rule. See BOX Rules 7150 and 7245. Phlx will allow surrender only for the
         entire amount, not for a partial amount.

With respect to intra-market competition, the auction will be available to all Phlx members. The Exchange's proposal to submit the Surrender amendment does not result in less competition, the PIXL mechanism should continue to encourage Phlx members to compete amongst each other by responding with their best price and size for a particular auction. The Exchange believes that the Initiator may be incentivized to initiate more PIXL auctions in light of the proposal. The Exchange's proposal is a competitive response to similar provisions in the price improvement auction rules of other options exchanges.[12] The Exchange believes this proposed rule change is necessary to permit fair competition among the options exchanges and to establish more uniform price improvement auction rules on the various options exchanges. The Exchange anticipates that this auction proposal will allow Phlx to compete on equal footing with other options exchanges and for this reason the proposal does not create an undue burden on inter-market competition.

The Exchange's proposal to amend Rule 1080(n)(ii)(F) to amend the current rule text 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 proposed amendments would apply uniformly to all Phlx members that elect to enter orders into the PIXL auction. The Exchange believes that these proposed amendments are consistent with the Act and do not otherwise create an impediment to a free and open market because today investors are subject to this repricing.

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[12]   Id.

The Exchange's proposals to: (a) correct a word in Rule 1080(n)(i)(C) from "of"

to "or"; (b) replace a reference to Rule 1080(n) at Commentary .07 to Rule 1098 to

properly reference rule text related to Complex Orders at Rule 1080(n)(ii)(E)(2)(f); (c)

change a reference to "remaining" shares as Rule 1080(n)(ii)(E)(2)(f) to "residual"; and

(d) relocate PIXL ISO in Commentary .08 to Rule 1080(n) to 1080(n)(ii)(K) simply

provide greater detail and clarity to the rule text.

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)(iii)[13] of the Act and Rule 19b-4(f)(6) thereunder[14] 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.

        The Exchange's proposals do not significantly affect the protection of investors or

the public interest. The proposal to add the Surrender feature will allow Phlx members to

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[13]   15 U.S.C. 78s(b)(3)(A)(iii).

[14]   17 CFR 240.19b-4(f)(6).

utilize a feature currently offered on BX today for single orders and on BOX for

Complex Orders.[15] The Surrender feature will not permit a member to have any control

over an order. The proposed amendment 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,

are repriced will not affect the protection of investors or the public interest. Today, these

orders are repriced in this manner; the proposed amendment will clarify the rule text to

provide more information as to the repricing. Finally, the proposed amendments to

correct typographical errors, clarify rule text, correct a cross reference and relocate text

merely bring greater clarity to the rule text.

The Exchange's proposals do not impose any significant burden on competition.

The Exchange's proposal to submit the Surrender amendment, would be available to all

Phlx members who may elect to initiate a PIXL auction. The proposed amendment 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, are repriced would apply uniformly to all

Phlx members that elect to enter orders into the PIXL auction. Finally, the proposed

amendments to correct typographical errors, clarify rule text, correct a cross reference

and relocate text merely bring greater clarity to the rule text simply provide greater detail

and clarity to the 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

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[15]   See BX Rule at Chapter VI, Section 9 and BOX Rule 7245.

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.

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

The proposed amendment is similar to BX's surrender provision with respect to

simple orders.[16] With respect to Complex Orders, the proposal is similar to BOX, except

that a BOX Initiator can forfeit less than the entire amount. This proposal requires the

Phlx Initiator to forfeit the entire amount.[17]

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 Change for publication in the Federal Register.

        5.   Text of the proposed rule change.

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[16]   Id.

[17]   Id.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No.   ; File No. SR-Phlx-2017-85)

October __, 2017

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate
Effectiveness of Proposed Rule Change to Amend the Price Improvement XL Auction

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 October 26, 2017, Nasdaq PHLX

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

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

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

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

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

The Exchange proposes to amend Rule 1080(n) related to Phlx's Price

Improvement XL ("PIXL") auction.

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

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

Commission's Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning

the purpose of and basis for the proposed rule change and discussed any comments it

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

[2]   17 CFR 240.19b-4.

received on the proposed rule change. The text of these statements may be examined at

the places specified in Item IV below. The Exchange has prepared summaries, set forth

in sections A, B, and C below, of the most significant aspects of such statements.

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

1.   Purpose

The Exchange proposes to amend the PIXL rule at 1080(n) to: (1) include a

surrender provision; (2) update a reference to the NBBO to provide specificity to the rule;

and (3) correct a typographical error, update a cross-reference and relocate rule text.

Surrender

The Exchange proposes to adopt a surrender provision within Rule 1080(n) for its

PIXL auction similar to the surrender provision that is applicable to Nasdaq BX, Inc.'s

("BX") surrender provision in the BX price improvement auction ("PRISM") at Chapter

VI, Section 9.

Current PIXL

By way of background, today, only one PIXL Auction may be conducted at a time

in any given series. Once commenced, an Auction may not be cancelled and would

proceed as described herein. To initiate the Auction, the Initiating Member must mark

the PIXL Order for Auction processing, and specify either: (a) a single price at which it

seeks to execute the PIXL Order (a "stop price"); (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

PIXL Auction Notifications ("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[3] on the Initiating Order side;[4] 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 "No 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 as described herein, such PIXL Order may not be modified or cancelled.[5]

Proposed PIXL Amendment

At this time, the Exchange proposes to add a paragraph to Rule 1080(n)(ii)(A)(1) stating that, when starting an Auction, the Initiating Member may submit the Initiating Order with a designation of "surrender" to other PIXL participants ("Surrender"), which will result in the Initiating Member forfeiting priority and trade allocation privileges

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[3]   The Reference BBO shall mean the internal best bid and offer on Phlx.

[4]   This is accomplished by marking the Initiating Order with a market price.

[5]   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.

which he or she is otherwise entitled to as per subsection (n)(ii)(E)(a) of Rule 1080(n).[6]

If Surrender is specified the Initiating Order will only trade if there is not enough interest

available to fully execute the PIXL Order at prices which are equal to or improve upon

the stop price. Phlx will allow surrender only for the entire amount, not for a partial

amount. Surrender will not be applied if both the Initiating Order and PIXL Order are

Public Customer Orders.

The Surrender function will never result in more than the maximum allowable

allocation percentage to the Initiating Participant than that which the Initiating Member

would have otherwise received in accordance with the allocation procedures set forth in

this Rule. Surrender information will not be available to other market participants and

may not be modified. The proposed provisions are similar to surrender provisions on BX

PRISM.[7]

Similarly, the Exchange proposes to add a new paragraph at Rule

1080(n)(ii)(A)(2) which provides a similar provision for Complex Orders[8]. The proposed

provision would provide that when starting a PIXL Complex Order Auction, the

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[6]   Depending on the option selected, the Initiating Member may elect in the single
        stop option selection to give up the allocation priority, if Surrender is selected, or
        with the auto-match option the Initiating Member will only be allocated the
        remainder in accordance with the allocation percentages specified in Rule
        1080(n)(ii)(E)(2)(b). The Surrender feature only applies to the single stop price
        feature. By definition the purpose of the auto-match feature is that the Initiating
        Member is going to match all responses and seek a greater allocation. This
        language is at odds with the Surrender feature where the Initiating Member is not
        seeking allocation.

[7]   See Chapter VI, Section 9(ii)(A)(i).

[8]   Today, BOX Options Exchange LLC ("BOX") utilizes a Surrender feature in its
        Complex Order Price Improvement Period or "COPIP." See also BOX Rule
        7245.

Initiating Member may submit the Initiating Order with a designation of Surrender to the

other PIXL participants which will result in the Initiating Member forfeiting the priority

and trade allocation privileges which he is otherwise entitled to as per subsection

(n)(ii)(E)(2)(d) of Rule 1080(n). If Surrender is specified the Initiating Order will only

trade if there is not enough interest available to fully execute the PIXL Order at prices

which are equal to or improve upon the stop price. Throughout the rule where allocation

is specified a notation is added to account for any surrender, if applicable such as in

1080(n)(ii)(E)(2)(a) and (d).

NBBO Reference

        The Exchange proposes to reword Rule 1080(n)(ii)(F) to add specificity to the

current rule text. The Exchange proposes to state that "If there are PAN responses

(except if it is a Complex Order) that cross the better of the Reference BBO and NBBO

(provided such NBBO is not crossed) or Complex Order PAN responses that cross the

then-existing cPBBO at the time of the conclusion of the Auction, such PAN responses

will be executed, if possible, at their limit price(s)." 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. In

these instances, 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. For this reason, the

Exchange is proposing more precise rule text at Rule 1080(n)(ii)(F) 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 to acknowledge that repricing would result in the better of the NBBO (or PBBO) or the Reference BBO.

Typographical Error, Clarifying Change, Cross Reference and Relocated Text

The Exchange proposes to correct a word in Rule 1080(n)(i)(C) from "of" to "or" to correct an unintentional typographical error. The Exchange also proposes to replace a reference to "Rule 1080(n) at Commentary .07" to "Rule 1098" to properly reference rule text related to Complex Orders at Rule 1080(n)(ii)(E)(2)(f). A reference to "remaining" shares as Rule 1080(n)(ii)(E)(2)(f) is also proposed to be amended to "residual" simply to conform to the language utilized in other parts of the rule. Finally, rule text related to PIXL ISO in Commentary .08 to Rule 1080(n) is being relocated within the rule to new 1080(n)(ii)(K) simply to add the text in an appropriate location within the rule. A space is also being added within the rule text that was inadvertently left out of a prior version.

Implementation

The Exchange proposes to implement this functionality before Q1 2018. Members will be notified of the deployment date by way of an Options Trader Alert.

Below is an example of the manner in which the Surrender feature would operate:

EXAMPLE (Related to Rule 1080(n)(ii)(A)(i) (Initiating Participant utilizing Surrender):

NBBO = .97 – 1.03

PHLX BBO = .95 – 1.03(60) with Market Maker A and Market Maker B offering 30 contracts each PIXL Order to buy 100 contracts stopped at 1.02 marked as 'Surrender' is received,

Auction begins,

During auction, Market Maker C responds to sell 5 at 1.01, Market Maker A

responds to sell 5 contracts at 1.02, Market Maker B responds to sell 40 contracts at 1.02,

and Market Maker D responds to sell 20 contracts at 1.02.

During auction, Market Maker A moves his quote and PHLX BBO becomes .95

– 1.02 for 5 contracts and NBBO becomes .97 – 1.02.

Auction ends, Market Maker C trades 5 at 1.01; Remaining Market Maker

interest trades 70 contracts in a Pro-Rata fashion: Market Maker A executes 10 contracts

with 5 being given to the Market Maker A response at 1.02 and 5 to the Market Maker A

quote at 1.02; Market Maker B response executes 40 contracts at 1.02; Market Maker D

response executes 20 contracts at 1.02.   The PIXL Contra executes the remaining 25

contracts at 1.02. This is because the initiator will end up trading if not enough interest is

there to satisfy the stop price.

2.   Statutory Basis

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

Act,[9] in general, and furthers the objectives of Section 6(b)(5) of the Act,[10] 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 proposing a

functionality which allows members more optionality to transact orders in the PIXL

auction. The Exchange believes that the proposed feature will provide members with

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[9]   15 U.S.C. 78f(b).

[10]   15 U.S.C. 78f(b)(5).

more flexibility, similar to functionality currently offered on BX. In addition the Exchange proposes other amendments which add clarity to the rule text so that members will gain a greater understanding of the rule. Each proposal is discussed below.

Surrender

The Exchange believes that the Surrender feature is consistent with the Act because it promotes just and equitable principles of trade by allowing members who submit orders into the PIXL Auction to continue to be executed pursuant to a pre-determined set of rules which would allow members to forfeit priority and trade allocation privileges and only trade if there is not enough interest available to fully execute the PIXL Order at prices which are equal to or improve upon the stop price. Members are not required to elect this feature, but is would be available, as it is today on BX, if a member desired to utilize the Surrender feature. The new Surrender feature would provide the Initiator with flexibility, thereby increasing the likelihood that the Initiator would be inclined to commence more auctions.

The feature would only permit the member to surrender the entire amount, not a partial amount. Also, Surrender will not be applied if both the Initiating Order and PIXL Order (or PIXL Complex Order) are Public Customer Orders. The Surrender feature will not permit a member to have any control over an order. Further, the election to Surrender an order would be available prior to the submission of the order and therefore could not be utilized to gain influence or guide the execution of the PIXL Order or PIXL Complex Order. Initiating Members submitting PIXL Orders or PIXL Complex Orders will relinquish control of their PIXL Orders or PIXL Complex Orders upon transmission to the Exchange's System. Further, no Participant, including the Initiating Participant, will see a PAN response submitted into PIXL and therefore and will not be able to influence

or guide the execution of their PIXL Orders or PIXL Complex Orders. The information

provided with respect to the Surrender feature by the member will not be broadcast and

further, the information may not be modified by the member during the auction.

NBBO Reference

        The Exchange's proposal to amend Rule 1080(n)(ii)(F) to amend the current rule

text 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 these proposed

amendments are consistent with the Act and do not otherwise create an impediment to a

free and open market because today investors are subject to this repricing. Also, by

reflecting the proper rule text to account for these order types the Exchange is providing

members 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.

Typographical Error, Clarifying Change, Cross Reference and Relocated Text

        The Exchange's proposals to: (a) correct a word in Rule 1080(n)(i)(C) from "of"

to "or"; (b) replace a reference to Rule 1080(n) at Commentary .07 to Rule 1098 to

properly reference rule text related to Complex Orders at Rule 1080(n)(ii)(E)(2)(f); (c)

change a reference to "remaining" shares as Rule 1080(n)(ii)(E)(2)(f) to "residual"; and

(d) relocate PIXL ISO in Commentary .08 to Rule 1080(n) to 1080(n)(ii)(K) are

consistent with the Act because these amendments provide greater detail and clarity to

the rule text.

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 competition among the options exchanges is vigorous and this proposal is

intended to afford the Exchange the opportunity to compete for order flow by offering an

auction mechanism with a surrender feature similar to that of other exchanges.[11]

With respect to intra-market competition, the auction will be available to all Phlx

members. The Exchange's proposal to submit the Surrender amendment does not result

in less competition, the PIXL mechanism should continue to encourage Phlx members to

compete amongst each other by responding with their best price and size for a particular

auction. The Exchange believes that the Initiator may be incentivized to initiate more

PIXL auctions in light of the proposal. The Exchange's proposal is a competitive

response to similar provisions in the price improvement auction rules of other options

exchanges.[12] The Exchange believes this proposed rule change is necessary to permit fair

competition among the options exchanges and to establish more uniform price

improvement auction rules on the various options exchanges. The Exchange anticipates

that this auction proposal will allow Phlx to compete on equal footing with other options

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[11]   Today, BX offers a surrender feature. See BX Rule at Chapter VI, Section 9. The
         Chicago Board Options Exchange, Incorporated ("CBOE") has a process whereby
         initiating participants may elect to receive last priority in an allocation. See
         CBOE Rule 6.74A(b)(3)(J), entitled Automated Improvement Mechanism
         ("AIM"). Finally, BOX utilizes a Surrender feature in its PIP and COPIP, similar
         to the proposed Phlx Surrender for simple and complex orders. The Exchange
         notes that BOX Initiators may forfeit less than the entire amount pursuant to the
         BOX rule. See BOX Rules 7150 and 7245. Phlx will allow surrender only for the
         entire amount, not for a partial amount.

[12]   Id.

exchanges and for this reason the proposal does not create an undue burden on inter-market competition.

The Exchange's proposal to amend Rule 1080(n)(ii)(F) to amend the current rule text 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 proposed amendments would apply uniformly to all Phlx members that elect to enter orders into the PIXL auction. The Exchange believes that these proposed amendments are consistent with the Act and do not otherwise create an impediment to a free and open market because today investors are subject to this repricing.

The Exchange's proposals to: (a) correct a word in Rule 1080(n)(i)(C) from "of" to "or"; (b) replace a reference to Rule 1080(n) at Commentary .07 to Rule 1098 to properly reference rule text related to Complex Orders at Rule 1080(n)(ii)(E)(2)(f); (c) change a reference to "remaining" shares as Rule 1080(n)(ii)(E)(2)(f) to "residual"; and (d) relocate PIXL ISO in Commentary .08 to Rule 1080(n) to 1080(n)(ii)(K) simply provide greater detail and clarity to the rule text.

> 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[13] and subparagraph (f)(6) of Rule 19b-4

thereunder.[14]

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-2017-85 on the subject line.

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[13]   15 U.S.C. 78s(b)(3)(A)(iii).

[14]   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.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange

    Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2017-85. 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-2017-85 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.[15]

Eduardo A. Aleman
Assistant Secretary

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[15]   17 CFR 200.30-3(a)(12).

EXHIBIT 5

Deleted text is [bracketed]. New text is underlined.

Nasdaq PHLX Rules

* * * * *

Rule 1080. Phlx

(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) and (B) No change.

   (C) 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 and such order is for 50 option contracts o[f]r more, or if the difference between the NBBO is greater than $0.01, 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 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.

   (D) – (H) No change.

   (ii) Auction Process. Only one Auction may be conducted at a time in 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) Auction Period and PIXL Auction Notification ("PAN").

(1) To initiate the Auction (except if it is a Complex Order), the Initiating
Member must mark the PIXL Order for Auction processing, and specify
either: (a) a single price at which it seeks to execute the PIXL Order (a "stop
price"); (b) that it is willing to automatically match as principal or as agent
on behalf of an Initiating Order the price and size of all PAN responses, and
trading interest ("auto-match") in which case the PIXL Order will be
stopped at the 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.

When starting an Auction, the Initiating Member may submit the Initiating
Order with a designation of "surrender" to the other PIXL participants
("Surrender") which will result in the Initiating Member forfeiting the
priority and trade allocation privileges which he is otherwise entitled to as
per paragraph (n)(ii)(E)(2)(a). If Surrender is specified the Initiating Order
will only trade if there is not enough interest available to fully execute the
PIXL Order at prices which are equal to or improve upon the stop price. The
Surrender function will never result in more than the maximum allowable
allocation percentage to the Initiating Member than that which the Initiating
Member would have otherwise received in accordance with the allocation
procedures set forth in this Rule. Surrender will not be applied if both the
Initiating Order and PIXL Order are public customer orders. Surrender
information will not be available to other market participants and may not
be modified.

(2) To initiate the PIXL Complex Order Auction, the Initiating Member must
mark the PIXL Order for Auction processing, and specify either: (a) a single

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

When starting a PIXL Complex Order Auction, the Initiating Member may submit the Initiating Order with a designation of "surrender" to the other PIXL participants ("Surrender") which will result in the Initiating Member forfeiting the priority and trade allocation privileges which he is otherwise entitled to as per paragraph (n)(ii)(E)(2)(d). If Surrender is specified the Initiating Order will only trade if there is not enough interest available to fully execute the PIXL Order at prices which are equal to or improve upon the stop price. The Surrender function will never result in more than the maximum allowable allocation percentage to the Initiating Member than that which the Initiating Member would have otherwise received in accordance with the allocation procedures set forth in this Rule. Surrender will not be applied if both the Initiating Order and PIXL Complex Order are public customer orders. Surrender information will not be available to other market participants and may not be modified.

(3) – (11) No change.

(B) – (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) No change.

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

(a) If the Initiating Member selected the single stop price option of the PIXL Auction (except if it is a Complex Order), PIXL executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after public customer interest is satisfied being allocated to the Initiating Member at the stop price. However, if only one other participant matches the stop price, then the Initiating

Member may be allocated up to 50% of the contracts executed at such price. Remaining contracts shall be allocated pursuant to the algorithm set forth in Exchange Rules 1014(g)(vii)(B)(1)(b) and (d) among remaining quotes, orders and PAN responses at the stop price. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Member. The allocation will account for Surrender, if applicable.

(b) - (c) No change.

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

(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.]1098 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] [r]Remaining shares will be allocated in time priority for Complex Orders. The allocation will account for Surrender, if applicable.

(g) No change.

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

(G) – (J) No change.

(K) *PIXL ISO Order*. A PIXL ISO order (PIXL ISO) is the transmission of two orders for crossing pursuant to Rule 1080(n) without regard for better priced Protected Bids/Offers (as defined in Rule 1083) because the member transmitting the PIXL ISO to the Exchange has, simultaneously with the routing of the PIXL ISO, routed one or more ISOs, as necessary, to execute against the full displayed size of any Protected Bid/Offer that is superior to the starting PIXL Auction price and has swept all interest in the Exchange's book priced better than the proposed Auction starting price. Any execution(s) resulting from such sweeps shall accrue to the PIXL Order.

(iii) – (vii) No change.

(o) – (p) No change.

••• *Commentary:* ------------------

.01 - .07 No change.

.08 Reserved.[*PIXL ISO Order*. A PIXL ISO order (PIXL ISO) is the transmission of two orders for crossing pursuant to Rule 1080(n) without regard for better priced Protected Bids/Offers (as defined in Rule 1083) because the member transmitting the PIXL ISO to the Exchange has, simultaneously with the routing

of the PIXL ISO, routed one or more ISOs, as necessary, to execute against the full displayed size of any Protected Bid/Offer that is superior to the starting PIXL Auction price and has swept all interest in the Exchange's book priced better than the proposed Auction starting price. Any execution(s) resulting from such sweeps shall accrue to the PIXL Order.]

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