SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-71108; File No. SR-Phlx-2013-121)

December 17, 2013

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Two Features Relating to Complex Orders

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 December 9, 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 the Substance of the Proposed Rule Change

The Exchange proposes to amend two features of the Exchange's Complex Orders functionality, as described below.

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.

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

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

2 17 CFR 240.19b-4.

Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of the proposal is to enhance the Exchange's complex order functionality by enhancing two of the protections offered to complex order executions, as well as to correct Exchange rules in two areas to reflect the operation of the Exchange's system.

First, the Exchange proposes to amend the Phlx XL Strategy Price Protection ("SPP") in Rule 1080.08(g). SPP is a feature of Phlx XL that prevents certain Complex Order Strategies from trading at prices outside of pre-set standard limits. SPP applies only to Vertical Spreads[3] and Time Spreads.[4] Currently, Rule 1080.08(g)(iii) provides that if the execution of a Vertical Spread or a Time Spread would violate the SPP limits, the System would place the order on the CBOOK.

Today, the System cancels a Vertical Spread or a Time Spread rather than placing it on the CBOOK where a sell (buy) order would execute at a price outside of the SPP limit on the sell (buy) side. The Exchange proposes to correct this language in the rule text. The Exchange believes that it is appropriate to cancel the order rather than place it on the CBOOK, because the order is priced such that it will never be executable. This is because, regardless of changes in the

3 A Vertical Spread is a Complex Order Strategy consisting of the purchase of one call (put) option and the sale of another call (put) option overlying the same security that have the same expiration but different strike prices. See Rule 1080.08(g)(i).

4 A Time Spread is a Complex Order Strategy consisting of the purchase of one call (put) option and the sale of another call (put) option overlying the same security that have different expirations but the same strike price. See Rule 1080.08(g)(ii).

market for the components of the Complex Order, the SPP will always result in the same calculation and thereby prevent an execution.

In addition, the Exchange proposes to add rule text to provide that the order will be cancelled even if it violates the SPP limit *on the other side of the market* from the order. Today, the System cancels a sell order that would execute at a price outside of the SPP limit on the offer side, and similarly cancels a buy order that would execute at a price outside of the SPP limit on the bid side. Under this proposal, the System would cancel a sell (buy) order from execution at a price outside of the SPP limit on the bid (offer) side as well. The purpose of this change is to offer additional protection to certain Complex Orders due to a price far away from existing markets on both sides of the market.

For example, where there is a Complex Order to sell (A-B),[5] the following would occur:

PBBO	
A Dec 50	\$12.20 - \$14.90
B Dec 55	\$ 9.00 - \$12.50

cPBBO is \$.30 credit - \$ 5.90

SPP calculates minimum possible value of 0 (always for a vertical spread)
SPP calculates maximum possible value of \$5.00 by subtracting the value of the lower strike from the value of the higher strike (55 – 50 = 5)
SPP limit will be applied to: \$0 - \$5.00
If the SPP limit is set at \$.10, the acceptable range is \$.10 credit[6] - \$5.10.

Today, if a Complex Order is received to sell at \$5.50, the System cancels the order, because \$5.50 is outside of the \$5.10 SPP limit on the offer side and thus could never be executed. If a Complex Order is received to buy for \$5.50, because that price does not violate the \$.10 credit SPP on the bid side, the order will be protected by SPP and placed on the CBOOK.

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5 Assume it is a vertical spread.

6 A \$.10 credit bid means that the seller of the Complex Order would be paying \$.10 to sell rather than receiving \$.10, perhaps because the seller is seeking to close out the position for tax or margin reasons, regardless of the price.

> Under this proposal, if a Complex Order is received to buy for $5.50, the order will be protected by SPP and cancelled, because it is priced through the acceptable range on the offer side of $5.10.

Accordingly, the SPP would be applied consistently to all Complex Orders, thereby affording more protection (in the form of cancellation) to aggressively priced Complex Orders.

Second, the Exchange proposes to amend the Acceptable Complex Execution ("ACE") Parameter in Rule 1080.08(i). The ACE Parameter defines a price range outside of which a Complex Order will not be executed. The ACE Parameter is either a percentage or number defined by the Exchange.[7] The ACE Parameter price range is based on the cNBBO[8] at the time an order would be executed. A Complex Order to sell will not be executed at a price that is lower than the cNBBO bid by more than the ACE Parameter. A Complex Order to buy will not be executed at a price that is higher than the cNBBO offer by more than the ACE Parameter. A Complex Order or a portion of a Complex Order that cannot be executed within the ACE Parameter pursuant to this rule will be placed on the CBOOK. The Exchange issues an Options Trader Alert ("OTA") to its membership indicating the ACE Parameter. The Exchange also lists the ACE Parameter on its website.

The Exchange now proposes to be able to set the ACE Parameter at a different percentage or number for Complex Orders where one of the components is the underlying security. This type of Complex Order, a stock-option order, is an order to buy or sell a stated number of units of an underlying security (stock or Exchange Traded Fund Share ("ETF")) coupled with the purchase or sale of options contract(s).[9] As such, a stock-option order is

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7 See Securities Exchange Act Release No. 69921 (July 2, 2013), 78 FR 41164 (July 9, 2013) (SR-Phlx-2013-72).

8 See Rule 1080.08(a)(vi).

9 The underlying security must be the deliverable for the options component of that Complex Order and represent exactly 100 shares per option for regular way delivery.

different than a Complex Order consisting of only option components. For example, if the market for Option A is $3.00 - $3.50 and for the underlying stock is $50.00 - $50.10 and a Complex Order to buy Option A and sell the stock arrives, the cNBBO is $46.50 - $47.10; thus, the regular ACE Parameter of 5% would result in an allowable execution range of $44.18 – $49.45. Setting the ACE Parameter at 0.50% would result in a more narrow allowable execution range of $46.27 - $47.34.

The ACE Parameter feature is designed to help maintain a fair and orderly market by helping to mitigate the potential risk of executions at prices which are extreme and potentially erroneous. The Exchange has determined that a different ACE Parameter limit should apply to stock-option orders to offer a better degree of protection where needed. In the previous example, the regular ACE Parameter would allow execution prices of more than $2.30 away from the cNBBO. Allowing a different ACE Parameter for stock-option orders provides the ability for the Exchange to use a lower ACE Parameter, which in the example above, using 0.50% would have offered much more protection by narrowing the execution range to within roughly $0.23 of the cNBBO.

The Exchange also proposes to correct the rule text to delete the reference to establishing the ACE Parameter on an issue-by-issue (meaning option-by-option) basis, because the Exchange cannot, at this time, do that. Today, the Exchange establishes the single ACE Parameter for all options, and, under this proposal, as explained above, is proposing to now establish a second ACE Parameter for stock-option orders respecting all options.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[10] in general, and furthers the objectives of Section 6(b)(5) of the Act[11] in particular, in that it is designed to promote just and equitable principles of trade, and, in general to protect investors and the public interest, by enhancing the price protections available to Complex Orders on the Exchange. Specifically, the change to the SPP feature corrects the rule to indicate that an order will be cancelled, which is consistent with just and equitable principles of trade. The Exchange believes that cancelling orders under this proposal rather than placing them on the CBOOK is an improvement and results in additional protection from executions at far away prices. Price protections like SPP presume that an order was entered incorrectly or at an incorrect price if it is widely out of range of current prices. Accordingly, cancelling orders is an enhancement that should protect investors and the public interest and provide participants with consistent behavior on such orders.

The change to the ACE Parameter should protect investors and the public interest by permitting a more specific and nuanced number to be set for Complex Orders that are stock-option orders. The price of a Complex Order that is a stock-option order may fluctuate differently and this proposal recognizes that they are different than option-only Complex Orders. This enhancement should also promote just and equitable principles of trade by better tailoring the ACE Parameter to these types of orders. With respect to the correction establishing an ACE Parameter for all options rather than option-by-option, the Exchange believes that this aspect of the proposal is consistent with just and equitable principles of trade and should protect investors and the public interest, because the Exchange believes that it can sufficiently protect Complex

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

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

Orders by applying a single ACE Parameter to all options, along with a separate ACE Parameter for stock-option orders. The ACE Parameter has never been established option-by-option and market participants have not asked for that.

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. Specifically, various options exchanges offer complex order functionality along with a variety of price protections, such that the proposal will help the Exchange better compete with those options exchanges. With respect to intra-market competition, the proposal will be available to all eligible Complex Orders, regardless of participant type.

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)(ii) of the Act[12] and subparagraph (f)(6) of Rule 19b-4 thereunder.[13]

12 15 U.S.C. 78s(b)(3)(a)(ii).

13 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

The proposal does not significantly affect the protection of investors or the public interest, because it provides enhanced price protection, which has the potential to benefit investors, as explained above. The proposal does not impose any significant burden on competition, as explained further above.

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-2013-121 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-2013-121. 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 such filing also will be available for inspection and copying at the principal offices 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-2013-121, 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.[14]

Kevin M. O'Neill
Deputy Secretary

[14] 17 CFR 200.30-3(a)(12).