

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69241; File No. SR-Phlx-2013-36)

March 26, 2013

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Trading QCC and PIXL Orders in Mini Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 26, 2013, NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II 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 address the manner in which options contracts overlying 10 shares of a security (“Mini Options”) will trade in a PIXL³ auction or as a Qualified Contingent Cross (“QCC”) Order.⁴

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ PIXL is the Exchange’s price improvement mechanism known as Price Improvement XL or (PIXLSM). See Rule 1080(n).

⁴ A QCC Order is comprised of an order to buy or sell at least 1000 contracts that is identified as being part of a qualified contingent trade, as that term is defined in Rule 1080(o)(3), coupled with a contra-side order to buy or sell an equal number of contracts. The QCC Order must be executed at a price at or between the National Best Bid and Offer (“NBBO”) and be rejected if a Customer order is resting on the Exchange book at the same price. A QCC Order shall only be submitted electronically from off the floor to the PHLX XL II System. See Rule 1080(o). See also Securities Exchange Act Release No. 64249 (April 7, 2011), 76 FR 20773 (April 13, 2011) (SR-Phlx-2011-47) (a rule change to establish a QCC Order to facilitate the execution of stock/option Qualified

The text of the proposed rule change is available on the Exchange's Website at <http://www.nasdaqtrader.com/micro.aspx?id=PHLXRulefilings>, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of the proposed rule change is to further clarify the manner in which Mini Options will trade in a PIXL auction or as a QCC Order pursuant to Exchange Rule 1080. The Exchange previously filed to list and trade Mini Options.⁵ Exchange Rule 1080 entitled "Phlx

Contingent Trades ("QCTs") that satisfy the requirements of the trade through exemption in connection with Rule 611(d) of the Regulation NMS).

⁵ See Securities Exchange Act Release No. 68132 (November 1, 2012), 77 FR 66904 (November 7, 2012) (SR-Phlx-2012-126). The Exchange amended amend [sic] Rules 1001 (Position Limits), 1012 (Series of Options Open for Trading) and 1033 (Bids and Offers – Premium) to list and trade Mini Options overlying five (5) high-priced securities for which the standard contract overlying the same security exhibits significant liquidity. Specifically, the Exchange filed to list Mini Options on SPDR S&P 500 ("SPY"), Apple, Inc. ("AAPL"), SPDR Gold Trust ("GLD"), Google Inc. ("GOOG") and Amazon.com Inc. ("AMZN").

XL and Phlx XL II” describes the manner in which PIXL orders⁶ and QCC Orders⁷ trade on the Exchange. The Exchange will describe below the manner in which it seeks to clarify Rules 1064 and 1080 with respect to Mini Options.

With respect to PIXL, Rule 1080(n) specifies that a member may electronically submit for execution an order it represents as agent on behalf of a public customer, broker dealer, or any other entity (“PIXL Order”) against principal interest or against any other order (except as provided in Rule 1080(n)(i)(E)) it represents as agent (an “Initiating Order”) provided it submits the PIXL Order for electronic execution into the PIXL Auction (“Auction”) pursuant to this Rule. The Exchange is proposing to clarify that with respect to Mini Options, the same contract size shall apply consistent with standard options. The Exchange proposes to add a sentence to Rule 1080(n) to note that a Mini Options PIXL Order will trade consistent with standard options.

Today the Exchange provides the Commission certain PIXL pilot reports, including, but not limited to orders of fewer than 50 contracts into the PIXL Auction.⁸ The Exchange will also

⁶ See Exchange Rule 1080(n).

⁷ See Exchange Rule 1080(o). The Exchange is also proposing to amend Rule 1064 entitled “Crossing, Facilitation and Solicited Orders,” as this rule also describes the manner in which QCC Orders shall trade on Phlx.

⁸ Regarding PIXL Orders of fewer than 50 contracts, the Exchange has undertaken to provide the following information on a monthly basis during the pilot period: (1) The number of orders of fewer than 50 contracts entered into the PIXL Auction; (2) The percentage of all orders of fewer than 50 contracts sent to Phlx that are entered into the PIXL Auction; (3) The percentage of all Phlx trades represented by orders of fewer than 50 contracts; (4) The percentage of all Phlx trades effected through the PIXL Auction represented by orders of fewer than 50 contracts; (5) The percentage of all contracts traded on Phlx represented by orders of fewer than 50 contracts; (6) The percentage of all contracts effected through the PIXL Auction represented by orders of fewer than 50 contracts; (7) The spread in the option, at the time an order of fewer than 50 contracts is submitted to the PIXL Auction; (8) The number of orders of 50 contracts or greater entered into the PIXL Auction; (9) The percentage of all orders of 50 contracts or greater sent to Phlx that are entered into the PIXL Auction; (10) The spread in the option, at the time an order of 50 contracts or greater is submitted to the PIXL Auction; (11) Of PIXL trades where the PIXL Order is for the account of a public customer, and is for a size of

submit to the Commission these same reports with respect to Mini Options for PIXL Orders fewer than 500 contracts as well as the pilot reports for Mini Options in the other categories.⁹

fewer than 50 contracts, the percentage done at the NBBO plus \$.01, plus \$.02, plus \$.03, etc.; (12) Of PIXL trades where the PIXL Order is for the account of a public customer, and is for a size of 50 contracts or greater, the percentage done at the NBBO plus \$.01, plus \$.02, plus \$.03, etc.; and (13) Of PIXL trades where the PIXL Order is for the account of a broker dealer or any other person or entity that is not a public customer, and is for a size of fewer than 50 contracts, the percentage done at the NBBO plus \$.01, plus \$.02, plus \$.03, etc. (14) Of PIXL trades where the PIXL Order is for the account of a broker dealer or any other person or entity that is not a public customer, and is for a size of 50 contracts or greater, the percentage done at the NBBO plus \$.01, plus \$.02, plus \$.03, etc.; and (15) The number of orders submitted by Initiating Members when the spread was \$.05, \$.10, \$.15, etc. For each spread, specify the percentage of contracts in orders of fewer than 50 contracts submitted to the PIXL Auction that were traded by: (a) The Initiating Member that submitted the order to the PIXL; (b) Phlx Market Makers assigned to the class; (c) other Phlx members; (d) Public Customer Orders; and (e) unrelated orders (orders in standard increments entered during the PIXL Auction). For each spread, also specify the percentage of contracts in orders of 50 contracts or greater submitted to the PIXL Auction that were traded by: (a) the Initiating Member that submitted the order to the PIXL Auction; (b) Phlx market makers assigned to the class; (c) other Phlx members; (d) Public Customer Orders; and (e) unrelated orders (orders in standard increments entered during the PIXL Auction). See Securities Exchange Act Release Nos. 63027 (October 1, 2010), 75 FR 62160 (October 7, 2010) (SR-Phlx-2010-108) (initial order approving PIXL), 65043 (August 5, 2011), 76 FR 49824 (August 11, 2011), (SR-Phlx-2011-104) (order extending the PIXL pilot program through July 18, 2012); 67399 (July 11, 2012), 77 FR 42048 (July 17, 2012) (SR-Phlx-2012-94) (order extending the PIXL pilot program through July 18, 2013). The PIXL pilot period is set to expire on July 18, 2013. See Rule 1080(n).

⁹ In the order approving PIXL, the Exchange undertook to provide the Commission with the below information on a monthly basis during the pilot period in addition to the other pilot reports noted herein. The Exchange will provide Mini Options pilot reports for the following categories in addition to the reports noted above, except for reports requiring orders of 50 contracts the Exchange would instead provide reports for orders of 500 contracts with respect to Mini Options: (1) The number of times that the PBBO crossed the PIXL Order stop price on the same side of the market as the PIXL Order and prematurely ended the PIXL Auction, and at what time the PIXL Auction ended; (2) The number of times that a trading halt prematurely ended the PIXL auction and at what time the trading halt ended the PIXL Auction; (3) Of the Auctions terminated early due to the PBBO crossing the PIXL order stop price, the number that resulted in price improvement over the PIXL Order stop price, and the average amount of price improvement provided to the PIXL Order; (4) In the Auctions terminated early due to the PBBO crossing the PIXL order stop price, the percentage of contracts that received price improvement over the PIXL order stop price; (5) Of the Auctions terminated early due to a trading halt, the

number that resulted in price improvement over the PIXL Order stop price, and the average amount of price improvement provided to the PIXL Order; (6) In the auctions terminated early due to a trading halt, the percentage of contracts that received price improvement over the PIXL order stop price; and (7) The average amount of price improvement provided to the PIXL Order when the PIXL Auction is not terminated early (i.e., runs the full one second). (8) The number of times an unrelated market or marketable limit order (against the PBBO) on the opposite side of the PIXL Order is received during the Auction Period; and (9) The price(s) at which an unrelated market or marketable limit order (against the PBBO) on the opposite side of the PIXL Order that is received during the Auction Period is executed, compared to the execution price of the PIXL Order. Regarding PIXL auto-match, the Exchange has undertaken to provide the following information on a monthly basis during the pilot period: (1) The percentage of all Phlx trades effected through the PIXL Auction in which the Initiating Member has chosen the auto-match feature, and the average amount of price improvement provided to the PIXL Order when the Initiating Member has chosen the auto-match feature vs. the average amount of price improvement provided to the PIXL Order when the Initiating Member has chosen a stop price submission. Regarding competition, the Exchange has undertaken to provide the following information on a monthly basis during the pilot period: (1) For the first Wednesday of each month: (a) The total number of PIXL auctions on that date; (b) the number of PIXL auctions where the order submitted to the PIXL was fewer than 50 contracts; (c) the number of PIXL auctions where the order submitted to the PIXL was 50 contracts or greater; (d) the number of PIXL auctions (for orders of fewer than 50 contracts) with 0 participants (excluding the initiating participant), 1 participant (excluding the initiating participant), 2 participants (excluding the initiating participant), 3 participants (excluding the initiating participant), 4 participants (excluding the initiating participant), etc., and (e) the number of PIXL auctions (for orders of 50 contracts or greater) with 0 participants (excluding the initiating participant), 1 participant (excluding the initiating participant), 2 participants (excluding the initiating participant), 3 participants (excluding the initiating participant), 4 participants (excluding the initiating participant), etc.; and (2) For the third Wednesday of each month: (a) The total number of PIXL auctions on that date; (b) the number of PIXL auctions where the order submitted to the PIXL was fewer than 50 contracts; (c) the number of PIXL auctions where the order submitted to the PIXL was 50 contracts or greater; (d) the number of PIXL auctions (for orders of fewer than 50 contracts) with 0 participants (excluding the initiating participant), 1 participant (excluding the initiating participant), 2 participants (excluding the initiating participant), 3 participants (excluding the initiating participant), 4 participants (excluding the initiating participant), etc., and (e) the number of PIXL auctions (for orders of 50 contracts or greater) with 0 participants (excluding the initiating participant), 1 participant (excluding the initiating participant), 2 participants (excluding the initiating participant), 3 participants (excluding the initiating participant), 4 participants (excluding the initiating participant), etc. See Securities Exchange Act Release Nos. 63027 (October 1, 2010), 75 FR 62160 (October 7, 2010) (SR-Phlx-2010-108) (initial order approving PIXL), 65043 (August 5, 2011), 76 FR 49824 (August 11, 2011), (SR-Phlx-2011-104) (order extending the PIXL pilot program through July 18, 2012); 67399 (July 11, 2012), 77 FR 42048 (July 17, 2012) (SR-Phlx-

The Exchange will provide this information for a particular month not later than the last business day of the subsequent month, as is the case with other PIXL pilot reports.

With respect to QCC Orders, Exchange Rule 1080(o) provides that a QCC Order is comprised of an order to buy or sell at least 1000 contracts that is identified as being part of a qualified contingent trade, as that term is defined in subsection [sic] Rule 1080(o)(3), coupled with a contra-side order to buy or sell an equal number of contracts. The Exchange proposes to permit Mini Option QCC Orders to be defined as an order to buy or sell at least 10,000 contracts, instead of 1,000 contracts. The Exchange proposes to add text to Rule 1080(o) and Rule 1064(e) to note the different quantity required to transact QCC Orders in Mini Options.

The Exchange proposes to commence trading Mini Options on March 28, 2013.¹⁰ The Exchange will not commence trading of Mini Options contracts until specific fees for Mini Options contracts trading have been filed with the Commission.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Securities and [sic] Exchange Act of 1934 (“Exchange Act”),¹¹ in general, and with Section 6(b)(5) of the Exchange Act,¹² in particular, in that the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a

2012-94) (order extending the PIXL pilot program through July 18, 2013). The PIXL pilot period is set to expire on July 18, 2013. See Rule 1080(n).

¹⁰ The Exchange noted in SR-Phlx-2012-126 that it would not commence trading of Mini Option contracts until specific fees for Mini Options contracts trading have been filed with the Commission. See Securities Exchange Act Release No. 68132 (November 1, 2012), 77 FR 66904 (November 7, 2012) (SR-Phlx-2012-126). The Exchange has filed such fees. See SR-Phlx-2013-35 (not yet published).

¹¹ 15 U.S.C. 78f.

¹² 15 U.S.C. 78f(b)(5).

national market system and, in general, to protect investors and the public interest.

Specifically, the Exchange believes that investors and other market participants would benefit from the current rule proposal because it would allow market participants to take advantage of legitimate investment strategies and execute PIXL Orders and QCC Orders in Mini Options. Additionally, the Exchange believes the proposed rule change will avoid investor confusion by clarifying how Mini Options will trade the same or different as compared to standard options with respect to PIXL Orders and QCC Orders.

The Exchange believes that trading PIXL Orders in Mini Options and standard options in the same manner will avoid investor confusion. Also, the Exchange believes that the current PIXL rules in Rule 1080(n) as applied to Mini Options will promote just and equitable principles of trade and continue to permit fair competition. The Exchange does not believe treating Mini Option and standard option PIXL Orders in a like manner creates any unfair disadvantage to investors.

The Exchange believes that adjusting the quantity of a QCC Orders [sic] in Rule 1080(o) (applicable to electronic orders) and Rule 1064(e) (applicable to floor orders) from 1,000 to 10,000 contracts with respect to QCC Orders will protect investors by maintaining the same number of underlying securities for Mini Options as with standard options. The Exchange believes that maintaining the same number of underlying securities will prevent unfair discrimination among market participants. All members are eligible to transact PIXL Orders and QCC Orders on Phlx.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. All members

may transact PIXL Orders and QCC Orders on Phlx. The rule change does not permit unfair discrimination and does not impose a burden on Members with respect to trading Mini Options.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) by its terms does not become operative for 30 days after the date of this filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹³ and Rule 19b-4(f)(6) thereunder.¹⁴

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative for 30 days after the date of filing. However, Rule 19b-4(f)(6)(iii) permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the 30-day operative delay so that the proposed rule change may coincide with the anticipated launch of trading in Mini Options on the Exchange. The Commission believes that waiving the 30-day operative delay is consistent

¹³ 15 U.S.C. 78s(b)(3)(A).

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

with the protection of investors and the public interest.¹⁵ Waiver of the operative delay will allow the Exchange to implement its proposal consistent with the anticipated commencement of trading in Mini Options on the Exchange on March 28, 2013. For these reasons, the Commission designates the proposed rule change as operative upon filing.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2013-36 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-Phlx-2013-36. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your

¹⁵ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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

submit only information that you wish to make available publicly. All submissions should refer to File Number SR-Phlx-2013-36 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.¹⁶

Elizabeth M. Murphy
Secretary

¹⁶ 17 CFR 200.30-3(a)(12).