SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-75189; File No. SR-Phlx-2015-49)

June 17, 2015

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing of Proposed Rule Change to Rule 1080.07

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on June 5, 2015, NASDAQ OMX PHLX LLC ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("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 and correct Rule 1080.07 in a number of ways, as described further 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.

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

2 17 CFR 240.19b-4.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant parts 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 amend and correct certain rule text and provide additional clarity to Phlx Participants regarding the trading of Complex Orders on the Exchange. The Exchange's Complex Order System ("System"), which is governed by Rule 1080.07 includes an opening process called the Complex Order Opening Process or "COOP," the Complex Order Live Auction ("COLA"), an automated auction for seeking additional liquidity and price improvement for Complex Orders, and a Complex Limit Order book, the CBOOK.

Except for the time period referred to in Rule 1080.07(f)(i)(F) and the acceptance and treatment of all-or-none orders (both of which are discussed below), the Exchange proposes to correct several inconsistencies between the existing Complex Orders rule, Rule 1080.07, and the operation of the Complex Orders System today.

Opening Inconsistencies

First, the Exchange proposes to amend the rule text applicable to its opening process. Specifically, Rule 1080.07(d) currently provides for performing a COOP Evaluation in order to identify a COLA-eligible order and then operating an auction respecting that order, similar to the way the COLA operates.[3] The Exchange proposes to amend Rule 1080.07(d) to reflect that the System operates the opening auction process for Complex Orders differently than the COLA.[4] Specifically, the COOP identifies a price at which the maximum number of contracts can trade on the opening based on interest received in the Complex Order Strategy.[5] Thus, the COOP operates like a traditional opening process for non-Complex Orders (meaning, single leg orders), considering buys and sells, taking all interest into account (without bias toward any participant) to determine which interest is executable and identifying any imbalance. [6]

Despite the current rule text, a Complex Order on the opening would not have been designated as the COLA-eligible Order with priority over all other same-side orders. Instead, such order would have been considered for execution alongside other same-priced same-side orders received in the same Complex Order Strategy, both before and during the COOP, consistent with a normal opening process. Specifically, for each Complex Order Strategy, the System will take into consideration all Complex Orders, identify the price at which the maximum number of contracts can trade and calculate the imbalance, if any, as follows:

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3 The COLA is an auction intended to solicit interest in a particular Complex Order other than on the opening. See Rule 1080.07(e).

4 The rule provides that the System determines which Complex Order, if any, on the CBOOK will be the "COLA-eligible order" subject to a COLA. This is not correct.

5 A Complex Order Strategy means a particular combination of components of a Complex Order and their ratios to one another. The Exchange will calculate both a bid price and an offer price for each Complex Order Strategy based on the current PBBO (as defined below) for each component of the Complex Order. Each Complex Order Strategy will be assigned a strategy identifier by the System. See Rule 1080.07(a)(ii).

6 An imbalance is the number of contracts that cannot be matched with other interest at a particular price. See e.g. NOM Chapter VI, Section 8(a)(1).

- Pursuant to existing Rule 1080.07(d)(i), the System will accept pre-opening Complex Orders, and will accept Complex Orders prior to re-opening following a halt in trading on the Exchange. Complex Orders received prior to the opening or during a trading halt will reside on the CBOOK (as defined above). There will be one such COOP per Complex Order Strategy. These provisions are not changing.
- Rule 1080.07(d)(ii) will be amended to add reference to a timer. Specifically, new rule text will provide that once trading in each option component of a Complex Order Strategy has opened (or re-opened following a trading halt) for a certain configurable time not to exceed 60 seconds[7] (and none of the conditions described in Rule 1080.07(c)(ii) exist),[8] the System will initiate the COOP, provided that a COOP will only be conducted for any Complex Order Strategy that has a Complex Order received before the opening[9] of that Complex Order Strategy. The Exchange is proposing to add new rule text to provide that the Exchange will not conduct a COOP when a particular Complex Order Strategy is already open as a result of another electronic auction process, such as PIXL

7 This is known as the opening delay timer, which is intended to allow a brief period of time for the prices for the various series of an option to stabilize after the opening of those series.

8 These include: the Complex Order is received prior to the opening on the Exchange of any options component of the Complex Order; during an opening rotation for any options component of the Complex Order; during a trading halt for any options component of the Complex Order; when the Exchange's Risk Monitor Mechanism is engaged for any options component of the Complex Order that represents all of the PBBO pursuant to Rule 1093; or when the Exchange's market for any options component of the Complex Order is disseminated pursuant to Rule 1082(a)(ii)(B).

9 Currently, the Rule provides that the COOP is conducted if a Complex Order is pending at the opening or re-opening. However, such Complex Order may no longer be pending (perhaps it was canceled), such that a COOP is actually triggered by *receipt* of the order.

pursuant to Rule 1080(n) or the Exchange's Solicitation mechanism or if another electronic auction involving the same Complex Order Strategy is in progress.[10] If that Complex Order Strategy is already open, a COOP is not needed and will not occur.

- The Exchange is also proposing to add to Rule 1080.07(d)(ii) that following a trading halt, a COOP will be conducted for any Complex Order Strategy where a Complex Order was received before or during a trading halt or that Complex Order Strategy had previously opened prior to the trading halt.
- The COOP will be conducted in two phases, the "COOP Timer" (as defined below) and the "COOP Evaluation" (also defined below). A COOP can be occurring at the same time in different Complex Order Strategies.
- To add specificity, the Exchange is proposing to add to Rule 1080.07(d)(ii)(A)(1) that the Exchange will send a broadcast message indicating that a COOP has been initiated. The broadcast message will identify the Complex Order Strategy,[11] the opening price (based on the maximum number of contracts that can be executed at one particular price, except if there is no price at which any orders can be executed), and the imbalance side and volume, if any. This broadcast message is called the Complex Order Opening Auction Notification and is sent over an order

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[10] See SR-Phlx-2014-66.

[11] Each Complex Order Strategy has an identifier. See Rule 1080.07(a)(ii).

feed, PHLX Orders, which contains Complex Order information, as well as over the Specialized Quote Feed ("SQF").[12]

- Pursuant to Rule 1080.07(d)(ii)(A)(1), the Complex Order Opening Auction Notification starts a COOP Timer, which will begin counting a number of seconds during which the Complex Order, if any, may not be traded. The COOP Timer is configurable to a period ranging from 0 to 600 seconds as determined by the Exchange and communicated to Exchange membership on the Exchange's website. The COOP Timer will be configured for the same number of seconds for all options trading on the Exchange. During the COOP Timer, Phlx XL Participants can submit responses to the Complex Order Opening Auction Notification pursuant to subparagraph (B).

The Exchange is proposing to delete Rule 1080.07(d)(ii)(A)(2), which currently provides that the System will not engage the COOP Timer upon re-opening Complex Order trading when either: (a) the Exchange's automated execution system was disengaged and subsequently re-engaged, or (b) the Phlx XL Risk Monitor Mechanism was engaged and subsequently disengaged. It further provides that, instead, the System will immediately begin the COOP Evaluation and will not initiate the COOP Timer. This provision is incorrect and obsolete because the Exchange does not and cannot disengage its automatic execution system; automatic execution is a fundamental aspect of the System. With respect to the Risk Monitor Mechanism, its operation has no impact on the COOP Timer.

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12 Securities Exchange Act Release Nos. 60877 (October 26, 2009), 74 FR 56255 (October 30, 2009) (SR-Phlx-2009-92) and 66993 (May 15, 2012), 77 FR 30043 (May 21, 2012)(SR-Phlx-2012-63) (addressing TOPO Plus Orders/PHLX Orders).

The Exchange proposes to amend Rule 1080.07(d)(ii)(A)(4) to specify in more detail that Complex Orders received prior to the COOP Timer and Complex Orders received during the COOP Timer (other than COOP Sweeps and Complex Order Responses marked as a response) will be visible to Phlx XL participants upon receipt.

Opening - Immediate-or-Cancel Orders and DNA Orders

Currently, Complex Orders marked as Immediate-or-Cancel ("IOC") [13] and Do Not Auction ("DNA") [14] can be submitted. The Exchange proposes to adopt into Rule 1080.07(d)(ii)(A)(5) how both IOC and DNA orders are handled on the opening. Complex Orders marked as IOC or DNA received before the COOP is initiated will be cancelled and will not participate in the COOP; however, a COOP will nevertheless occur in that Complex Order Strategy. The Exchange believes that it is appropriate for the COOP to occur even though the IOC or DNA order that triggered it is cancelled,[15] because the opening process is intended to open key strategies in which participants are interested. From a system perspective and as a practical matter, not every Complex Order Strategy can be opened each day, as there are millions of possible permutations, based on the number of options and option series available for trading today. This way, the System can focus on the Complex Order Strategies that attract interest and prepare to open those, making them available for trading on a particular day.

The Exchange believes it is appropriate for the COOP to occur, because responsive interest on both sides of the market can nevertheless trade against other responding interest. In

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13 See Rule 1080.07(b)(i) – (iii).

14 See Rule 1080.07(a)(viii).

15 A Complex Order Opening Auction Notification is sent with a price and size of zero, and a buy side.

fact, today, if an order that is not an IOC order (like a Day order) initiates a COOP and then is cancelled by the entering participant before the end of the COOP, responsive interest can nevertheless trade.

IOC and DNA orders are handled differently when received *during a COOP*. IOC Complex Orders received during a COOP will join the COOP and be treated like any other Complex Order, except such orders will be cancelled at the end of the COOP Timer if not executed. This is intended to try to execute the order, because the order may be responding to the Complex Order Opening Auction Notification. The Exchange notes that IOC Complex Orders are handled similarly in the Exchange's PIXL system for similar reasons;[16] that is, an attempt is made to execute the IOC Complex PIXL order, and therefore there is a delay in executing the order, even though it is marked IOC. Accordingly, the Exchange does not believe that participants will be surprised about this handling.

The Exchange also notes that participants who want their order handled in a more immediate way during a COOP can submit a DNA order, which would not join a COOP that is in progress and instead be cancelled right away, because that would involve a delay. Consistent with the rule language that DNA Orders are cancelled if not immediately executed,[17] DNA Orders do not participate in a COOP.

Opening - Responses During COOP Timer.

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16 See Phlx Rule 1080(n) governing PIXL; the Exchange notes that this provision does not expressly describe how IOC orders are handled.

17 See Phlx Rule 1080.07(a)(viii)(B).

Pursuant to proposed Rule 1080.07(d)(ii)(B), Phlx XL participants[18] may bid and/or offer on either or both side(s) of the market during the COOP Timer by submitting one or more Complex Orders ("Complex Order Response"). In addition, Phlx XL market makers[19] may also bid and/or offer on either or both side(s) of the market during the COOP Timer by submitting one or more COOP Sweeps. The Exchange is proposing to codify COOP Sweeps in Rule 1080.07(d)(ii)(B). COOP Sweeps are one-sided and always have a limit price. Like COLA Sweeps, COOP Sweeps can only be entered by Phlx XL market makers, participants who quote electronically as market makers for their own account (SQTs, RSQTs and specialists). Because non-SQT ROTs do not quote electronically, they cannot enter COOP Sweeps or COLA Sweeps, which are electronic.[20] Specifically, a COOP Sweep is a one-sided electronic quotation for execution against opening trading interest in a particular Complex Order Strategy; this definition is proposed to be added to the rule text.[21]

The Exchange believes it is appropriate to permit Phlx XL market makers to submit COOP Sweeps, in addition to Complex Orders, for several reasons. Today, Phlx XL market makers are the only participants who can submit quotes, sweeps of non-Complex Orders, COLA

[18] This term is currently defined in Rule 1080.07(a)(vii) as Streaming Quote Traders ("SQTs"), Remote Streaming Quote Traders ("RSQTs"), non-SQT Registered Options Traders ("non-SQT ROTs"), specialists and non-Phlx market makers on another exchange; non-broker-dealer customers and non-market-maker off-floor broker-dealers; and Floor Brokers using the Options Floor Broker Management System. Once amended to include Firms (as proposed herein), this term will cover all potential users of the Complex Orders system.

[19] This is a new term that the Exchange believes will help distinguish Phlx XL market makers (which include specialists, SQTs and RSQTs) from other types of Phlx participants. See proposed Rule 1080.07(a)(vii).

[20] See Rule 1014(b)(ii)(C) and Rule 1080.07(e)(ix).

[21] This definition parallels the definition of an opening sweep in Rule 1017(l)(vii)(A).

Sweeps and COOP Sweeps ("Sweeps").[22] All of these, including COOP Sweeps, are submitted over the Specialized Quote Feed, SQF, which is a method of submitting quoting information and receiving information back about those quotes and Sweeps. Quotes and Sweeps can only be submitted over SQF, the quoting protocol, because this protocol is designed to handle quotes and Sweeps. Some Phlx XL market makers choose to submit their interest in the form of a Complex Order, which is submitted through a different interface than SQF and is geared toward the submission of orders (rather than quotes) to the Exchange. The Exchange developed Sweeps in order for Phlx XL market makers to be able to expeditiously submit one-sided responsive interest without having to enter an order, which involves an entirely different protocol and method of entry; this was intended to encourage Phlx XL market makers to submit responsive interest while managing risk, utilizing a single protocol, which should promote just and equitable principles of trade.

There is no advantage to submitting a COOP Sweep versus a Complex Order; Phlx XL market maker interest is handled the same once it is submitted regardless of how it is submitted, including for priority purposes.[23] Furthermore, there is no timing advantage of submitting a COOP Sweep versus a Complex Order (whether for a Phlx XL market maker or not), because none of the interest is processed until after the COOP Timer ends and all Phlx XL market maker interest is executed on a pro-rata basis, not in time priority. Conversely, there is no disadvantage to non-Phlx XL market makers that they cannot submit a COOP Sweep, just like there is no such disadvantage that such participants cannot submit a quote. By definition, Phlx XL market

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22 Although Rule 1080.07(e)(iv) states that Phlx XL participants can submit COLA Sweeps, this is not correct. Only Phlx XL market makers can submit COLA Sweeps. The Exchange proposes to correct this in Rule 1080.07(a)(vii) and (e)(iv).

23 See e.g., proposed Rule 1080.07(d)(ii)(C).

makers submit, and are obligated to submit, quotes; this is the core distinction between market makers and other market participants.

A Phlx XL market maker may submit multiple COOP Sweeps at different prices (but not multiple COOP Sweeps at the same price, except as provided in sub-paragraph (2)), in increments of $0.01 in response to a Complex Order Opening Auction Notification, regardless of the minimum trading increment applicable to the specific series.[24]

In addition, Phlx XL market makers may change the size of a previously submitted COOP Sweep during the COOP Timer. The System will use the Phlx XL market maker's most recently submitted COOP Sweep at each price level as that market maker's response at that price level, unless the COOP Sweep has a size of zero. A COOP Sweep with a size of zero will remove a Phlx XL market maker's COOP Sweep from that COOP at that price level.[25] COOP Sweeps will not be visible to any participant and will not be disseminated by the Exchange.[26] This is because COOP Sweeps are only available to trade during the COOP and will expire if unexecuted at the end of the COOP Timer once all executions are complete. Similarly, Complex Order Responses are not visible if marked as a response. A Complex Order Response will expire if unexecuted at the end of the COOP Timer once all executions are complete, but a Complex Order submitted during the COOP Timer which is not marked as a response will be available to be traded after the opening of a Complex Order Strategy unless it is marked IOC.

<u>Opening - COOP Evaluation</u>

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[24] <u>See</u> proposed Rule 1080.07(d)(ii)(B)(1).

[25] <u>See</u> Rule 1080.07(d)(ii)(B)(2).

[26] <u>See</u> Rule 1080.07(d)(ii)(B)(3).

Upon expiration of the COOP Timer,[27] the System will conduct a COOP Evaluation to determine, for a particular Complex Order Strategy, the price at which the maximum number of contracts can trade, taking into account Complex Orders marked all-or-none, unless the maximum number of contracts can only trade without including all-or-none orders.[28] The Exchange will open at that price, executing marketable trading interest, in the following order: first, to non-broker-dealer customers in time priority; next to Phlx XL market makers on a pro-rata basis; and then to all other participants on a pro-rata basis.[29] The imbalance of Complex Orders that are unexecutable at that price are placed on the CBOOK.

The following examples illustrate the handling of an all-or-none order on the opening.

Example 1:

Complex Order #1: Buy 40 for $1.05 AON customer

Complex Order #2: Buy 30 for $1.05 customer

Complex Order #3: Buy 20 for $1.05 customer

Complex Order #4: Sell 50 at $1.04 AON customer

The result is that Complex Order #4 will trade against the full size of Complex Order #1 (because it was first) and 10 contracts of Complex Order #2.

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27 See Rule 1080.07(d)(ii)(C).

28 The Exchange stopped accepting all-or-none Complex Orders on March 17, 2014 in order to align the System with the rule. The Exchange has incorporated a definition of all-or-none orders in Securities Exchange Act Release No. 72351 (June 9, 2014), 79 FR 33977 (June 13, 2014)(SR-Phlx-2014-39). Now, the Exchange proposes to begin accepting them again and explain how they are handled, including how they are treated on the opening and that they do not leg. See Rule 1080.07(d)(ii)(C), (e)(vi)(A)(1) and (f)(iii)(A).

29 This is consistent with the Exchange's normal priority allocation process. See e.g., Rule 1080.07(e)(vi)(B) and Rule 1014(g)(vii).

Example 2:

Complex Order #1: Buy 40 for $1.05 AON customer

Complex Order #2: Buy 30 for $1.05 customer

Complex Order #3: Buy 20 for $1.05 customer

Complex Order #4: Sell 20 at $1.04 AON customer

The result is that Complex Order #4 will trade against 20 contracts of Complex Order #2 since the all-or-none contingency of Order #1 cannot be satisfied.

Opening - No trade possible. If at the end of the COOP Timer the System determines that no market or marketable limit Complex Orders or COOP Sweeps, Complex Orders or COOP Sweeps that are equal to or improve the cPBBO,[30] and/or Complex Orders or COOP Sweeps that cross within the cPBBO exist in the System, all Complex Orders received during the COOP Timer will be placed on the CBOOK, as described in Rule 1080.07(f). This is because, without an opening execution possible based on the prices of orders and COOP Sweeps in a particular strategy, such Complex Orders shall rest on the CBOOK for potential execution later while COOP Sweeps expire.

Opening - Trade is possible. If at the end of the COOP Timer the System determines that there are market or marketable limit Complex Orders or COOP Sweeps, Complex Orders or COOP Sweeps that are equal to or improve the cPBBO, and/or Complex Orders or COOP Sweeps that cross within the cPBBO in the Phlx XL System, the System will do the following:

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30 The term "cPBBO" means the best net debit or credit price for a Complex Order Strategy based on the Phlx Best Bid and/or Offer ("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. The cPBBO is a calculated number and does not include orders on the CBOOK or interest on other exchanges. See Rule 1080.07(a)(iv).

if such interest crosses and does not match in size, the execution price is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding), provided, however, that if there is more than one price at which the interest may execute, the execution price when the larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment.[31] If the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment. This process maximizes the interest which is traded during the opening process and delivers a rational price for the available interest on the opening. The opening price logic maximizes the number of contracts executed during the opening process and ensures that residual contracts of partially executed orders or quotes are at a price equal to or inferior to the opening price, in other words, the logic ensures there is no remaining unexecuted interest available at a price which crosses the opening price. If multiple prices exist that ensure that there is no remaining unexecuted interest available through such price(s), the opening logic chooses the midpoint of such price points.

In determining the execution price and which interest will trade, the System affords priority to customers on the opening as well. Executable bids/offers include any interest which could be executed without trading *through* residual interest or the cPBBO, or without trading *at* the cPBBO where there is non-broker-dealer customer interest. This is consistent with Rule 1080.07(c)(iii).

To illustrate "*if such interest crosses and does not match in size, the execution price is based on the highest (lowest) executable offer (bid) price when the larger sized interest is*

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[31] See Rule 1080.07(d)(ii)(C)(2).

offering (bidding)" as referenced above, assume the following is present at the end the COOP Timer for a given Complex Order Strategy:

cPBBO = 3.50 (10) – 3.90 (10)

Complex Order #1: Buy 30 for $3.79

Complex Order #2: Sell 20 at $3.56

COOP Opening execution will be for 20 strategies at a price of $3.79 because there were more contracts to buy than there were to sell. In this example, while there are multiple price points at which the System can open the same number of contracts, there is only one price point, $3.79, at which there will be no residual contracts available after the opening process at a price which crosses the opening price. After the System executes 20 strategies at $3.79, there will remain 10 unexecuted strategies to buy for $3.79.

If the example were changed slightly such that Complex Order #1 was a market order instead of a limit order, the market order is limited by the cPBBO assuming no customer interest is present, and the COOP execution price for 20 strategies would be $3.90. The remaining 10 strategies of Complex Order #1 will then leg to the simple market at $3.90.

To illustrate "*if there is more than one price at which the interest may execute, the execution price when the larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment"* as referenced above, assume the following is present at the end the COOP Timer for a given Complex Order Strategy:

cPBBO = 3.50 (10) – 3.90 (10)

Complex Order #1: Buy 20 for $3.79 Complex Order #4: Sell 20 at $3.60

Complex Order #2: Buy 20 for $3.77 Complex Order #5: Sell 20 at $3.62

Complex Order #3: Buy 20 at $3.74

COOP Opening execution will be for 40 strategies at a price of $3.76. The execution price of $3.76 is derived from the midpoint of the lowest executable bid price of $3.74 and the next available executable bid price of $3.77, rounded up to the closest minimum trading increment. In this example, 40 strategies can be opened at multiple price points ranging from $3.74 up to $3.77. None of these potential opening prices will cause the unexecuted $3.74 buy order to be available at a price which crosses the opening price, therefore, the System opens at the midpoint of such prices, $3.76.

If the example were changed slightly such that Complex Order #1 and Complex Order #2 were market orders instead of a limit orders, the COOP Opening execution price for the 40 strategies would be $3.82, which is the midpoint of the potential opening prices ranging from $3.74 to $3.90.

To illustrate "*if the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment*" as referenced above, assume the following is present at the end the COOP Timer for a given Complex Order Strategy:

cPBBO = 3.50 (10) – 3.90 (10)

Complex Order #1: Buy 10 for $3.78

Complex Order #2: Buy 20 for $3.74

Complex Order #3: Buy 10 at $3.71

Complex Order #4: Sell 20 at $3.64

Complex Order #5: Sell 20 at $3.66

COOP Opening execution will be for 40 strategies at a price of $3.69. The execution price of $3.69 is derived from the midpoint of the lowest executable bid price of $3.71 and the highest executable offer price of $3.66, rounded up to the closest minimum trading increment. If the example were changed slightly such that Complex Order #4 and Complex Order #5 were market orders rather than limit orders, the COOP Opening execution price for the 40 strategies would be $3.61, which is derived from the midpoint of the lowest executable bid price of $3.71 and the highest executable offer of $3.50, rounded to the closest minimum trading increment.

To illustrate the application of the Acceptable Complex Execution (ACE) parameter as defined in Rule 1080.07(i), assume the following is present at the end the COOP Timer for a given Complex Order Strategy:

ACE Parameter of $0.05

cPBBO = 3.50 (10) – 4.00 (10)

cNBBO = 3.70 (10) – 3.90 (10)

Complex Order #1: Buy 10 for $3.78	Complex Order #4: Sell 20 at market
Complex Order #2: Buy 20 for $3.74	Complex Order #5: Sell 20 at market
Complex Order #3: Buy 10 at $3.71	

The COOP Opening execution may not occur more than $0.05 outside of the cNBBO, and thus cannot occur at a price of less than $3.65 or more than $3.95. In this case, Complex Order #4 and Complex Order #5 will both be considered in determining the COOP Opening execution price as orders to sell limited by the contra side cNBBO ACE limit of $3.65. Therefore, the COOP Opening execution price for the 40 strategies would be $3.68, which is derived from the midpoint of the lowest executable bid price of $3.71 and the highest executable offer of $3.65.

If there is any remaining interest after complex interest has traded against other complex interest and there is no component that consists of the underlying security,[32] such interest may "leg" whereby each options component may trade at the PBBO with existing quotes and/or limit orders on the limit order book for the individual components of the Complex Order; provided that remaining interest may execute against any eligible Complex Orders received before legging occurs.[33] If the remaining interest has a component that consists of the underlying security or is an all-or-none Complex Order, such Complex Order will be placed on the CBOOK. Although the current rule text does not provide for legging on the opening, the System is currently programmed to consider whether legging is possible in order to maximize the number of executions. Accordingly, the Exchange proposes to add rule text regarding legging to Rule 1080.07(d)(ii)(C)(2).

The Exchange also proposes to add that the Complex Order Strategy will be open for trading after the COOP even if no executions occur. This is intended to attract additional interest to a Complex Order Strategy. If additional interest arrives, the Exchange does not believe another COOP is needed, because such interest will under the normal processes of the System either be subject to a COLA, be placed on the CBOOK (both of which are disseminated), or be cancelled.

Other Inconsistencies

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32 Complex Orders that are not executable at the opening price, including those that could not leg because there is a component that consists of the underlying security, will be placed on the CBOOK. See proposed Rule 1080.07(d)(ii)(C).

33 Remaining interest includes Complex Orders that did not execute at the opening price and are therefore on the CBOOK and available to be traded before legging occurs as well as any new interest that may have arrived during the legging process.

Second, Rule 1080.07(e)(vi)(C) currently provides that when executing against the COLA-eligible order after a COLA, a participating specialist shall be entitled to receive, respecting an option in which he is the specialist, the greater of: (1) the proportion of the aggregate size at the cPBBO associated with such specialist's COLA Sweep, SQT and RSQT COLA Sweeps, and non-SQT ROT Complex Orders on the CBOOK;[34] (2) the Enhanced Specialist Participation as described in Rule 1014(g)(ii)[35] (60/40/30%); or (3) 40% of the remainder of the order.[36]

The Exchange proposes to better define a COLA Sweep in Rule 1080.07(e)(iv). Specifically, a COLA Sweep, similar but not identical to a COOP Sweep,[37] is a one-sided electronic quotation submitted for execution against other trading interest in a particular Complex Order Strategy. Any COLA Sweeps which remain unexecuted at the end of the COLA Timer once all executions are complete will expire.

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34 This is commonly known as size pro-rata allocation.

35 Rule 1014(g)(ii) provides that when the registered specialist is on parity with a controlled account, in accordance with Exchange Rules 119 and 120 and the number of contracts to be bought or sold is greater than five, the specialist is entitled to receive an enhanced participation of 30% of the Remainder of the Order ("Enhanced Specialist Participation"), except in the following circumstances: (1) where there is one controlled account on parity, the specialist is entitled to receive 60% of the Remainder of the Order; or (2) where there are two controlled accounts on parity, in which case, the specialist is entitled to receive 40% of the Remainder of the Order. See also ISE Rule 722.05.

36 A specialist is not entitled to this enhanced allocation in options in which he is not registered as the specialist.

37 See proposed Rule 1080.07(d)(ii)(B).

The Exchange proposes to amend Rule 1080.07(e)(vi)(C) to eliminate the 40% component, because it does not currently operate.[38] The Exchange believes that the 40% language being deleted may have been an error, because, given the "greater of" language in this provision, the 30% guarantee would never have operated. Accordingly, the Exchange proposes to amend this provision to reflect that the specialist would be entitled to receive the greater of: (1) the proportion of the aggregate size associated with such specialist's COLA Sweep, SQT and RSQT COLA Sweeps, and non-SQT ROT Complex Orders on the CBOOK; or (2) the 60/40/30% Enhanced Specialist Participation described in Rule 1014(g)(ii). The Exchange believes that the specialist guarantee of 60/40/30% is a sufficient incentive for participants to become specialists and make continuous markets in individual options. The Exchange notes that this is the same enhanced pro-rata specialist allocation that applies to non-Complex Orders.[39]

In addition, the Exchange proposes to amend Rule 1080.07(e)(vi)(C) to correct it by deleting the limitation of aggregating size only at the cPBBO; the size of the specialist's COLA Sweep, SQT and RSQT COLA Sweeps, and non-SQT ROT Complex Orders on the CBOOK are all aggregated at the execution price, regardless whether the price is at cPBBO or not. Today, the System looks at all of a specialist's COLA Sweeps at a particular price, not just at the cPBBO and compares it to all other Phlx XL market maker interest at that price, so the Exchange proposes to correct the rule.

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38 Because the minimum 40% allocation did not operate, the specialist may have received less of an allocation than expected when executing against COLA-eligible interest in a limited number of situations.

39 Unlike regular, single component options listed and traded on the Exchange, Complex Orders do not have a specialist or required market maker providing continuous markets. Complex Orders operate as an order-driven process, with the prices derived from the prices of the individual components.

In short, the Specialist would be entitled to receive the greater of: (1) the proportion of the aggregate size associated with such specialist's COLA Sweep, SQT and RSQT COLA Sweeps, and non-SQT ROT Complex Orders on the CBOOK; or (2) the 60/40/30% Enhanced Specialist Participation described in Rule 1014(g)(ii). The Exchange believes that the specialist guarantee of 60/40/30% is a sufficient incentive for participants to become specialists and make continuous markets in individual options. The Exchange notes that this is the same enhanced pro-rata specialist allocation that applies to non-Complex Orders.[40]

Furthermore, pursuant to Rule 1080.07(e)(vi)(B), for allocation purposes, the rule states that the size of a COLA Sweep or responsive Complex Order received during the COLA Timer shall be limited to the size of the COLA-eligible order. In actuality, the Exchange will accept size in excess of the COLA-eligible order size and such size can be executed against remaining interest[41] after the COLA-eligible order has been executed to the fullest extent possible.[42] For example, where there is a COLA-eligible order bidding $2.00 for 20 contracts, and the other interest consists of a $2.10 bid for 10 contracts, a $2.10 offer for 10 contracts and a $2.00 offer for 10 contracts, even though only 10 contracts of the COLA-eligible order are executable, the buy and sell orders at $2.10 can nevertheless execute against each other; thus, although the COLA-eligible order was not fully executed, it was executed to the fullest extent possible,[43]

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[40] Rule 1014(g)(vii).

[41] The remaining interest consists of any potential interest that has been received, including orders, quotes and COLA Sweeps, as well as the individual leg market.

[42] The Exchange notes that this reflects an internal inconsistency in this rule, because another sub-paragraph in the rule addresses the execution of remaining bids or offers from the incoming non-customer Complex Order(s). See Rule 1080.07(e)(viii)(C)(2)(e).

[43] The Exchange is replacing the term "in its entirety" with "to the fullest extent possible" respecting COLA-eligible orders, because COLA-eligible orders to [sic] not have to be

which permitted additional executions of responsive interest at a different price, to the benefit of those orders.

As a result, participants would have had a greater opportunity for execution and may have received executions in excess of the COLA-eligible order volume, up to the full size of their order. If the System operated as stated in the current rule text, fewer contracts would have been executed, because fewer contracts would have been available for execution against the COLA-eligible order and other responsive interest. It is likely that some of the interest in that Complex Order Strategy would not have traded but for the ability for COLA Sweeps and Complex Orders to be submitted for any size.

The Exchange is proposing to amend the rule to reflect the current practice and permit the full size of responding interest to trade against non-COLA-eligible interest. This change is intended to have as many contracts trade as possible. The Exchange does not believe that the current size limitation in the rule is useful.[44] The Exchange notes that the size of a COLA Sweep or responsive Complex Order is only relevant where the resulting allocation of a trade is conducted on a pro-rata basis, but not respecting non-broker-dealer customer allocations, which are based on time priority. The Exchange believes that permitting interest in excess of the COLA-eligible volume benefits market participants, because it helps ensure that as many contracts as possible are executed. The Exchange does not believe that there is any negative effect from permitting responsive interest of any size. Although in a pro-rata allocation, a

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fully executed in order for other interest to be executed; such interest might, for example, be at a different price than the price of the COLA-eligible order. See Rule 1080.07(e)(vii), (e)(viii)(B), (e)(viii)(C)(1), (e)(viii)(C)(1)(e), (e)(viii)(C)(2), (e)(viii)(C)(2)(e) and (e)(viii)(C)(3).

44 The Exchange notes that this is similar to NYSEArca Rule 6.91(c)(7), which permits executions above such size.

greater allocation might result, this is not harmful, but rather enhances the liquidity in the marketplace. It should also be noted that the Exchange considers non-responsive interest present in the system when executing and allocating in a COLA and such non-responsive interest is also not restricted to the size of the COLA-eligible volume.

Fourth, Rule 1080.07(e)(viii) determines the price at which orders are executed while Rule 1080.07(e)(vi) determines the execution priority of such orders; the Exchange seeks to make the interaction of these two provisions clearer by adding descriptive language to that effect in Rule 1080.07(e)(viii). Rule 1080.07(e)(viii)(C)(1)(d) currently provides that if multiple customer Complex Orders are received on the opposite side of the market from the COLA-eligible order, customer orders will be executed in the order in which they were received. This provision operates to determine the price at which the COLA-eligible order is executed against customer Complex Orders and defines the allocation algorithm utilized for each type of customer. In the context of determining the execution price of such interest, the Exchange uses the term “customer” to include both non-broker-dealer customer orders as well as non-market maker off-floor broker-dealer orders, because in this context non-market maker off-floor broker-dealer orders seek liquidity and are therefore more like customer orders versus other participants, which generally provide liquidity.

With respect to Rule 1080.07(e)(vi) regarding the allocation within a participant category, the System executes non-broker-dealer customer orders in the order in which they were received and non-market maker off-floor broker-dealer orders on a pro-rata basis at each price level. Thus, non-market maker off-floor broker-dealer orders may have received a higher or lower allocation at a particular price than they would have received in time priority allocation, which is required under the current rule, depending on their particular time and size.

The Exchange proposes to change Rule 1080.07(e)(viii)(C)(1)(d) to reflect that off-floor broker- dealer orders at the same price are executed on a pro-rata basis, consistent with the priority rules applicable in other aspects of the execution of Complex Orders[45] and simple orders.[46]

Fifth, pursuant to Rule 1080.07 (e)(viii)(C)(2)(d), if multiple non-customer[47] Complex Orders are received on the opposite side of the market from the COLA-eligible order, such orders will be executed in the order in which they were received. Instead, the System executes non-customer orders on a pro-rata basis among Phlx market maker interest and then, again on a pro-rata basis, among remaining Phlx XL participants at each price level, as described in Rule 1080.07 (e)(vi)(B). Non-customer orders may have received a higher or lower allocation at a particular price than they would have received in time priority allocation, depending on their particular time and size.

The Exchange proposes to amend the rule to reflect that non-customer orders are executed on a pro-rata basis, consistent with the priority rules applicable in other aspects of the execution of Complex Orders and simple orders.[48]

Sixth, the System recently operated such that when a Complex Order was received during the final 3 seconds of the trading session, it was placed onto the CBOOK.[49] Pursuant to Rule

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[45] See e.g., Rule 1080.07(e)(vi)(B).

[46] See Rule 1014(g)(vii).

[47] In the context of executing these orders, the Exchange uses the term "non-customer" to include all interest other than non-broker-dealer customer interest and non-market-maker off-floor broker-dealer interest.

[48] See supra note 29.

1080.07(f)(i)(F), a Complex Order an order should go on the CBOOK when is received during the final 10 seconds of the trading session, rather than 3 seconds. Accordingly, more Complex Orders may have started a COLA than the rule provides for and were perhaps executed rather than resting on the CBOOK, which the Exchange believes may have been considered a benefit for those orders.

At this time, the Exchange proposes to change the rule to reflect a configurable time period (for all options) to determine how many seconds before the end of the trading session that an order is placed on the CBOOK. The Exchange believes that this should maximize executions rather than applying a fixed time period of 10 seconds. The Exchange will notify participants on its website in advance when the number of seconds will change. The Exchange believes that this is a useful change, because the Exchange believes that 10 seconds may be too long and may prevent executions from occurring; a COLA can be triggered and completed in less than 3 seconds so the Exchange believes a smaller number than 10 seconds is appropriate to maximize executions.

In addition, the Exchange is adding to this provision a reference to any marketable portion of the Complex Order being executed, because the System seeks to execute any portion that can be traded before placing a Complex Order on the CBOOK.

Seventh, after the COLA-eligible order has been executed in its entirety, Rule 1080.07(e)(viii)(C)(3) provides that the execution price of crossing interest is based on the price of the smaller sized interest. Crossing interest refers to any buy or sell interest that crosses in price such that a buyer order is at a higher price than the best sell price, for example. If such

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[49] In order to comply with the current rule, the System was changed on March 7, 2014 to 10 seconds to align with the rule.

interest crosses and does not match in size, the execution price of the remaining interest is based on the highest (lowest) executable offer (bid) price when the larger sized interest is offering (bidding), provided, however, that if there is more than one price at which the interest may execute, the execution price when the larger sized interest is offering (bidding) is the midpoint of the highest (lowest) executable offer (bid) price and the next available executable offer (bid) price rounded, if necessary, down (up) to the closest minimum trading increment. If the crossing interest is equal in size, the execution price is the midpoint of lowest executable bid price and the highest executable offer price, rounded, if necessary, up to the closest minimum trading increment.

In determining the execution price and which interest will trade, the System affords priority to non-broker-dealer customers. Executable bids/offers include any interest which could be executed without trading *through* residual interest or the cPBBO, or without trading *at* the cPBBO where there is non-broker-dealer customer interest. This is consistent with Rule 1080.07(c)(iii).

While participants are "blind" to the determination of the execution price because they do not know the size of all eligible interest, the participants that were part of the smaller sized interest would likely have received a better execution price than the rule states.

The Exchange proposes to amend Rule 1080.07(e)(viii)(C)(3) to reflect the use of larger sized interest, because it is indicative of the price of remaining unexecuted interest. The Exchange believes that this correction and level of detail should help participants understand how their execution prices are determined, and this method is fair and orderly, based on both size and midpoint, which reflect the totality of the remaining interest. This is the same process used in the COOP as proposed in Rule 1080.07(d)(ii)(C)(2).

This provision is also proposed to state that if there is any remaining interest, which means any interest present in the System in that Complex Order Strategy at that time provided that it is not an all-or-none order and there is no component that consists of the underlying security,[50] such interest may "leg" whereby each options component may trade at the PBBO with existing quotes and/or limit orders on the limit order book for the individual components of the Complex Order; provided that remaining interest may execute against any eligible Complex Orders received before legging occurs. This is intended to maximize the number of contracts that execute.

Eighth, Rule 1080.07(b)(i) governs the types of Complex Orders that different participants may submit to the Exchange. The rule does not currently specify a category of participant known as Firms. Because the current rule does not define a Firm, under the current language Firms are broker-dealers that fit the definition of non-market maker off-floor broker-dealer.

At this time, the Exchange is proposing to adopt a definition of Firm in Rule 1080.07(a)(x), based on the current definition in the Phlx fee schedule.[51] Specifically, the Exchange is proposing to define the term "Firm" to mean a broker-dealer trading for its own (proprietary) account that is: (i) a member of The Options Clearing Corporation ("OCC"); or (ii) maintains a Joint Back Office ("JBO")[52] arrangement with an OCC member. Firms are distinct

50 Complex Orders that are not executable, including those that could not leg because there is a component that consists of the underlying security, will be placed on the CBOOK. See proposed Rule 1080.07(d)(ii)(C).

51 See Securities Exchange Act Release No. 62140 (May 20, 2010), 75 FR 29788 (May 27, 2010)(SR-Phlx-2010-69).

52 A member organization can establish and maintain a JBO arrangement with a clearing broker-dealer subject to the requirements of Regulation T Section 220.7 of the Federal

from non-market maker off-floor broker-dealers because of their OCC membership, which implies that Firms, and thus the JBO participants with whom they have established JBO arrangements are large, well-capitalized entities.

The pricing schedule currently provides that Firm means a non-customer broker-dealer for which orders are identified by a member or member organization as clearing in the firm range at OCC.[53] The term "clearing in the firm range at OCC" refers to what type of an account is held at OCC and is commonly used by exchanges.[54] The participants that clear in the firm range at OCC are Firms, including both broker-dealers trading for their own (proprietary) account who are OCC members as well as JBO participants. In contrast, broker-dealers trading for their own (proprietary) account who are *not* OCC members (and do not have a JBO arrangement) must have their trades cleared via an OCC member and do not clear in the firm range.[55] Accordingly, the proposed definition of Firm comports with the definition used in the pricing schedule, with respect to which dozens of proposed rule changes have taken effect based on such pricing differentiation being consistent with the Act, including not being unfairly discriminatory.[56]

In addition, the Exchange proposes to specify the two ways in which Firm orders are handled like Phlx XL market maker orders rather than non-market maker off-floor broker-dealer

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Reserve System if each JBO participant is registered as a broker-dealer, maintains a minimum account equity requirement of $1,000,000, and comply with certain ownership standards. See Rule 703(a)(vi).

53 See preface to Phlx Pricing Schedule.

54 See e.g., http://www.cboe.com/publish/RegCir/RG13-038.pdf.

55 These broker-dealer orders are ultimately cleared as customer orders at OCC.

56 See e.g., Securities Exchange Act Release Nos. 68880 (February 8, 2013), 78 FR 10664 (February 14, 2013) (SR-Phlx-2013-10); and 67189 (June 12, 2012), 77 FR 36310 (June 18, 2012) (SR-Phlx-2012-77).

orders. Specifically, the Exchange proposes to amend Rule 1080.07(e)(i)(B)(1) to provide that Firm orders, like Phlx market maker orders, are not COLA-eligible orders and therefore cannot start a COLA;[57] non-market-maker off-floor broker-dealer orders can start a COLA. In addition, for purposes of Rule 1080.07(e)(viii)(C)(2), Firms orders are proposed to be treated as "non-customer" orders. Specifically, when the System determines how Complex Orders on the opposite side of the market from a COLA-eligible order are executed, the System executes Firm orders on a pro-rata basis along with non-Phlx market maker orders. Non-market-maker off-floor broker-dealer orders are executed along with non-broker-dealer customer orders. In these two ways, Firm orders are proposed to be treated the same way as non-Phlx market makers, rather than the same way as off-floor broker-dealers, because the Exchange believes that the trading style and needs of Firms are more like market makers. Firms are large, well-capitalized broker-dealers trading for their own account, generally submitting large orders, including orders that facilitate their clients' orders or offset often large positions taken to accommodate their customers;[58] in order to do so, Firms must have the financial wherewithal that this role necessitates, which by OCC rule applicable to OCC clearing members, generally requires a certain amount of net capital, risk management procedures addressing certain risks and margin requirements, among other things.[59] Thus, in general, Firms are commonly viewed as providers of liquidity, much like market makers.

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57 See Rule 1080.07(e)(i)(B)(1) which defines a COLA-eligible order. The Exchange is deleting from this provision the requirement that such order improve the cPBBO, because that requirement is already stated in Rule 1080.07(e)(i)(A).

58 Of course, the clients/customers of a Firm could be other broker-dealers.

59 See OCC Rules 301, 311 and 601.

Ninth, the Exchange proposes to accept all-or-none orders[60] and specify how they are handled. The handling of all-or-none orders on the opening is explained above.[61] Specifically, Rule 1080.07(e)(vi)(A)(1) will provide that all-or-none Complex Orders will not leg into the prices of the individual components of such Complex Order. In addition, Rule 1080.07(f)(iii)(A) will similarly provide that all-or-none Complex Orders on the CBOOK will not leg.

Tenth, the Exchange proposes to amend 1080.07(b)(iii) to specify in more detail that only IOC Complex Orders can be accepted by Floor Brokers from SQTs, RSQTs, non-SQT ROTs, specialists, non-Phlx market makers on another exchange and Firms. Currently, this provision refers to broker-dealers or affiliates of broker-dealers; these terms are not used elsewhere in the rule and is thus confusing.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the provisions of Section 6 of the Act,[62] in general, and with Section 6(b)(5) of the Act,[63] in particular, which requires, among other things, that the rules of an exchange be designed to promote just and equitable principles of trade as well as protect investors and the public interest. Specifically, the Exchange is proposing various changes that should promote just and equitable principles of trade, because Complex Orders will be handled in a fair and orderly manner by the System, as

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[60] The Exchange stopped accepting all-or-none Complex Orders on March 17, 2014 in order to align the System with the rule. The Exchange has incorporated a definition of all-or-none orders in Securities Exchange Act Release No. 72351 (June 9, 2014), 79 FR 33977 (June 13, 2014)(SR-Phlx-2014-39).

[61] See proposed Rule 1080.07(d)(ii)(C).

[62] 15 U.S.C. 78f.

[63] 15 U.S.C. 78f(b)(5).

described above. The Exchange believes that the proposed changes are consistent with how participants could reasonably expect that their complex interest should be treated. The various corrections are, together, intended to improve the rule overall. The Exchange believes that this should promote just and equitable principles of trade as well as protect investors and the public interest by making more clear how specifically Complex Orders are handled on the Exchange.

More specifically, the opening changes are intended to promote just and equitable principles of trade by seeking to execute as much interest as possible at the best possible price(s). The opening process maximizes price discovery and liquidity while employing price priority, which the Exchange believes is a fairer process on the opening when dealing with potentially different sources of interest, versus a single Complex Order triggering a COLA during the day's trading. Although the COOP operates differently than the COLA, the Exchange notes that the COOP operates like a traditional opening process, seeking to execute as much interest as possible, which is consistent with just and equitable principles of trade.

The opening delay timer promotes just and equitable principles of trade by allowing options prices to stabilize after the options opening, before permitting Complex Orders to become available for trading. If a particular Complex Order Strategy is already open, the COOP does not occur, which is consistent with just and equitable principles of trade, because there is no need for an opening process. The Complex Order Opening Auction Notification is intended to attract interest to the opening process and encourage the opening of a Complex Order Strategy, like the COLA message is intended to attract interest to the COLA. Accordingly, the Complex Order Opening Auction Notification, which contains the opening price, imbalance, if any, and volume, promotes just and equitable principles of trade.

The change to Rule 1080.07(d)(ii)(B)(3) enumerating that COOP responses are not visible promotes just and equitable principles of trade by making this clear to participants and because the temporary, quick nature of the COOP would not render this information useful. The Complex Order Opening Auction Notification is sufficient notification of the forthcoming opening of a particular Complex Order Strategy.

The Exchange noted above that Complex Orders marked IOC do not participate in an auction that such order may trigger if that order would be the first order in that Complex Order Strategy, thereby opening that Strategy for the day. The Exchange does not believe that this raises regulatory issues, such as the potential for manipulation or abuse relating to the opening auction. The Exchange similarly treats non-Complex Orders marked IOC, in that such orders, if received prior to the opening in an option, are cancelled upon receipt. Thus, the fact that Complex Orders marked IOC do not participate in the opening auction does not raise new concerns for manipulation; today, if a participant enters a DAY or GTC order and then immediately cancels it, an auction will ensue without that order. Accordingly, the Exchange believes that its proposed handling of IOC orders should promote just and equitable principles of trade. Similarly, the proposal addresses how DNA orders are handled, which also promotes just and equitable principles of trade by providing an order type that involves immediate handling.

The Exchange believes that COOP Sweeps, as described above, promote just and equitable principles of trade by providing an opportunity for a single sided quote to be entered by Phlx XL market makers responding to a COOP, much like opening sweeps in Rule 1017 and regular sweeps in Rule 1080. The Exchange does not believe it is unfairly discriminatory for COOP Sweeps to be available only to Phlx XL market makers, because the ability to enter two-sided quotes is also available only to Phlx XL market makers, who use a particular protocol to submit quotes and sweeps to the Exchange. Other Phlx XL participants can submit orders over the protocol specific to orders, specifically IOC orders, which behave in the same manner as a sweep. Accordingly, such other participants are not disadvantaged by the inability to submit sweeps, much like they are not disadvantaged by the inability to submit quotes or sweeps respecting non-Complex Orders.

With respect to the provision in Rule 1080.07(d)(ii)(C)(3) that provides that a Complex Order Strategy will be open after a COOP even if no executions occur, the Exchange believes that this proposed language should promote just and equitable principles of trade by opening a Complex Order Strategy based on the fact that interest was received, regardless of whether the responsive interest resulted in an execution. In addition, it promotes just and equitable principles of trade for the rule to reflect this.

With respect to any priority provisions addressed herein, the proposed treatment is similar to the Exchange's priority rule respecting orders other than Complex Orders, as well as the comparable rules of other options exchanges.[64] This includes allocating to the specialist based on all of his interest at a particular price pursuant to proposed Rule 1080.07(e)(vi)(C), off-floor broker-dealer customer orders on a pro-rata basis pursuant to proposed Rule 1080.07(e)(viii)(C)(1)(d), and to Phlx XL market makers and other non-customers each on a pro-rata basis pursuant to proposed Rule 1080.07(e)(viii)(C)(2)(d). The deletion of the 40% allocation promotes just and equitable principles of trade both by correcting the rule text as well as by rendering meaning to the reference to Rule 1014(g)(ii), which is otherwise pointless.

The deletion of aggregating size only at the cPBBO in Rule 1080.07(e)(vi)(C)(1) for purposes of determining the pro rata allocation promotes just and equitable principles of trade by

64 See Phlx Rule 1014(g)(vii)(B)(1)(b). See also CBOE Rule 6.53C(d)(v).

taking into account all expressed interest (the specialist's COLA Sweep, SQT and RSQT COLA Sweeps and non-SQT ROT Complex Orders on the CBOOK) at each price instead of only at one price, the cPBBO. This should maximize the number of contracts executed, to the benefit of those participating in that Complex Order Strategy.

The change to Rule 1080.07(e)(vi)(B) permitting responses for a size greater than the size of the COLA-eligible orders is consistent with just and equitable principles of trade, because it enables as many contracts as possible to trade, which is also consistent with protecting investors and the public interest. Restricting responses to the size of the COLA-eligible order serves no regulatory purpose and, instead, merely limits the number of contracts that can trade. Restricting responses to the size of the COLA-eligible order could also provide interest that has been submitted coincidentally, without intentionally responding to an auction, to have an unfair advantage since this interest would not be restricted to the size of the COLA-eligible order.

The Exchange believes a configurable end of day timer as proposed in Rule 1080.07(f)(i)(F) is consistent with just and equitable principles of trade, because it can be tailored to maximize the number of executions but is still limited to 600 seconds, as originally approved.

The Exchange also believes that the proposed execution process in proposed Rule 1080.07(d)(ii)(C)(2) and (e)(viii)(C)(3) for crossing interest is consistent with just and equitable principles of trade, because it is based on the price of the larger sized interest, which affects more options contracts and is likely to result in more executions than the current rule provides, because the current rule is based on the mid-point, regardless of size.

The reference to legging remaining interest in these same subparagraphs promotes just and equitable principles of trade by providing an opportunity for additional Complex Orders to trade. The additional executions would be expected by users who expressed an interest to trade by submitting their interest; their expression of interest is not limited to the COLA-eligible order but rather to the Complex Order Strategy as a whole.

In addition, this proposal is not unfairly discriminatory, including to the new category of Firm orders, because it proposes to deal with Complex Orders and responsive interest in a reasonable way. As explained above, it is not uncommon to have certain order types and time-in-force conditions available only to certain participant types, both on the Exchange[65] as well as other exchanges.[66] Indeed, the Exchange's pricing schedule has long distinguished Firms from other broker-dealers.[67] The Exchange believes that certain order types and time-in-force conditions, if made available, would likely not be used by certain market participants, because of the particular trading style of those participants. For example, Phlx XL market makers are not permitted to send in GTC orders; the Exchange does not believe that Phlx XL market makers would be interested in submitting GTC orders, as they generally participate in the marketplace using electronic quotations, which are updated and replaced frequently, unlike GTC orders.

Similarly, the Exchange believes that Firms do not expect or need their Complex Orders to trigger a COLA nor to submit GTC orders, because these are features commonly associated with customers rather than liquidity providers who function to accommodate trading interest. Both of these features involve a temporal component; both a delay and long-lasting interest are inconsistent with the sort of accommodation that Firms provide. Firms are interested in trading in a manner that offers liquidity to their customers. Accordingly, the Exchange believes that by

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65 See Phlx Rule 1080(b).

66 See CBOE Rule 6.53C(d)(iii).

67 See supra note 53.

tailoring its offerings to the needs and trading style of Firms, Firms are more likely to send orders to the Exchange, which should increase order interaction with other market participants, consistent with promoting just and equitable principles of trade.

The Exchange believes that its proposal to accept all-or-none Complex Orders should promote just and equitable principles of trade by offering this order type, commonly available for non-Complex Orders as well as complex orders on other options exchanges, to market participants, who may want a certain minimum size. This contingency is particularly appropriate respecting Complex Orders, because of the complexity of the strategies employed by users; the size of the order may be relevant to such strategy. The Exchange believes that its proposal to not leg all-or-none Complex Orders promotes just and equitable principles of trade, because the all-or-none contingency complicates the execution of such orders expeditiously against the individual components of such orders; the Exchange does not believe that users would expect such orders to leg, as all-or-none orders are often treated differently than other orders because of the nature of that contingency.[68]

The Exchange believes that its proposal to amend 1080.07(b)(iii) to specify in more detail that Floor Brokers can only accept IOC Complex Orders from SQTs, RSQTs, non-SQT ROTs, specialists, non-Phlx market makers on another exchange and Firms is merely replacing vague terms (broker-dealers or affiliates of broker-dealers) to more precise ones that are linked to definitions within the rule. Using defined terms should promote just and equitable principles of trade.

The Exchange believes that deleting reference in Rule 1080.07(d)(ii)(A)(2) to disengaging the automated execution system and the Phlx XL Risk Monitor Mechanism clarifies

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68 See e.g., Options Floor Advice A-9.

that the COOP Timer nevertheless occurs in these situations. The COOP Timer facilitates price discovery and opening interest in a Complex Order Strategy, which should, in turn, promote just and equitable principles of trade.

The Exchange believes that specifying in more detail that Complex Orders received prior to the COOP Timer and Complex Orders received during the COOP Timer (other than COOP Sweeps and Complex Order Responses marked as a response) are visible to Phlx XL participants upon receipt should promote just and equitable principles of trade by further attracting additional interest in a particular Complex Order Strategy.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. Specifically, the proposal does not impose an intra-market burden on competition, because these changes make the rule clearer and more complete for all participants. Nor will the proposal impose a burden on competition among the options exchanges, because of the vigorous competition for order flow among the options exchanges. To the extent that market participants disagree with the particular approach taken by the Exchange herein, market participants can easily and readily direct complex order flow to 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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be 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-2015-49 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2015-49. 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 will also 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-2015-49 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.[69]

Brent J. Fields
Secretary

[69] 17 CFR 200.30-3(a)(12).