

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-73545; File No. SR-Phlx-2014-54)

November 6, 2014

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, to Add a New Complex Order Process Called Legging Orders

I. Introduction

On September 10, 2014, NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (the “Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend its rules governing the trading of complex orders on the Exchange to adopt “legging orders.” The proposed rule change was published for comment in the Federal Register on September 25, 2014.<sup>3</sup> The Commission received no comment letters regarding the proposed rule change. On November 5, 2014, the Exchange filed Amendment No. 1 to the proposal.<sup>4</sup> The Commission is publishing this notice to solicit comments on Amendment No. 1 from interested

---

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 73152 (September 19, 2014), 79 FR 57632.

<sup>4</sup> Amendment No. 1 revises the proposal to: (i) modify proposed Phlx Rule 1080.08(f)(iii)(C)(4)(vi) to provide that, in the event the Exchange receives a PIXL Order for the account of a public customer that is paired with another order for the account of a public customer pursuant to Phlx Rule 1080(n)(vi), the Exchange will remove any resting legging orders in those options series; (ii) add a proposed Phlx Rule 1080.08(f)(iii)(C)(4)(xii) to provide that a legging order will be removed when the legging order is on the Exchange’s book at a price that is not at the minimum increment for that series and that is more aggressive than the same side Phlx Best Bid or Offer (“PBBO”) and an away market moves to lock the PBBO (which is also the NBBO); (iii) provide that the proposal will be implemented within 30 days of Commission approval and that the Exchange will notify members of implementation by issuing an Options Trader Alert; and (iv) the Exchange expects to implement the new functionality on a symbol by symbol bases over the course of a week to mitigate risks associated with the rollout of new technology; and (v) make certain non-substantive clarifications to the rule text.

persons and is approving the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

## II. Description

### A. Legging Orders

The Exchange proposes to adopt Phlx Rule 1080.08(f)(iii)(C) relating to the generation and execution of “legging orders.” Under the proposal, a legging order is a limit order on the regular order book in an individual series that represents one leg of a two-legged complex order (which improves the cPBBO)<sup>5</sup> to buy or sell an equal quantity of two option series resting on the Exchange’s Complex Order Book (“CBOOK”).<sup>6</sup> Phlx proposes that legging orders are firm orders that are included in the Exchange’s displayed best bid or offer.<sup>7</sup> According to the Exchange, legging orders are designed to increase the opportunity for complex orders to execute by “legging” into the market, whereby all of the legs of the complex order execute against the best bids or offers on the Exchange for the individual options series.<sup>8</sup>

### B. Generation of Leg Orders

The Exchange proposes that legging orders may be automatically generated on behalf of Complex Orders resting on the top of the CBOOK so that they are represented at the best bid

---

<sup>5</sup> According to the Exchange, the term “cPBBO” means the best net debit or credit price for a Complex Order Strategy based on the PBBO for the individual options components of such Complex Order Strategy, and, where the underlying security is a component of the Complex Order, the National Best Bid and/or Offer for the underlying security. See Notice supra, note 3, at n.3 (citing Phlx Rule 1080.08(a)(iv)).

<sup>6</sup> See proposed Phlx Rule 1080.08(f)(iii)(C).

<sup>7</sup> See id. Under the proposal, legging orders are also not routable and are limit orders with a time-in-force of DAY. See id.

<sup>8</sup> See Notice, supra note 3, at 57632.

and/or offer on the Exchange for the individual legs.<sup>9</sup> Phlx proposes that a legging order may be automatically generated for one leg of a Complex Order at a price: (i) that matches or improves upon the best Phlx displayed bid or offer; and (ii) at which the net price can be achieved when the other leg is executed against the best displayed bid or offer (other than against a legging order).<sup>10</sup> The Exchange proposes not to generate legging orders when the Exchange or a particular option has not opened, is halted or is otherwise not available for trading.<sup>11</sup> The Exchange also proposes to not generate a legging order for complex order strategies that are not available for trading.<sup>12</sup>

To determine whether a Legging Order may be generated, the Exchange proposes to evaluate the CBOOK when a Complex Order enters the CBOOK and at a regular time interval to be determined by the Exchange (which interval shall not exceed 1 second) following a change in the National Best Bid/Offer (“NBBO”) or PBBO in any component of a complex order eligible to generate legging orders to determine whether legging orders may be generated.<sup>13</sup> Under the proposal, a legging order may be generated and executed in an increment other than the minimum increment for that series and will be ranked on the order book at its generated price

---

<sup>9</sup> See proposed Phlx Rule 1080.08(f)(iii)(C)(1). The Exchange represents that there can be only one legging order on the same side of the market in a series. See Notice, supra note 3, at 57633.

<sup>10</sup> See proposed Phlx Rule 1080.08(f)(iii)(C)(1). See Notice, supra note 3, at 57633 for an example of how legging orders would be generated.

<sup>11</sup> See proposed Phlx Rule 1080.08(f)(iii)(C)(1).

<sup>12</sup> See id.

<sup>13</sup> See proposed Phlx Rule 1080.08(f)(iii)(C)(1). See also Notice, supra note 3, at 57633. Under the proposal, two legging orders relating to the same complex order can be generated, but only one of those can execute as part of the execution of a particular complex order. See id.

and displayed at a price that is rounded, down for legging orders to buy and up for legging orders to sell, to the nearest minimum increment allowable for that series.<sup>14</sup>

The Exchange proposes to adopt Phlx Rule 1080.08(f)(iii)(C)(2) to provide that legging orders will not be generated if: (i) the price of the legging order would lock or cross the best bid or offer of another exchange; (ii) there is an auction on either side of the market in the series or a “Posting Period” under Phlx Rule 1080(p) regarding “Acceptable Trade Range” on the same side in progress in the series; (iii) the price of the complex order is outside of the Acceptable Complex Execution (“ACE”) Parameter under Phlx Rule 1080.08(i); (iv) there is already a legging order in that series on the same side of the market at the same price (unless it has priority based on the participant type, under existing Exchange rules); (v) the complex order is an all-or-none order; or (vi) the generated legging order for a complex order would immediately cause resting legging orders to be removed pursuant to section proposed Phlx Rule 1080.08(f)(iii)(C)(4)(ix).<sup>15</sup>

The Exchange proposes that it may limit the number of legging orders generated on an objective basis and may remove existing legging orders to maintain a fair and orderly market in time of extreme volatility or uncertainty.<sup>16</sup> The Exchange represents that it will determine the options for which, if any, legging orders will be available and will communicate this to its participants.<sup>17</sup> Phlx represents that it would not limit the generation of legging orders on the basis of the entering participant or the participant category of the order (e.g., professional or public customer).<sup>18</sup>

---

<sup>14</sup> See proposed Phlx Rule 1080.08(f)(iii)(C)(2).

<sup>15</sup> See id.

<sup>16</sup> See Notice, supra note 3, at 57632-33.

<sup>17</sup> See id. at 57633.

<sup>18</sup> See id. at n.17.

### C. Execution of Legging Orders

The Exchange proposes that legging orders would be executed only after all other executable orders (including any non-displayed size) and quotes at the same price are executed in full pursuant to the Phlx priority rules applicable to Phlx XL non-Complex Orders, rather than based on the time of receipt of the Complex Order.<sup>19</sup> As a result, the Exchange states the generation of legging orders will not affect the existing priority, or execution opportunities, currently provided to participants in the regular market in any way.<sup>20</sup> Under the proposal, when a legging order is executed, the other leg of the complex order will be automatically executed against the displayed best bid or offer on the Exchange and any other legging order based on that complex order will be removed.<sup>21</sup>

Phlx believes that legging orders will provide additional execution opportunities for complex orders without negatively impacting investors in the regular market.<sup>22</sup> Phlx also believes that legging orders may facilitate additional executions and enhance execution quality for investors in the regular market by improving the price and/or size of the PBBO and by providing additional execution opportunities for resting orders on the regular book.<sup>23</sup>

### D. Removal of Legging Orders

The Exchange proposes to adopt Phlx Rule 1080.08(f)(iii)(C)(4) to provide that a legging order will be removed from the Exchange's regular limit order book automatically if: (i) the price of the legging order is no longer at the Exchange's displayed best bid or offer on the

---

<sup>19</sup> See proposed Phlx Rule 1080.08(f)(iii)(C)(3) and Notice, supra note 3, at 57634.

<sup>20</sup> See Notice, supra note 3, at 57634.

<sup>21</sup> See proposed Phlx Rule 1080.08(f)(iii)(C)(3).

<sup>22</sup> See Notice, supra note 3, at 57634.

<sup>23</sup> See Notice, supra note 3, at 57637.

regular limit order book; (ii) execution of the legging order would no longer achieve the net price of the complex order when the other leg is executed against the Exchange's best displayed bid or offer on the regular limit order book (other than another legging order); (iii) the complex order is executed in full or in part; (iv) the complex order is cancelled or modified; (v) the price of the complex order is outside of the ACE Parameter of Phlx Rule 1080.08(i); (vi) the Exchange receives a Qualified Contingent Cross Order<sup>24</sup> which includes a component in which a legging order exists, an order that will trigger an auction under Phlx rules in a component in which there is a legging order (whether a buy order or a sell order), or a PIXL Order for the account of a public customer paired with an order for the account of a public customer pursuant to Phlx Rule 1080(n)(vi); (vii) a legging order is generated by a different complex order in the same leg at a better price or the same price for a participant with a higher priority; (viii) a complex order is marketable against the cPBBO where a legging order is present and has more than one leg in common with the existing complex order that generated the legging order; (ix) a complex order becomes marketable against multiple legging orders; (x) a complex order consisting of an unequal quantity of components is marketable against the cPBBO where a legging order is present but cannot be executed due to insufficient size in at least one of the components of the cPBBO; (xi) an incoming all-or-none order is entered onto the order book at a price which is equal to or crosses the price of a legging order; or (xii) when the legging order is on the book at a price which is not at the minimum price variation and which is more aggressive than the same side PBBO, and an away market moves to lock the PBBO (which is also the NBBO).<sup>25</sup>

---

<sup>24</sup> See Phlx Rule 1080(o).

<sup>25</sup> See proposed Phlx Rule 1080.08(f)(iii)(C)(4). See also Notice, supra note 3, at 57634-57636 for examples illustrating the removal of legging orders and supra note 4 describing Amendment No. 1 to the proposal.

Finally, the Exchange proposes to implement the proposed rule change within 30 days of approval by the Commission, and represents that it will notify Exchange members of implementation by issuing an Options Trader Alert.<sup>26</sup> The Exchange expects to implement the new functionality on a symbol by symbol basis over the course of a week in order to mitigate risks associated with the rollout of new technology.<sup>27</sup>

### III. Discussion

After careful review, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>28</sup> In particular, the Commission finds that the proposed rule change, as amended, is consistent with Section 6(b)(5) of the Act,<sup>29</sup> which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Commission believes that legging orders could facilitate the execution of complex orders resting on the Exchange's CBOOK by increasing the opportunities for eligible complex orders to execute against interest in the regular market on the Exchange's regular order book, thereby benefitting investors seeking to execute complex orders. In addition, the Commission believes that legging orders could benefit participants in the regular market by providing additional liquidity, and potentially more favorable executions, for regular market interest. The

---

<sup>26</sup> See supra note 4 describing Amendment No. 1 to the proposal.

<sup>27</sup> See id.

<sup>28</sup> In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>29</sup> 15 U.S.C. 78f(b)(5).

Commission notes that it previously approved proposals by other options exchanges to implement legging orders.<sup>30</sup>

Under the proposal, legging orders will be firm orders that represent one leg of a two-legged complex order involving a one-to-one ratio resting on the top of the CBOOK.<sup>31</sup> The Commission notes that, on Phlx, legging orders may be generated and executed in an increment other than the minimum increment for that options series and will be ranked on the order book at its generated price and displayed at a price that is rounded, down for legging orders to buy and up for legging orders to sell, to the nearest minimum increment allowable for that series.<sup>32</sup> The Commission also notes that a legging order will be executed only after all other executable orders (including any non-displayed size) and quotes at the same price are executed in full pursuant to the Exchange's priority rules applicable to non-complex orders.<sup>33</sup> Accordingly, the Exchange represents that the generation of a legging order will not affect the existing priority, or execution opportunities, currently provided to market participants in the regular market in any way.<sup>34</sup>

As noted above, the Exchange represents that it will carefully manage and curtail the number of legging orders being generated so that they do not negatively impact system capacity

---

<sup>30</sup> See Securities Exchange Act Release Nos. 66234 (January 25, 2012), 77 FR 4852 (January 31, 2012) (order approving File No. SR-ISE-2011-82); 69419 (April 19, 2013), 78 FR 24449 (April 25, 2013) (order approving File No. SR-BOX-2013-01); and 69987 (July 15, 2013), 78 FR 43254 (July 19, 2013) (order approving File No. SR-CBOE-2013-026).

<sup>31</sup> See infra note 6 and accompanying text.

<sup>32</sup> See infra note 14 and accompanying text.

<sup>33</sup> See infra note 19 and accompanying text.

<sup>34</sup> See infra note 20 and accompanying text.

and performance.<sup>35</sup> Phlx represents, further, that it may curtail the number of leg orders on an objective basis, such as by limiting the number of leg orders generated in a particular option, and that it will not limit the generation of leg orders on the basis of the entering participant or the participant category of the order (i.e., professional or public customer).<sup>36</sup>

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether Amendment No. 1 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](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2014-54 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-2014-54. 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

---

<sup>35</sup> See infra note 16 and accompanying text.

<sup>36</sup> See infra note 18 and accompanying text.

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, D.C. 20549-1090 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal offices of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-Phlx-2014-54, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

V. Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1

The Commission finds good cause for approving the proposed rule change, as amended by Amendment No. 1, prior to the 30<sup>th</sup> day after the date of publication of notice in the Federal Register. Amendment No. 1 revises the proposal to, among other things, provide for two instances whereby the Exchange will remove legging orders to ensure that legging orders are removed when public customer orders are crossed through the Exchange's PIXL auction pursuant to Phlx Rule 1080(n)(vi) and to ensure that legging orders are removed consistent with Phlx Rule 1084 governing order protection.<sup>37</sup> The Commission notes that the revisions are designed to provide market participants with more specificity regarding the operation and implementation of the Exchange's legging order functionality. Accordingly, the Commission finds good cause for approving the proposed rule change, as amended, on an accelerated basis, pursuant to Section 19(b)(2) of the Act.<sup>38</sup>

---

<sup>37</sup> See supra note 4 for a description of Amendment No. 1.

<sup>38</sup> 15 U.S.C. 78s(b)(2).

VI. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>39</sup> that the proposed rule change (SR-Phlx-2014-54), as amended, be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>40</sup>

Kevin M. O'Neill  
Deputy Secretary

---

<sup>39</sup> Id.

<sup>40</sup> 17 CFR 200.30-3(a)(12).