

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-69842; File No. SR-Phlx-2013-68)

June 25, 2013

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to amend Section B of Exchange's Pricing Schedule

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 21, 2013, NASDAQ OMX PHLX LLC ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend the Exchange's Pricing Schedule at Section B, entitled "Customer Rebate Program" to amend the various defined categories associated with Customer rebates.

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

<sup>2</sup> 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 Section B of the Pricing Schedule, entitled “Customer Rebate Program,” to provide members and member organizations the ability to achieve greater Customer rebates by transacting PIXL<sup>3</sup> Orders.

Currently, the Exchange has in place a four tier structure Customer Rebate Program at Section B of the Pricing Schedule which pays Customer rebates on four Categories, A, B, C and D, of transactions. The four tier structure pays rebates based on percentage thresholds of national customer multiply-listed options volume by month based on four Categories (A, B, C and D) of transactions. Specifically, the Exchange bases a market participant’s qualification for a certain Rebate Tier on the percentage of total national customer volume in multiply-listed options which are transacted monthly on Phlx as follows:

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<b>Customer Rebate</b>	<b>Percentage Thresholds of</b>	<b>Category A</b>	<b>Category B</b>	<b>Category C</b>	<b>Category D</b>
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<sup>3</sup> PIXL is the Exchange’s price improvement mechanism known as Price Improvement XL or (PIXL<sup>SM</sup>). See Rule 1080(n).

**Tiers National Customer Volume in Multiply-Listed Equity and ETF Options Classes, excluding SPY Options (Monthly)**

Tier 1	0.00% - 0.75%	\$0.00	\$0.00	\$0.00	\$0.00
Tier 2	Above 0.75% - 1.60%	\$0.12	\$0.17	\$0.17	\$0.08
Tier 3	Above 1.60% - 2.60%	\$0.14	\$0.17	\$0.17	\$0.08
Tier 4	Above 2.60%	\$0.15	\$0.17	\$0.17	\$0.09

The Exchange totals Customer volume in Multiply Listed Options (including Select Symbols and options overlying Standard and Poor's Depository Receipts/SPDRs (“SPY”));<sup>4</sup> that are electronically-delivered and executed, except volume associated with electronic Qualified Contingent Cross (“QCC”) Orders,<sup>5</sup> as defined in Exchange Rule

<sup>4</sup> SPY options are based on the SPDR exchange-traded fund (“ETF”), which is designed to track the performance of the S&P 500 Index.

<sup>5</sup> A QCC Order is comprised of an order to buy or sell at least 1000 contracts that is identified as being part of a qualified contingent trade, as that term is defined in Rule 1080(o)(3), coupled with a contra-side order to buy or sell an equal number of contracts. The QCC Order must be executed at a price at or between the National Best Bid and Offer and be rejected if a Customer order is resting on the Exchange book at the same price. A QCC Order shall only be submitted electronically from off the floor to the PHLX XL II System. See Rule 1080(o). See also Securities Exchange Act Release No. 64249 (April 7, 2011), 76 FR 20773 (April 13, 2011) (SR-Phlx-2011-47) (a rule change to establish a QCC Order to facilitate the execution of stock/option Qualified Contingent Trades (“QCTs”) that satisfy the requirements of the trade through exemption in connection with Rule 611(d) of Regulation NMS). A Floor QCC Order must: (i) be for at least 1,000 contracts, (ii) meet the six requirements of Rule 1080(o)(3) which are modeled on the QCT Exemption, (iii) be executed at a price at or between the National Best Bid and Offer; and (iv) be rejected if a Customer order is resting on the Exchange

1080(o).<sup>6</sup> Members and member organizations under Common Ownership<sup>7</sup> may aggregate their Customer volume for purposes of calculating the Customer Rebate Tiers and receiving rebates.

Category A rebates are paid to members executing electronically-delivered Customer Simple Orders in Penny Pilot Options and Customer Simple Orders in Non-Penny Pilot Options in Section II symbols.<sup>8</sup> Rebates are paid on Customer PIXL Orders in Section II symbols that execute against non-Initiating Order<sup>9</sup> interest, except in the case of Customer PIXL Orders that are greater than 999 contracts. All Customer PIXL Orders that are greater than 999 contracts are paid a rebate regardless of the contra-party to the transaction.

Category B rebates are paid to members executing electronically-delivered Customer Complex Orders in Penny Pilot Options and Non-Penny Pilot Options in Section II symbols.

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book at the same price. In order to satisfy the 1,000-contract requirement, a Floor QCC Order must be for 1,000 contracts and could not be, for example, two 500-contract orders or two 500-contract legs. See Rule 1064(e). See also Securities Exchange Act Release No. 64688 (June 16, 2011), 76 FR 36606 (June 22, 2011) (SR-Phlx-2011-56).

<sup>6</sup> The Exchange calculates volume and pays rebates based on a member's or member organization's Phlx house account number.

<sup>7</sup> Common ownership means 75% common ownership or control.

<sup>8</sup> Section II of the Pricing Schedule includes Multiply Listed Options Fees, including options overlying equities, ETFs, ETNs and indexes which are Multiply Listed.

<sup>9</sup> 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 Rule 1080(n)(i)(E)) it represents as agent ("Initiating Order") provided it submits the PIXL order for electronic execution into the PIXL Auction ("Auction") pursuant to Rule 1080. See Exchange Rule 1080(n). Non-Initiating Order interest could be a PIXL Auction Responder or a resting order or quote that was on the Phlx book prior to the auction.

Category C rebates are paid to members executing electronically-delivered Customer Complex Orders<sup>10</sup> in Select Symbols<sup>11</sup> in Section I.

Category D rebates are paid to members executing electronically-delivered Customer Simple Orders in Select Symbols in Section I. Rebates are paid on PIXL Orders in Section I symbols that execute against non-Initiating Order interest.

The Exchange is proposing to amend Categories B and C to offer rebates on qualifying<sup>12</sup> Customer PIXL Complex Orders in Section II symbols for Category B and Section I symbols for Category C that execute against non-Initiating Order interest, except in the case of Customer PIXL Complex Orders that are greater than 999 contracts. All Customer PIXL Complex Orders that are greater than 999 contracts would be paid a rebate regardless of the contra-party to the transaction.

The Exchange filed a proposed rule change to amend its Rules to permit Complex Orders in PIXL.<sup>13</sup> Specifically, the Exchange filed a proposal to amend Rule 1080 to

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<sup>10</sup> 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 exchange-traded fund (“ETF”) coupled with the purchase or sale of options contract(s). See Exchange Rule 1080, Commentary .08(a)(i).

<sup>11</sup> The Select Symbols are listed in Section I of the Pricing Schedule.

<sup>12</sup> The Exchange pays rebates on certain Customer volumes as specified in Section B of the Pricing Schedule.

<sup>13</sup> Securities Exchange Act Release No. 69550 (May 9, 2013), 78 FR 28654 (May 15, 2013) (SR-Phlx-2013-46) (notice of filing of proposed rule change to accommodate Complex Orders in PIXL).

allow Complex Orders in the Exchange's price-improving electronic auction, PIXL.<sup>14</sup> The Exchange proposes to permit members to receive a Customer rebate, pursuant to Section B of the Exchange's Pricing Schedule, by transacting qualifying Customer PIXL Complex Orders in Multiply Listed Section I and II symbols provided the transactions are against non-Initiating Order interest and not greater than 999 contracts. If the Customer PIXL Complex Order is greater than 999 contracts, that transaction will be paid a rebate regardless of the contra-party to the transaction. The Exchange proposes for this rule change to become immediately effective, however a member would not be able to transact PIXL Complex Orders, and thereby receive Customer rebates, until SR-Phlx-2013-46 is approved by the Commission.<sup>15</sup>

The Exchange proposes to amend Category D to offer members a similar rebate opportunity. The Exchange proposes to pay rebates on qualifying Customer PIXL Orders in Select Symbols in Section I that execute against non-Initiating Order interest, except in the case of Customer PIXL Order that are greater than 999 contracts. All Customer PIXL Orders that are greater than 999 contracts would be paid a rebate regardless of the contra-party to the transaction.

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<sup>14</sup> The PIXL mechanism is a process whereby members and member organizations electronically submit orders they represent as agent against principal interest or other interest that they represent as agent. The submitted orders are stopped at a price and are subsequently entered into an auction seeking price improvement. Currently, the PIXL mechanism accepts only simple orders. Securities Exchange Act Release No. 69550 (May 9, 2013), 78 FR 28654 (May 15, 2013) (SR-Phlx-2013-46).

<sup>15</sup> The functionality to transact PIXL Complex Orders will not be available unless and until such time as the Commission approves SR-Phlx-2013-46. The purpose of this filing is to offer members the opportunity to achieve certain rebates related to PIXL Complex Orders when the functionality to transact such orders is approved by the Commission.

The Exchange believes that offering members the opportunity to obtain rebates from PIXL transactions, whether in Simple or Complex Orders, will incentivize members to transact a greater number of PIXL Orders.

The Exchange also proposes to make technical amendments to the text of Category A to clarify rule text and conform the text to the new language which the Exchange proposes to add pursuant to this rule change.

2. Statutory Basis

The Exchange believes that its proposal to amend its Pricing Schedule is consistent with Section 6(b) of the Act<sup>16</sup> in general, and furthers the objectives of Section 6(b)(4) of the Act<sup>17</sup> in particular, in that it provides for an equitable allocation of reasonable fees and other charges among Exchange members and member organizations and other persons using its facilities.

The Exchange's proposal to amend Categories B and C of the Customer Rebate Program to pay rebates on qualifying Customer PIXL Complex Orders in Section I (Category C) and II (Category B) symbols, provided those transactions are contra to non-Initiating Order interest,<sup>18</sup> and also pay Customer PIXL Complex Order rebates on all orders greater than 999 contracts regardless of the contra-party is reasonable because the Exchange desires to incentivize members to transact Complex Orders in PIXL. Today, the Exchange incentivizes members to transact Simple Orders in PIXL by offering

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<sup>16</sup> 15 U.S.C. 78f(b).

<sup>17</sup> 15 U.S.C. 78f(b)(4).

<sup>18</sup> For example, a PIXL Responder or a resting order or quote that was on the Phlx book prior to the auction.

similar rebates under Category A<sup>19</sup> of the Customer Rebate Program.

The Exchange's proposal to amend Category D of the Customer Rebate Program to pay rebates on qualifying Customer PIXL Orders in Section I Select Symbols provided those transactions are contra to non-Initiating Order interest and also pay Customer PIXL Order rebates on all orders greater than 999 contracts regardless of the contra-party is reasonable because the Exchange desires to incentivize members to transact a greater number of Simple Orders in PIXL. Today, the Exchange offers a rebate for Simple Orders in PIXL under Category A of the Customer Rebate Program.

The Exchange believes that the proposals to amend Categories B, C and D of the Customer Rebate Program to pay rebates on Customer Simple and Complex Orders in PIXL, respectively, in Section I and II symbols, provided those transactions are contra to non-Initiating Order interest,<sup>20</sup> and also pay Customer PIXL Complex Order rebates on all orders greater than 999 contracts regardless of the contra-party are equitable and not unfairly discriminatory because the Exchange will pay Customer rebates to any market participant that transacts a qualifying Customer PIXL Order in a Simple or Complex Order that executes against non-Initiating Order interest and will also pay Customer rebates to any market participant that transacts a qualifying Customer Simple or Complex Order in PIXL which is greater than 999 contracts regardless of the contra-party in

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<sup>19</sup> Category A rebates are paid to members and member organizations executing electronically-delivered Customer Simple Orders in Penny Pilot Options and Customer Simple Orders in Non-Penny Pilot Options in Section II. Rebates are paid on Customer PIXL Orders in Section II symbols that execute against non-Initiating Order interest, except in the case of Customer PIXL Orders that are greater than 999 contracts. All Customer PIXL Orders that are greater than 999 contracts are paid a rebate regardless of the contra-party to the transaction.

<sup>20</sup> For example, a PIXL Auction Responder or a resting order or quote that was on the Phlx book prior to the auction.



Section I and II symbols. The Exchange will apply the Category B, C and D rebates uniformly with respect to market participants transacting qualifying PIXL Orders.

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 Exchange believes that its proposal to amend Category B, C and D of the Customer Rebate Program does not impose an undue burden on competition because the Exchange is offering to pay Customer rebates on qualifying PIXL Simple and Complex Orders in Section I and II symbols, respectively, provided those transactions are contra to non-Initiating Order interest, to all participants. The Exchange is also offering to pay Customer rebates on PIXL Simple and Complex Orders in Section I and II symbols, respectively, on all qualifying orders greater than 999 contracts regardless of the contra party for all market participants. These rebates should attract Customer PIXL Simple and Complex Order flow to the Exchange and benefit all market participants through the increased liquidity such order flow will bring to the PIXL auction in terms of order interaction. Today, the Exchange pays rebates on PIXL Simple Orders only in Category A of the Customer Rebate Program. With this proposal, the Exchange is providing an opportunity to obtain Customer rebates by transacting both Simple and Complex Orders in PIXL, respectively, in all categories of the Customer Rebate Program.

The Exchange operates in a highly competitive market, comprised of eleven exchanges, in which market participants can easily and readily direct order flow to competing venues if they deem fee levels at a particular venue to be excessive or rebates

to be inadequate. Accordingly, the fees that are assessed and the rebates paid by the Exchange described in the above proposal are influenced by these robust market forces and therefore must remain competitive with fees charged and rebates paid by other venues and therefore must continue to be reasonable and equitably allocated to those members that opt to direct orders to the Exchange rather than competing venues.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.<sup>21</sup> 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 necessary or appropriate in the public interest, for the protection of investors, or 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:

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<sup>21</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2013-68 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2013-68. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-Phlx-2013-68 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>22</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>22</sup> 17 CFR 200.30-3(a)(12).