SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69845; File No. SR-Phlx-2013-46)

June 25, 2013

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Order Granting Approval to
Proposed Rule Change, as Modified by Amendment No. 1, Regarding Complex Order PIXL

I.      Introduction

On April 30, 2013, NASDAQ OMX PHLX LLC (the "Exchange" or "Phlx") filed with

the Securities and Exchange Commission ("Commission") pursuant to Section 19(b)(1) of the

Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] a proposed rule change

to amend Phlx Rule 1080 to accommodate Complex Orders in Phlx's price-improving electronic

auction ("PIXL," "PIXL Auction," or "Auction").  On May 8, 2013, the Exchange filed

Amendment No. 1 to the proposed rule change.  The proposed rule change, as amended, was

published for comment in the Federal Register on May 15, 2013.[3]  The Commission received no

comments on the proposal.  This order approves the proposed rule change, as amended.

II.     Description of the Proposal

Phlx proposes to amend Rule 1080 to accommodate Complex Orders in PIXL.

Specifically, current Phlx Rule 1080(n) provides that a Phlx member (an "Initiating Member")

may electronically submit for execution an order it represents as agent on behalf of a public

customer, broker-dealer, or any other entity (a "PIXL Order") against principal interest or against

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

[2]     17 CFR 240.19b-4.

[3]     See Securities Exchange Act Release No. 69550 (May 9, 2013), 78 FR 28654 (May 15,
        2013) ("Notice").

any other order it represents as agent (an "Initiating Order").[4] The submitted orders are then

stopped at a price and entered into a PIXL Auction seeking price improvement. Phlx Rule

1080(n) currently does not permit Complex Orders to be entered into the PIXL. This proposed

rule change would permit Phlx members to send Complex Orders to the PIXL.[5]

      A.     Auction Eligibility and Auction Process

In order for a Complex Order to initiate a PIXL Auction, the Complex Order must be of a

conforming ratio[6] and must be stopped at a price that is better than the best net price (debit or

credit) that is (1) available on the Complex Order book regardless of the Complex Order book

size; and (2) achievable from the best Phlx bids and offers for the individual options (an

"improved net price"), provided in either case that such price is equal to or better than the PIXL

Order's limit price.[7] The Exchange notes that requiring a Complex Order to be stopped at a net

debit/credit price that improves upon the stated markets present for the individual components of

the Complex Order ensures that at least one option leg will be executed at a better price than the

established bid or offer for such leg.[8]

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[4]     See Phlx Rule 1080(n); see also Securities Exchange Act Release No. 63027 (October 1, 2010), 75 FR 62160 (October 7, 2010) (approving rules establishing the PIXL Auction for simple orders).

[5]     A Complex Order is defined as "an order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, priced as 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." See Phlx Rule 1080 Commentary .08(a)(i).

[6]     Conforming ratios for Complex Orders are defined in Commentary .08(a)(i) and (a)(ix) to Phlx Rule 1080. Complex Orders consisting of a ratio other than a conforming ratio will not be accepted. See Notice, 78 FR at 28657.

[7]     See proposed Phlx Rule 1080(n)(i)(C); see also Notice, 78 FR at 28657 for an example of an eligible Complex Order on PIXL. This provision, as applied to Complex Orders whose smallest leg is less than 50 contracts, is effective for a pilot period scheduled to expire on July 18, 2013.

[8]     See Notice, 78 FR at 28657.

In order to initiate a PIXL Auction for a Complex Order ("Complex Order PIXL Auction"), the Initiating Member must mark the Complex PIXL Order for Auction processing, and specify either: (1) a single price at which it seeks to execute the PIXL Order (a "stop price"); or (2) that it is willing to either: (a) stop the entire order at a single stop price and auto-match responses to the Complex Order PIXL Auction ("PAN responses" or "Complex Order 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 (b) 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.[9] As with the simple order PIXL Auction, once the Initiating Member has submitted a Complex Order into PIXL, such order may not be modified or cancelled.[10] However, the stop price or NWT price may be improved to the benefit of the PIXL Order during the Complex Order PIXL Auction.[11]

Like PIXL Auctions for simple orders, Complex Order PIXL Auctions will last for one second, unless the Complex Order PIXL Auction terminates early.[12] Complex Order PAN responses may be submitted by any member.[13] The minimum price increment for PAN

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[9]     See proposed Phlx Rule 1080(n)(ii)(A)(2); see also Notice, 78 FR at 28657 for a description of how the initiation of PIXL Complex Order Auction differs from a PIXL Auction for orders that are not complex.

[10]    See proposed Phlx Rule 1080(n)(ii)(A)(2).

[11]    See id.

[12]    See proposed Phlx Rule 1080(n)(ii)(A)(4). For a description of the circumstances in which the Complex Order PIXL Auction terminates early, see text accompanying notes 17 to 19, infra.

[13]    See proposed Phlx Rule 1080(n)(ii)(A)(5). PAN responses, among other things, must be properly marked specifying price, size and side of the market; will not be visible to PIXL Auction participants; will not be disseminated to the Options Price Reporting Authority ("OPRA"); and may not exceed the size of the PIXL Order at any given price point. See proposed Phlx Rule 1080(n)(ii)(A)(5)-(7).

responses and an Initiating Member's stop price and/or NWT price for a Complex Order PIXL Auction will be $0.01.[14] A Complex Order PAN response must be equal to or better than the cPBBO[15] at the time of receipt of the Complex Order PAN response.[16]

As with a simple order PIXL Auction, a Complex Order PIXL Auction will conclude at the earlier of the end of the Auction period[17] or any time there is a trading halt on the Exchange in the affected series.[18] In addition, a Complex Order PIXL Auction will conclude any time the cPBBO or the Complex Order book cross the Complex PIXL Order stop price on the same side of the market as the Complex PIXL Order.[19]

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[14]     See proposed Phlx Rule 1080(n)(ii)(A)(7)(b). For a simple order PIXL Auction, the minimum price increment for a PAN response and for an Initiating Member's stop and/or NWT price is the minimum price increment established in Phlx Rule 1080(n)(ii)(A)(1). See Phlx Rule 1080(n)(ii)(A)(6), renumbered as proposed Phlx Rule 1080(n)(ii)(A)(7)(a).

[15]     See proposed Phlx Rule 1080(n)(ii)(A)(9). The term "cPBBO" means the best net debit or credit price for a Complex Order Strategy based on the PBBO for the individual options components of such Complex Order Strategy, and, where the underlying security is a component of the Complex Order, the National Best Bid and/or Offer for the underlying security. See Phlx Rule 1080 Commentary .08(a)(iv).

[16]     See proposed Phlx Rule 1080(n)(ii)(A)(9). A Complex Order PAN response submitted with a price that is outside the cPBBO will be rejected as will a PAN response submitted with a price inferior to the stop price of the PIXL Order. See id.

[17]     See Phlx Rule 1080(n)(ii)(B)(1).

[18]     See proposed Phlx Rule 1080(n)(ii)(B)(4). This provision is effective for a pilot period set to expire July 18, 2013. See proposed Phlx Rule 1080(n)(ii)(B)(5). Additionally, Phlx proposes that an unrelated market or marketable limit Complex Order on the opposite side of the market from the Complex PIXL Order as well as orders for the individual components of the Complex Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction. If contracts remain from such unrelated order at the time the Complex Order PIXL Auction ends, they will be considered for participation in the order allocation process described in Section II.B infra, and in proposed Phlx Rule 1080(n)(ii)(E). See proposed Phlx Rule 1080(n)(ii)(D).

[19]     See proposed Phlx Rule 1080(n)(ii)(B)(3). This provision is effective for a pilot period set to expire July 18, 2013. See proposed Phlx Rule 1080(n)(ii)(B)(5). See also infra notes 29-30 and accompanying text.

The Exchange also proposes to modify its existing rules to provide that all PIXL Orders submitted during the final two seconds of the trading session will not be eligible to initiate an Auction and will be rejected.[20]

B.    Complex PIXL Order Execution and Allocation

Order execution and allocation in a Complex PIXL Auction is similar to order execution and allocation in a simple order PIXL Auction.[21] If the Initiating Member selected the single stop price option of the Complex Order PIXL Auction, the Complex PIXL Order will be executed 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.[22] If only one other participant matches the stop price, then the Initiating Member may be allocated up to 50% of the contracts remaining after public customer complex interest is satisfied at such price.[23] 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 at a given price point in the following order: (1) public customer Complex Orders and PAN responses in time priority; (2) SQT, RSQT, and non-SQT ROT Complex Orders and PAN responses on a size pro-rata basis; (3) non-market maker off-floor broker-dealer Complex Orders and PAN responses on a size pro-rata basis, and (4) quotes and orders which comprise the cPBBO at the end of the PIXL Auction, with public customer interest at that price being satisfied first in time priority, followed

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[20]    See proposed Phlx Rule 1080(n)(i)(F).

[21]    See 1080(n)(ii)(E)(2)(a)-(c) for a detailed description of order allocation for a simple PIXL Auction.

[22]    See proposed Phlx Rule 1080(n)(ii)(E)(2)(d). See also Notice, 78 FR at 28658-59 for examples illustrating the execution and allocation of a Complex PIXL Order where the Initiating Member selected the single stop price option.

[23]    See proposed Phlx Rule 1080(n)(ii)(E)(2)(d).

by SQT, RSQT, and non-SQT ROT interest satisfied on a size pro-rata basis, and then non-market maker off-floor broker-dealers on a size pro-rata basis (collectively (1)-(4), the "Allocation Algorithm").[24]  Thereafter, any remaining contracts, if any, will be allocated to the Initiating Member, after public customer Complex Orders and PAN responses have been satisfied.[25]

If the Initiating Member selected the "stop and NWT" price option of the Complex Order PIXL Auction, the Complex PIXL Order will be executed in the following order:  (i) first to Complex Orders and PAN responses at prices better than the NWT price, as well as to quotes and orders which comprise the cPBBO if such cPBBO is better than the NWT price, pursuant to the Allocation Algorithm and (ii) next, to Complex Orders and PAN responses, as well as to quotes and orders which comprise the cPBBO at the end of the Auction, at the Initiating Member's NWT price and at prices better than or equal to the Initiating Member's stop price, beginning with the NWT price.[26]  The Initiating Member will be allocated an equal number of contracts as the aggregate size of all other interest at each price point, except that the Initiating Member shall be entitled to receive up to 40% (or 50% if matching only one other participant) of the contracts remaining at the final price point (including situations where the final price is the stop price), after public customer Complex Orders and PAN responses have been satisfied.[27]  If

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24      See id.

25      See id.

26      See proposed Phlx Rule 1080(n)(ii)(E)(2)(e)(i).  See also Notice, 78 FR at 28660 for an example illustrating the execution and allocation of a Complex PIXL Order where the Initiating Member selected the "stop and NWT" option.

27      See proposed Phlx Rule 1080(n)(ii)(E)(2)(e)(ii).  In the case of an Initiating Order with a NWT price at the market, the Initiating Member shall be allocated an equal number of contracts as the aggregate size of all other interest at all price points, except that the Initiating Member shall be entitled to receive up to 40% (or 50% if matching only one

there is other interest at the final price point the contracts will be allocated to such interest

pursuant to the Allocation Algorithm, and any remaining contracts shall be allocated to the

Initiating Member.[28]

If a Complex Order PIXL Auction concludes due to the cPBBO or the Complex Order

book crossing the Complex PIXL Order stop price,[29] the entire Complex PIXL Order will be

executed at the stop price against executable PAN responses and executable Complex Orders

pursuant to the Allocation Algorithm.[30] In addition if Complex Order PAN responses 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 prices.[31]

Finally, the proposed rule change provides for the execution of a Complex PIXL Order

when the Complex Order PIXL Auction price matches a Complex Order book price on the same

side of the market as the Complex PIXL Order. Specifically, the proposal provides that if the

Complex Order PIXL Auction price is the same as that of a Complex Order on the Complex

Order Book on the same side of the market as the Complex PIXL Order, the PIXL Order may

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

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

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other participant) of the contracts remaining at the final price point (including situations
where the final price is the stop price), after public customer Complex Orders and PAN
responses have been satisfied. See id.

[28] See proposed Phlx Rule 1080(n)(ii)(E)(2)(e)(ii).

[29] See, supra note 19 and accompanying text.

[30] See proposed Phlx Rule 1080(n)(ii)(C), and supra note 24 and accompanying text. See
also Notice, 78 FR at 28658 for an example of Complex PIXL Order execution and
allocation when the cPBBO or the Complex Order book crosses the Complex Order
PIXL stop price on the same side as the Complex PIXL Order.

[31] See proposed Phlx Rule 1080(n)(ii)(F).

price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price.[32]

The Exchange believes that that the proposed execution and allocation of Complex PIXL Orders ensures and maintains the priority of established interest as Complex PIXL Orders must be stopped at a price which improves upon all interest in the Phlx XL system at the time of receipt.[33] The Exchange also notes that the proposed allocation system for Complex Order PIXL Auctions ensures that public customer Complex Order interest will maintain priority over non-public customer Complex Order interest, and public customer interest comprising the cPBBO will be afforded priority over non-public customer interest comprising the cPBBO.[34] However, public customer interest comprising the cPBBO will not have priority over Complex Order or PAN response interest.[35] The Exchange believes that because all participant types, including public customers, may respond to an Auction notification, public customer interest comprising

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[32] See proposed Phlx Rule 1080(n)(ii)(H). See also Notice, 78 FR at 28658 for an example of Complex PIXL Order execution pursuant to this provision. This rule is similar to existing Phlx Rule 1080(n)(ii)(G), which includes a parallel provision for simple order PIXL Auctions. Phlx also proposes modifying Phlx Rule 1080(n)(ii)(G) such that, if there is an order on the limit order book, on the same side of the market as the PIXL Order, which is "equal to or crosses" the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price. Currently, this rule provides that the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price only if there is an order on the limit order book on the same side of the market as the PIXL Order which crosses the stop price. See Phlx Rule 1080(n)(ii)(G).

[33] See Notice, 78 FR at 28659. The Exchange notes that, in the event that the individual components of the Complex PIXL Order independently improve during the Auction and new interest is received during the Auction, Complex Orders and PAN responses will be afforded priority over individual component interest comprising the cPBBO at a given price point just as Auction responses and Complex Orders are afforded priority over individual components of a Complex Order that independently improve during a Complex Order Live Auction ("COLA"). See id.

[34] See Notice, 78 FR at 28659.

[35] See id.

the cPBBO that choose not to avail themselves of the opportunity to participate in the Auction

should not be afforded priority over participants offering contra-side interest to a Complex PIXL

Order for all of its components at the same price point in the Complex Order PIXL Auction.[36]

### C.    Complex PIXL Orders with Stock/ETF Components

The Exchange proposes that Complex PIXL Orders may consist of a stock/ETF

component, but such Complex PIXL Orders will only execute against Complex Orders or PAN

responses that also include the stock/ETF component,[37] and will not execute against interest

comprising the cPBBO at the end of the Auction.[38]  The proposal further specifies that member

organizations may only submit Complex PIXL Orders, Initiating Orders, Complex Orders,

and/or PAN responses with a stock/ETF component if such orders/responses comply with the

Qualified Contingent Trade Exemption from Rule 611(a)[39] of Regulation NMS pursuant to the

Act.[40]  The proposal also provides that where one component of a Complex PIXL Order,

Initiating Order, Complex Order, or PAN response is the underlying security, the Exchange shall

electronically communicate the underlying security component of a Complex PIXL Order

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[36]    See id.

[37]    See id. at 28660.

[38]    See proposed Phlx Rule 1080(n)(ii)(E)(2)(g).

[39]    See 17 CFR 242.611(a).

[40]    See proposed Phlx Rule 1080(n)(ii)(J)(1).  The Exchange further provides that member organizations submitting such orders with a stock/ETF component represent that such orders comply with the Qualified Contingent Trade Exemption.  See id.  Members of FINRA or the NASDAQ Stock Market ("NASDAQ") are required to have a Uniform Service Bureau/Executing Broker Agreement ("AGU") with Nasdaq Options Services LLC in order to trade orders containing a stock/ETF component; firms that are not members of FINRA or NASDAQ are required to have a Qualified Special Representative ("QSR") arrangement with Nasdaq Options Services LLC ("NOS") in order to trade orders containing a stock/ETF component.  See id.

(together with the Initiating Order, Complex Order, or PAN response, as applicable) to NOS, the

Exchange's designated broker-dealer, for immediate execution.[41]

In addition, the Exchange proposes to provide that when the short sale price test in Rule

201 of Regulation SHO[42] is triggered for a covered security,[43] NOS will not execute a short sale

order in the underlying covered security component of a Complex PIXL Order, Initiating Order,

Complex Order, or PAN response if the price is equal to or below the current national best bid.[44]

However, NOS will execute a short sale order in the underlying covered security component of a

Complex PIXL Order, Initiating Order Complex Order, or PAN response if such order is marked

"short exempt," regardless of whether it is at a price that is equal to or below the current national

best bid.[45] If NOS cannot execute the underlying covered security component of a Complex

PIXL Order, Initiating Order, Complex Order, or PAN Response in accordance with Rule 201 of

Regulation SHO, the Exchange will cancel back the Complex PIXL Order, Initiating Order,

Complex Order, or PAN Response to the member organization that submitted it.[46]

III.    Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent

with the requirements of the Act and the rules and regulations thereunder applicable to a

national securities exchange.[47] In particular, the Commission finds that the proposed rule change

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[41]    See proposed Phlx Rule 1080(n)(ii)(J)(2).

[42]    17 CFR 242.201.

[43]    For the purposes of the Exchange's proposed rule change, the term "covered security" has the same meaning as in Rule 201(a)(1) of Regulation SHO. See 17 CFR 242.201(a).

[44]    See proposed Phlx Rule 1080(n)(ii)(J)(3).

[45]    See id. See also Notice, 78 FR at 28661.

[46]    See proposed Phlx Rule 1080(n)(ii)(J)(3).

[47]    In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

is consistent with Section 6(b)(5) of the Act,[48] which requires, among other things, that the rules

of a national securities exchange be designed to prevent fraudulent and manipulative acts and

practices, to promote just and equitable principles of trade, to foster cooperation and

coordination with persons engaged in regulating, clearing, settling, processing information with

respect to, and facilitating transactions in securities, 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; and not be designed to permit unfair discrimination between

customers, issuers, brokers or dealers.

By allowing Phlx members to enter complex orders into the PIXL Auction, the

Commission believes that the proposal could provide opportunities for complex orders to receive

price improvement. Under the proposal, a complex order entered into the PIXL Auction must be

of a conforming ratio and must be stopped at a price that is better than the best net price (debit or

credit) (1) available on Phlx's Complex Order book regardless of the Complex Order book size;

and (2) achievable from the best Phlx bids and offers for the individual options (an "improved

net price"), provided in either case that such price is equal to or better than the PIXL Order's

limit price.[49] As noted above, an Initiating Members enters a PIXL Order in the Complex Order

PIXL Auction with an Initiating Order for the full size of the PIXL Order.[50] At the conclusion of

the PIXL Auction, the PIXL Order is executed in full at the best prices available, taking into

consideration orders and quotes in the Phlx market, PAN responses, and the Initiating Order.

Thus, a complex order entered into a Complex Order PIXL Auction would receive an execution

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[48]     15 U.S.C. 78f(b)(5).

[49]     See proposed Phlx Rule 1080(n)(i)(C); see also Notice, 78 FR at 28657 for an example of
         an eligible Complex Order on PIXL.

[50]     Phlx Rule 1080(n)(i) and 1080(n)(ii)(A).

at the best price available at the conclusion of the Auction and, at a minimum, would be executed in full at the improved net price. In addition, if an improved net price for a complex order entered in a Complex Order PIXL Auction could be achieved from bids and offers for the individual legs of the complex order in the Phlx's market, the complex order would be executed at the better net price.

The Commission notes that the complex order spread priority rules contained in Phlx Rule 1080, Commentary .08(c)(iii), will continue to apply to Complex PIXL Orders.[51] By requiring that a Complex PIXL Order be stopped at a net debit/credit price which improves upon the stated markets present for the individual components of the Complex PIXL Order, the Exchange ensures that at least one option leg will be executed at a better price than the established bid or offer for such leg.

As described more fully above, the Exchange's proposal provides specific rules for Complex PIXL Orders which have a stock or ETF component.[52] The Commission believes that proposed Phlx Rule 1080(n)(ii)(J) is similar to the rules related to complex orders with stock/ETF components previously adopted by the Exchange in connection with Phlx's COLA.[53] The Commission notes that proposed Phlx Rule 1080(n)(ii)(J)(3) is designed to ensure compliance with Rule 201 of Regulation SHO, in particular with respect to the obligations of trading centers, such as the Exchange and NOS, under Regulation SHO.[54]

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[51]    See Notice, 78 FR at 28657.

[52]    See generally Section II.C.

[53]    See e.g., Phlx Rule 1080.08(h) and proposed Phlx Rule 1080(n)(ii)(J)(3). See also Securities Exchange Act Release No. 63777 (January 26, 2011), 76 FR 5630 (February 1, 2011) (approving complex orders with stock/ETF components for trading on Phlx's COLA).

[54]    See supra notes 39-46.

IV.     Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[55] that the

proposed rule change (SR-Phlx-2013-46), as amended, be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated

authority.[56]

Kevin M. O'Neill
Deputy Secretary

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[55]     15 U.S.C. 78s(b)(2).

[56]     17 CFR 200.30-3(a)(12).