



8011-01p
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-77557; File No. SR-Phlx-2016-40)

April 7, 2016

Self-Regulatory Organizations; NASDAQ PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to PIXL

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 24, 2016, NASDAQ PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “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 amend Phlx Rule 1080, entitled “Phlx XL and Phlx XL II” to amend the length of time of a Price Improvement XL or PIXLSM Auction and make other rule changes.

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaqomxphlx.cchwallstreet.com/>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 Exchange proposes to amend Phlx Rule 1080(n) to amend the length of time of a PIXLSM Auction and make other clarifying rule changes. PIXL is a component of the Exchange's fully automated options trading system, PHLX XL, that allows a member to 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 it represents as agent (an "Initiating Order") provided it submits the PIXL Order for electronic execution into the PIXL Auction ("Auction"). The Exchange adopted PIXL in October 2010 as a price-improvement mechanism on the Exchange.³ The Exchange proposes the below changes.

³ See Securities Exchange Act Release Nos. 63027 (October 1, 2010), 75 FR 62160 (October 7, 2010) (SR-Phlx-2010-108) (Order Granting Approval to a Proposed Rule Change Relating to a Proposed Price Improvement System, Price Improvement XL); 65043 (August 5, 2011), 76 FR 49824 (August 11, 2011) (SR-Phlx-2011-104) (Extending Pilot for Price Improvement System, Price Improvement XL); 67399 (July 11, 2012), 77 FR 42048 (July 17, 2012) (SR-Phlx-2012-94) (Extending Pilot for Price Improvement System, Price Improvement XL); 69845 (June 25, 2013), 78 FR 39429 (July 1, 2013) (SR-Phlx-2013-46) (Order Granting Approval To Proposed Rule Change, as Modified by Amendment No. 1, Regarding Complex Order PIXL); 69989 (July 16, 2013), 78 FR 43950 (July 22, 2013) (SR-Phlx-2013-74) (Extending Pilot for Price Improvement System, Price Improvement XL); and 72619 (July 16, 2014), 79 FR 42613 (July 22, 2014) (Extending Pilot for Price Improvement System, Price Improvement XL).

PIXL Timer

Today, a PIXL Auction lasts for one second, unless it is concluded early.⁴ The Exchange proposes to amend Rule 1080(n)(ii)(A)(4) to state, “the Auction will last for a period of time, as determined by the Exchange and announced on the Nasdaq Trader website. The Auction period will be no less than one hundred milliseconds and no more than one second.” This timer is similar to the current timer length in the newly adopted BX PRISM.⁵ The selected timer would be the same length of time for all auctions in all options pursuant to Phlx Rule 1080(n).

The Exchange believes that a shorter duration of time for the Auction will reduce market risk for all members executing trades in PIXL. Initiating Participants are required to guarantee an execution at the NBBO⁶ or at a better price, and are subject to market risk while their PIXL Order is exposed to other Phlx members. While other Participants are also subject to market risk, those providing responses in PIXL may cancel or modify their orders. Phlx believes that the Initiating Participant acts in a critical role within the PIXL Auction. Their willingness to guarantee the orders entered into PIXL an execution at NBBO or a better price is the keystone to an order gaining the opportunity for price improvement. Phlx believes that allowing for an Auction period of no less than one

⁴ The PIXL Auction shall conclude at the earlier to occur of (1) The end of the Auction period; (2) For a PIXL Auction (except if it is a Complex Order), any time the PBBO crosses the PIXL Order stop price on the same side of the market as the PIXL Order; (3) For a Complex Order PIXL Auction, any time the cPBBO or the Complex Order book crosses the PIXL Order stop price on the same side of the market as the PIXL Order; or (4) Any time there is a trading halt on the Exchange in the affected series.

⁵ See NASDAQ BX, Inc. (“BX”) Rules at Chapter VI, Section 9(ii)(A)(3).

⁶ For Complex Orders, Initiating Members are required to guarantee an execution at the cPBBO or better.

hundred milliseconds and no more than one second will benefit members trading in PIXL. Phlx believes it is in these members' best interests to minimize the auction time while continuing to allow members adequate time to electronically respond. Both the order being exposed and the responding orders are subject to market risk during the Auction.

Immediate or Cancel

The Exchange is amending the Phlx Rule 1080(n) to remove certain uses of the term “rejected” to instead refer to the term “immediately cancelled.” Specifically, the Exchange is amending Phlx Rule 1080(n)(ii)(A)(8)-(10). These orders are not rejected, rather they are immediately cancelled because technically they are accepted into the trading system. The Exchange believes this non-substantive change adds more clarity to the rule text. This distinction is made throughout the newly adopted BX PRISM rule, where applicable.⁷

The Exchange notes that its proposed rule text at Rule 1080(n)(ii)(A)(9) states that a PAN or Complex Order PAN response which is inferior to the stop price of the PIXL order will be cancelled. In this particular instance, the order is not immediately cancelled to prevent information leakage as to possible stop price. The order is cancelled at the end of the Auction instead.

Allocations

The Exchange is amending Phlx Rule 1080(n)(ii)(A)(1) to first make clear that under no circumstances will the Initiating Participant receive an allocation percentage, at the final price point, of more than 50% with one competing quote, order or PAN response

⁷ See BX Rules at Chapter VI, Section 9.

or 40% with multiple competing quotes, orders or PAN responses, when competing quotes, orders or PAN responses have contracts available for execution. This change adds more clarity to the rule text as this limitation is present today. The Exchange recently included this clarifying rule text in the newly adopted BX PRISM rule⁸ and seeks to conform the PIXL rule text to that of BX PRISM.

The Exchange is also amending Phlx Rule 1080(n)(ii)(E)(2)(b) and 1080(n)(ii)(E)(2)(c)(ii) to provide more specificity concerning the allocation to which an Initiating Participant is entitled. The amendments make clear that the allocations can be either 40% or 50% depending on whether there are one or more competing quotes, orders or PAN responses. Also, the rule text notes that public customer interest must be satisfied first. This change adds more clarity to the rule text as this allocation method is present today. The Exchange recently included this clarifying rule text in the newly adopted BX PRISM rule⁹ and seeks to conform the PIXL rule text to that of BX PRISM.

Stop Price

The Exchange is amending Phlx Rule 1080(n)(ii)(C) to revise language where the entire PIXL Order will be executed at, including, in the case of the internal BBO (“Reference BBO”) crossing the PIXL Order stop price, the best response price(s) or, if the stop price is the best price in the Auction, at the stop price, unless the best response price is equal to or better than the price of a limit order resting on the PHLX book on the same side of the market as the PIXL Order, in which case the PIXL Order will be executed against that response, but at a price that is at least one minimum price

⁸ See BX Rules at Chapter VI, Section 9(ii)(A)(1).

⁹ See BX Rules at Chapter VI, Section 9(ii)(E)(2)(b), (ii)(E)(2)(c)(ii), (ii)(F)(2)(b) and (ii)(F)(2)(c)(ii).

improvement increment better than the price of such limit order at the time of the conclusion of the Auction. This new “better than” language is currently also utilized in the newly adopted BX PRISM rule.¹⁰ The Auction would look for the best price, which in this instance may be through a limit order on the same side as the PIXL Order.

For example, assume the Reference BBO and NBBO are both .97 – 1.03. A PIXL Order to buy 100 contracts is submitted with a contra-side Initiating Order to stop the PIXL Order at 1.01. Assume a PAN response is submitted to sell 10 contracts at .97 and another to sell 10 contracts at 1.00. Then assume an unrelated buy order is received to pay .98 for 10 contracts. The order is placed on the PHLX book and the Reference BBO becomes .98 – 1.03. Then assume, a participant submits a quote of 1.02 -1.05, crossing the 1.01 stop price on the same side of the PIXL Order and concluding the PIXL Auction prior to the expiration of one second. Therefore, 10 contracts from the PIXL Order will be executed at .99 against the best response price of .97 which is ‘better than’ the price of the .98 limit order resting on the PHLX book on the same side of the market as the PIXL Order. Also, 10 contracts will be executed at 1.00 (the next best response price after the execution at .98) and the remaining 80 contracts will be executed at 1.01 (the stop price) against the Initiating Order. The Exchange believes that this language clarifies the current rule text by providing the “better than” language, which accounts for responses that are priced more aggressively than a later arriving resting limit order on the book.

Professional Order

The Exchange is amending Phlx Rule 1080(n) in the first paragraph and also 1080(n)(ii)(E)(1) to make clear that a public customer order does not include a

¹⁰ See BX Rules at Chapter VI, Section 9(ii)(C).

professional¹¹ order. Professionals are not entitled to priority as described within the Phlx Rule 1080(n). This non-substantive change adds more clarity to the rule text. The Exchange recently included this clarifying rule text in the newly adopted BX PRISM rule¹² and seeks to conform the PIXL rule text to that of BX PRISM.

Rounding

The Exchange is amending Phlx Rule 1080(n)(ii)(E)(2)(f) to add clarifying rule text concerning the manner in which the Exchange will round shares and allocate remaining contracts, commonly known in the industry as odd lots.¹³ Rule 1014 provides for the manner in which the Phlx XL electronic match engine (hereinafter “System”) allocates simple interest. Within Rule 1014, the Exchange allocates shares in Price-Time priority¹⁴ first to public customers. Thereafter, the Exchange allocates interest to Specialists¹⁵ and Registered Options Traders¹⁶ (hereinafter collectively “ROTs”) utilizing

¹¹ Phlx Rule 1000(b)(14) currently states that the term “professional” means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).

¹² See BX Rules at Chapter VI, Section 9 in the first paragraph and also at Section 9(ii)(E)(1).

¹³ The Exchange rounds shares and allocates remaining shares in the manner described herein. This rule change memorializes this practice within its rules.

¹⁴ Price-Time allocations are filled among Customer Orders in time priority.

¹⁵ A Specialist is an Exchange member who is registered as an options specialist. See Phlx Rule 1020(a).

¹⁶ A Registered Options Trader (“ROT”) includes a Streaming Quote Trader or “SQT,” a Remote Streaming Quote Trader or “RSQT” and a Non-SQT, which by definition is neither a SQT nor a RSQT. A ROT is defined in Exchange Rule 1014(b) as a regular member of the Exchange located on the trading floor who has received permission from the Exchange to trade in options for his own account. See Exchange Rule 1014 (b)(i) and (ii).

a pro-rata allocation model.¹⁷ Finally, the Exchange allocates remaining interest to off-floor broker dealers¹⁸ also utilizing a pro-rata allocation model.

The Exchange proposes to precisely describe that, with respect to pro-rata allocations, the Exchange will round shares down to the nearest integer when determining the amount of the allocation in Rule 1080(n)(ii)(E)(2)(f). The Exchange believes that this detail will provide market participants with information to determine the method in which the Exchange shall allocate remaining shares.

The Exchange proposes to amend Rule 1080(n)(ii)(E)(2)(f) to add rule text to describe the manner in which remaining shares will be allocated for ROTs and also for off-floor broker dealers. If remaining shares result, from the allocation of simple interest among equally priced ROTs, remaining shares are allocated by daily random assignments of ROTs. Each ROT is assigned an order of allocation, each trading day. Trading interest, which includes orders, quotes and sweeps, are allocated in accordance with the trading day's order assignment, provided the ROT is at the best price at which the order, quote or sweep is being traded. The assignment continues throughout the trading for each allocation, picking up where it dropped off from the last allocation, provided the ROT is entitled to an allocation. If odd lots arise when allocating interest among equally priced off-floor broker-dealers, such odd lots are allocated in time priority, provided the

¹⁷ Pro-rata allocations may result in remaining shares as orders are allocated based on the size of the orders as a percentage of the total size among all interest at that price level.

¹⁸ The term "off-floor broker-dealer order" means an order delivered from off the floor of the Exchange by or on behalf of a broker-dealer for the proprietary account(s) of such broker-dealer, including an order for a market maker located on an exchange or trading floor other than the Exchange's trading floor delivered for the proprietary account(s) of such market maker.

off-floor broker-dealers is at the best price at which the order is being traded. Finally, with respect to Complex Orders, the Exchange notes in Rule 1080(n)(ii)(E)(2)(f) that residual odd lots will be allocated in time priority for Complex Orders.

The Exchange believes that these amendments will provide market participants with more information on the allocation of these odd lots.

Below are two examples, representing consecutive executions and allocations within the Order Book which demonstrates rounding and the allocation of remaining shares.

Example # 1

Presume an order of 200 contracts is being allocated in the Exchange's Order Book. Allocation will first occur with public customer orders at the best price filled in time priority, since public customers always have priority on the Exchange. Presume there are 63 contracts remaining after public customer orders are filled. ROTS would be allocated next pursuant to Rule 1014 in pro-rata fashion. Presume 5 ROTs are at the best price and the allocation of the remaining 63 contracts, after public customer orders have been satisfied, is as follows:

ROT A $1.10(30) \times 1.20(30)$ --- 25.2 rounded down to 25 contracts

ROT B $1.10(15) \times 1.20(15)$ --- 12.6 rounded down to 12 contracts

ROT C $1.10(10) \times 1.20(10)$ --- 8.4 rounded down to 8 contracts

ROT D $1.10(10) \times 1.20(10)$ --- 8.4 rounded down to 8 contracts

ROT E $1.10(10) \times 1.20(10)$ --- 8.4 rounded down to 8 contracts

After this pro-rata allocation, 2 contracts remain to be allocated. Presume for this trading day these ROTs are assigned the following order of assignment: first is ROT A, second is ROT B, third is ROT C, fourth is ROT D and fifth is ROT E. The 2 remaining contracts would be allocated as follows:

ROT A $1.10(30) \times 1.20(30)$ --- 1 contract

ROT B $1.10(15) \times 1.20(15)$ --- 1 contract

ROT C $1.10(10) \times 1.20(10)$ --- zero

ROT D $1.10(10) \times 1.20(10)$ --- zero

ROT E $1.10(10) \times 1.20(10)$ --- zero

The next order which results in contracts remaining after the pro-rata allocation to ROTs will have such remaining contracts allocated one at a time beginning with ROT C since he was next in line based on that trading day's order of assignment, provided ROT C is at the best price with remaining interest.

Example # 2

Presume an order of 200 contracts is being allocated in the Exchange's Order Book. Presume all public customer orders and ROT interest that was at the best price have been filled and there remains 9 contracts to be executed.

Off-floor broker-dealers would be allocated next pursuant to Rule 1014 in a pro-rata fashion. Presume 3 off-floor broker-dealers are at the best price and their interest had arrived in the following order. The allocation of the remaining 9 contracts is as follows:

Off-floor broker-dealer C $1.10(5) \times 1.20(5)$ – 4.09 contracts rounded down to 4

Off-floor broker-dealer B $1.10(3) \times 1.20(3)$ – 2.45 contracts rounded down to 2

Off-floor broker-dealer A $1.10(3) \times 1.20(3)$ – 2.45 contracts rounded down to 2

After this pro-rata allocation, there remains one contract to be allocated. This residual contract will be allocated in time priority as follows:

Off-floor broker-dealer C $1.10(5) \times 1.20(5)$ – 1 contract

Off-floor broker-dealer B $1.10(3) \times 1.20(3)$ – zero

Off-floor broker-dealer A $1.10(3) \times 1.20(3)$ -- zero

Public Customers

The Exchange is amending Phlx Rule 1080(n)(vi) to add more specificity concerning public customer orders. An Initiating Participant may enter a PIXL Order for the account of a public customer paired with an order for the account of another Public Customer and such paired orders will be automatically executed without a PIXL Auction, provided there is not currently an Auction in progress in the same series or the same

strategy, in which case the orders will be rejected. This rule text makes clear that with respect to Customer-to-Customer¹⁹ PIXL Orders, those orders will be rejected when an Auction is in progress. This non-substantive change adds more clarity to the rule text. The Exchange recently included this clarifying rule text in the newly adopted BX PRISM rule²⁰ and seeks to conform the PIXL rule text to that of BX PRISM. Conforming changes are also made in Phlx Rule 1080(n)(ii).

The words “or strategy” in this context are not included in the BX PRISM rule because this language specifically relates to Complex Orders,²¹ which are not transacted on BX, but may be transacted on Phlx within PIXL.²² 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 is assigned a strategy identifier by the System. With respect to Complex Order Strategies, the Exchange will permit an Initiating Participant to enter a PIXL Order for the account of a public customer paired with an order for the account of another public customer and such paired

¹⁹ These orders are customer retail orders.

²⁰ See BX Rules at Chapter VI, Section 9(vi).

²¹ A Complex Order is any order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, priced at a net debit or credit based on the relative prices of the individual components, for the same account, for the purpose of executing a particular investment strategy. Furthermore, a Complex Order can also be a stock-option order, which is an order to buy or sell a stated number of units of an underlying stock or ETF coupled with the purchase or sale of options contract(s). See Exchange Rule 1080, Commentary .08(a)(i).

²² See Phlx Rule 1080(n).

orders will be automatically executed without a PIXL Auction as long as there is not currently an Auction in progress in the same strategy. If there is an Auction in progress in the same strategy, the Customer-to Customer cross will be rejected.

To further explain same strategy, where a PIXL Order creates a second Auction where there was already an a Complex Order Strategy Auction in progress with the same combination of components and the same ratios, that PIXL Order would be rejected. If the combination of components and ratios were not the same, the PIXL Order would not be rejected. Also, a simple and Complex Order Strategy Auction may occur at the same time. The Exchange believes that this approach is consistent with the general caveat in the PIXL Auction Rule 1080(n)(ii) that only one Auction may be conducted at a time in any given series or strategy.²³

Non-Displayed Prices

In certain instances, a resting order or quote may be internally priced at a non-displayed price and would differ from the PBBO. The Internal BBO or “Reference BBO” would differ from the PBBO in a situation where the System prevents trade-throughs and locked and crossed markets. Interest will not be executed at a price that trades through another market or is displayed at a price that would lock or cross another market. If, at the time of entry, an order or quote would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

²³ Rule 1080(n)(2) is being amended to conform to newly added rule text. While this section is being amended, the Exchange notes that the amendment is not material and the general caveat continues to apply.

The Exchange is proposing more precise rule text to account for these situations where there is an automatic repricing in order to prevent trade-throughs and locked and crossed markets. The Exchange proposes to change the rule text in relevant instances to acknowledge that repricing would result in the better of the NBBO (or PBBO) or the Reference BBO.

Conforming Change

The Exchange proposes a change to Rule 1080(n)(ii)(G). The Exchange proposes to amend the sentence which states, “[i]f the PIXL Auction price (except if it is a Complex Order) is the same as that of an order on the limit order book represented in the PBBO on the same side of the market as the PIXL Order, the PIXL Order may only be executed at a price that is at least one minimum price improvement increment better than the resting order's limit price or, if such resting order's limit price is equal to or crosses the stop price, then the entire PIXL Order will trade at the stop price with all better priced interest being considered for execution at the stop price,” to include the “represented in the PBBO text. The Exchange believes that this clarifying rule text conforms the sentence to the remainder of the rule text by referencing the relation to the PBBO. This is not a substantive rule change.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act²⁴ in general, and furthers the objectives of Section 6(b)(5) of the Act²⁵ in particular, in that it is designed to promote just and equitable principles of trade, to remove

²⁴ 15 U.S.C. 78f(b).

²⁵ 15 U.S.C. 78f(b)(5).

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, by allowing for an Auction period of no less than one hundred (100) milliseconds and no more than one (1) second and providing a meaningful opportunity for Phlx members to respond to the PIXL Auction while at the same time facilitating the prompt execution of orders.

PIXL Timer

Phlx believes the proposed rule change could provide orders within PIXL an opportunity for price improvement. Also, the shorter duration of time for the Auction reduce the market risk for all members executing trades in PIXL. Initiating Participants are required to guarantee an execution at the NBBO or at a better price, and are subject to market risk while their PIXL Order is exposed to other Phlx members. While other participants are also subject to market risk, those providing responses in PIXL may cancel or modify their orders. Phlx believes that the Initiating Participant acts in a critical role within the PIXL Auction. Their willingness to guarantee the orders entered into PIXL an execution at NBBO or a better price is the keystone to an order gaining the opportunity for price improvement. Phlx believes that allowing for an auction period of no less than one hundred milliseconds and no more than one second will benefit members trading in PIXL. Phlx believes it is in these members' best interests to minimize the Auction time while continuing to allow members adequate time to electronically respond. Both the order being exposed and the responding orders are subject to market risk during the Auction.

While some members may wait to respond until later in the Auction, presumably to minimize their market risk, the Exchange believes that a majority of the orders would

respond earlier in the Auction. Based on the Exchange's experience with the PIXL mechanism,²⁶ Phlx believes that an Auction of no less than one hundred milliseconds and no more than one second will continue to provide all market participants with sufficient time to respond, compete, and provide price improvement for orders and will provide investors and other market participants with more timely executions, thereby reducing their market risk. The proposed rule allows people to respond quickly at the most favorable price while reducing the risk that the market will move against the response.

Phlx believes that its members operate electronic systems that enable them to react and respond to orders in a meaningful way in fractions of a second. Phlx believes that its members will be able to compete within no less than one hundred milliseconds and no more than one second and this is a sufficient amount of time to respond to, compete for, and provide price improvement for orders, and will provide investors and other market participants with more timely executions, and reduce their market risk.

Finally, with respect to system capacity, Phlx has analyzed its capacity and represents that it and the Options Price Reporting Authority ("OPRA") have the necessary systems capacity to handle the potential additional traffic associated with auction transactions resulting specifically from the implementation of the Auction period of no less than one hundred milliseconds and no more than one second.

²⁶ Phlx staff distributed a survey to all Phlx market maker firms inquiring as to the timeframe within which these market participants respond to an auction with a duration time ranging from less than fifty (50) milliseconds to more than one (1) second. An overwhelming number of the market maker firms that responded to the survey indicated that they were capable of responding to auctions with a duration time of at least 50 milliseconds. Of the thirty five (35) Phlx market maker firms that were surveyed, twenty (20) of these market makers responded to the survey and of those respondents 100% indicated that their firm could respond to auctions with a duration time of at least 50 milliseconds. This survey was conducted in May 2014.

Immediate or Cancel

The Exchange's amendment to remove certain uses of the term "rejected" to instead refer to the term "immediately cancelled" complies with the Exchange Act because the replacement words provide more specificity to the rule text. Today, PAN Responses that do not comply with PIXL requirements are not eligible to participant in an Auction and will be immediately cancelled, after being reviewed by the trading system. The Exchange believes that system enforced criteria will promote just and equitable principles of trade and protect investors and the public interest. The Exchange believes this change adds more clarity to the rule text to differentiate rejections and cancellations.

Allocations

The Exchange's amendment to make clear that under no circumstances will the Initiating Participant receive an allocation percentage, at the final price point, of more than 50% with one competing quote, order or PAN response or 40% with multiple competing quotes, orders or PAN responses, when competing quotes, orders or PAN responses have contracts available for execution is a rule change that makes clear that limitation to allocation in PIXL. This rule change adds more clarity to the rule text. This amendment is consistent with the Act in that it identifies the limitation in the PIXL allocation more specifically and memorializes that limitation.

The Exchange's amendment to provide more specificity concerning the allocation to which an Initiating Participant is entitled, either 40% or 50% depending on whether there are one or more competing quotes, orders or PAN responses, is a change which adds more clarity to the rule text. This amendment is consistent with the Act in that it

identifies with specificity the manner in which PIXL will allocate to an Initiating Participant.

The Exchange believes that the new language of “or 50%” is consistent with the Act because the value added from Initiating Participants guaranteeing execution of Agency Orders at a price equal to or better than the NBBO warrants (to the extent that the Initiating Participants is on the final Auction price), an Auction allocation priority of at least the same percentage of the order as any competing Auction response, quote, or order when there is only one such response, quote, or order. The Exchange also believes that the proposed rule change, like other price improvement allocation programs currently offered by competitor exchanges, will benefit investors by attracting more order flow as well as increasing the frequency that Participants initiate Auctions, which may result in greater opportunities for customer order price improvement. These percentages remain competitive with the percentage of allocations currently available on other options markets.²⁷

Stop Price

The Exchange’s amendment to revise language where the entire PIXL Order will be executed at, including, in the case of the PBBO crossing the PIXL Order stop price, the best response price(s) or, if the stop price is the best price in the Auction, at the stop price, unless the best response price is equal to or better than the price of a limit order resting on the PHLX book on the same side of the market as the PIXL Order, in which case the PIXL Order will be executed against that response...”adds more specificity to the current rule text and accounts for responses at the best price, not just equal to other

²⁷ See BX Rules at Chapter VI, Section 9.

prices. The Exchange believes that the ability to price improve is consistent with the Act because it removes impediments to and perfects the mechanism of a free and open market and a national market system.

Professional Order

The Exchange's amendment to make clear that a public customer order does not include a professional order is a non-substantive change which adds more clarity to the rule text. This amendment is consistent with the Act and other rule changes which make clear the distinction between professional and public customer orders.²⁸

Rounding

With respect to rounding, all rounding is down to the nearest integer. If rounding of the Initiating Participant's allocation results in an allocation of less than one contract, then one contract will be allocated to the Initiating Participant, only if the Initiating Participant did not otherwise receive an allocation. The Exchange is permitting the Initiating Participant to receive the benefit of the rounding in an allocation of less than one contract, only if the Initiating Participant did not otherwise receive an allocation, because the Initiating Participant is not eligible to receive residual contracts. The Exchange believes that rounding differently for the Initiating Participant as compared to all other market participants is not unfairly discriminatory since the Initiating Participant is not eligible to receive residual contracts as are other market participants, unless no other interest is available to trade. The Exchange currently provides that rounding shall occur in a fair and equitable manner. The Exchange proposes to amend this rule to

²⁸ See Securities Exchange Act Release No. 61426 (January 26, 2010), 75 FR 5360 (February 2, 2010) (SR-Phlx-2010-05) (Notice of Filing of Proposed Rule Change Relating to Professional Orders).

provide that rounding shall be down to the nearest integer. The Exchange believes that rounding down uniformly is consistent with the Exchange Act because it provides for the equitable allocation of shares among the Exchange's market participants. Also, this rule change will provide market participants with transparency as to the number of shares that they are entitled to receive as the result of rounding.

The Exchange's amendment to indicate the manner in which odd lots are allocated among market participants for simple interest specifies that for ROTS, odd lots allocated among equally priced ROTs are by random assignment of ROTs each trading day in accordance with the trading day's order assignment, provided the ROT is at the best price at which the order is being traded. For off-floor broker-dealers, odd lots are allocated in time priority, provided the off-floor broker-dealers are at the best price at which the order is being traded. The Exchange believes that the allocation of odd lots uniformly for all ROTs, and separately for all off-floor broker-dealers, is consistent with the Exchange Act because it provides for the equitable allocation of shares among the Exchange's market participants. With respect to off-floor broker-dealers, the method is consistent with the Act because it relies simply on time priority, an accepted method of allocation utilized by many options exchange to prioritize orders.

Specifically, with respect to the allocation method for odd lots for ROTs, this random assignment is basically a round robin approach to the allocation. The Exchange believes that this method results in a fair and equitable allocation of shares of these market participants because each trading day the Exchange creates a new order of assignment to allocate ROTs and that order provided an independent method to assign evenly among ROTs. Also, each trading day that assignment changes so that no one

ROT would have the ability to receive a greater allocation than another ROT. The Exchange believes that its assignment method is not subject to gaming since it is random and therefore complies with the Act because it is aimed at the protection of investors. Also, this rule change will provide market participants will transparency as to the number of shares that they are entitled to receive as the result of allocation odd lots.

With respect to the allocation of odd lots for Complex Orders, the Exchange will allocate in time priority. The Exchange believes that allocating Complex Orders in time priority uniformly is consistent with the Exchange Act because it provides for the equitable allocation of shares among the Exchange's market participants. Also, this rule change will provide market participants will transparency as to the number of shares that they are entitled to receive as the result of allocating odd lots.

Public Customers

The Exchange's amendment to add more specificity concerning public customer orders to indicate that a public customer paired with an order for the account of another public customer will be automatically executed without a PIXL Auction, provided there is not currently an Auction in progress in the same series or same strategy, in which case the orders will be rejected. This amendment makes clear that only one Auction may be conducted at a time in any given series is consistent with the Act and the PIXL approval order.²⁹ This rule text makes clear that with respect to Customer-to-Customer PIXL Orders, those orders will be rejected when an Auction is in progress in the same series. This non-substantive change adds more clarity to the rule text.

²⁹ See Securities Exchange Act 63027 (October 1, 2010), 75 FR 62160 (October 7, 2010) (SR-Phlx-2010-108).

With respect to the words “or strategy,” the BX PRISM rule does not contain similar language because this language specifically relates to Complex Orders, which are not transacted on BX, but may be transacted on Phlx within PIXL. Similar to the manner in which the Exchange would treat two Auctions in the same series, the Exchange will permit an Initiating Participant to enter a PIXL Order for the account of a public customer paired with an order for the account of another public customer and such paired orders will be automatically executed without a PIXL Auction as long as there is not currently an Auction in progress in the same strategy. With respect to Complex Order Strategies, the Exchange will permit an Initiating Participant to enter a PIXL Order for the account of a public customer paired with an order for the account of another public customer and such paired orders will be automatically executed without a PIXL Auction as long as there is not currently an Auction in progress in the same strategy. If there is an Auction in progress in the same strategy, the Customer-to-Customer cross will be rejected. To further explain same strategy, where a PIXL Order would create a second Auction where there was already an a Complex Order Strategy Auction in progress with the same combination of components and the same ratios, that PIXL Order would be rejected. If the combination of components and ratios were not the same, the PIXL Order would not be rejected. Also, a simple and Complex Order Strategy Auction may occur at the same time. The Exchange believes that this approach is consistent with the general caveat in the PIXL Auction that only one Auction may be conducted at a time in any given series or strategy.³⁰ The Exchange does not permit more than one Auction to be

³⁰ See Securities Exchange Act 63027 (October 1, 2010), 75 FR 62160 (October 7, 2010) (SR-Phlx-2010-108). See also Phlx Rule 1080(n)(ii) which states, in part,

conducted at a time in any given series and in this case also in a given strategy because the Exchange does not desire to have competing Auctions for the same series or strategy.

Non-Displayed Prices

The Exchange's proposal to amend Rule 1080(n) for the addition of language to include the "Reference BBO" to clarify where the price is equal to or better than the NBBO or PBBO and the Reference BBO (internal market BBO), due to repricing for trade-throughs or locked and crossed markets, adds clarity and precision to the current rule text. The Exchange believes that it is consistent with the Act and does not otherwise create an impediment to a free and open market because today investors are subject to this repricing and have the opportunity to trade at a better price, which could result in better executions for investors. Also, by reflecting the proper rule text to account for these order types the Exchange is providing Participants with additional information with which to anticipate the manner in which the Exchange's trading system reprices interest to prevent a trade-through or locked and crossed market.

Conforming Change

The Exchange's proposal to clarify Rule 1080(n)(ii)(G) to include a reference to the PBBO will conform the Exchange's PIXL rule text. This is not a substantive amendment. The Exchange believes that this amendment will provide further clarity to the PIXL rules.

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

"Auction Process. Only one Auction may be conducted at a time in any given series or strategy."

Act. The proposed rule change will conform the PIXL rule with the PRISM rule. The Exchange does not believe that the proposed changes produce an undue burden on inter-market competition because these changes will afford Phlx the opportunity to compete for order flow by offering an auction mechanism similar to that of other exchanges, specifically BX.

PIXL Timer

Phlx's amendment to the timer to a shorter duration of time for the Auction does not impose an undue burden on intra-market competition because Phlx believes that allowing for an auction period of no less than one hundred milliseconds and no more than one second will benefit members trading in PIXL. Phlx believes it is in these members' best interests to minimize the Auction time while continuing to allow members adequate time to electronically respond. The proposed rule allows people to respond quickly at the most favorable price while reducing the risk that the market will move against the response. Phlx believes that its members will be able to compete in no less than one hundred milliseconds and no more than one second and this is a sufficient amount of time to respond to, compete for, and provide price improvement for orders, and will provide investors and other market participants with more timely executions, and reduce their market risk.

Immediate or Cancel

The Exchange's amendment to remove certain uses of the term "rejected" to instead refer to the term "immediately cancelled" does not impose an undue burden on intra-market competition because PAN Responses that do not comply with PIXL requirements are not eligible to participate in an Auction and will be immediately

cancelled after being reviewed by the trading system. The system enforced criteria will be applied uniformly to all Phlx members. The Exchange believes this non-substantive change adds more clarity to the rule text.

Allocations

The Exchange's amendment to make clear that under no circumstances will the Initiating Participant receive an allocation percentage, at the final price point, of more than 50% with one competing quote, order or PAN response or 40% with multiple competing quotes, orders or PAN responses, when competing quotes, orders or PAN responses have contracts available for execution does not impose an undue burden on intra-market competition. This rule change adds more clarity to the rule text. This amendment is consistent with the Act in that it identifies an existing limitation in the PIXL allocation more specifically and memorializes that limitation. The Exchange believes that the new language of "or 50%" does not create an undue burden on competition because this language is similar to language in BX PRISM and applies to all market participants utilizing Phlx.³¹ The Exchange's amendment to provide more specificity concerning the allocation to which an Initiating Participant is entitled, either 40% or 50% depending on whether there are one or more competing quotes, orders or PAN responses does not impose an undue burden on intra-market competition. This is a rule change adds more clarity to the rule text. This amendment does not impose an undue burden on intra-market competition, rather, it identifies with specificity the manner in which PIXL will allocate to an Initiating Participant.

Stop Price

³¹ See NASDAQ BX, Inc. ("BX") Rules at Chapter VI, Section 9.

The Exchange's amendment to revise language where the entire PIXL Order will be executed at, including, in the case of the PBBO crossing the PIXL Order stop price, the best response price(s) or, if the stop price is the best price in the Auction, at the stop price, unless the best response price is equal to or better than the price of a limit order resting on the PHLX book on the same side of the market as the PIXL Order, in which case the PIXL Order will be executed against that response..." does not impose an undue burden on intra-market competition. Rather, this language adds more specificity to the current rule text and accounts for better priced orders.

Professional Order

The Exchange's amendment to make clear that a public customer order does not include a professional order does not impose an undue burden on intra-market competition this rule change is consistent with the distinction between professional and public customer orders.

Rounding

With respect to rounding, all rounding is down to the nearest integer. If rounding of the Initiating Participant's allocation results in an allocation of less than one contract, then one contract will be allocated to the Initiating Participant, only if the Initiating Participant did not otherwise receive an allocation. The Exchange is permitting the Initiating Participant to receive the benefit of the rounding in an allocation of less than one contract, only if the Initiating Participant did not otherwise receive an allocation, because the Initiating Participant is not eligible to receive residual contracts. The Exchange does not believe that the proposal to round all remaining shares down to the

nearest integer imposes an undue burden on competition because the Exchange will uniformly round in this matter.

If there are contracts remaining, such contracts shall be allocated for simple interest after rounding by randomly assigning all ROTs an order of allocation each trading day, and allocating orders, quotes and sweeps in accordance with the trading day's order assignment, provided the ROT is at the best price at which the order, quote or sweep is being traded, except with respect to Complex Orders, which allocation is described in Rule 1080, Commentary .07. In the event that there are remaining contracts to be allocated for interest after rounding, such remaining contracts will be allocated in time priority, provided the off-floor broker-dealers are at the best price at which the order is being traded. Residual remaining shares will be allocated in time priority for Complex Orders.

With respect to allocating remaining contracts, the Exchange does not believe that the proposal to allocate remaining contracts for ROTs by random assignment creates an undue burden on competition because the method, which is basically round robin, results in a fair and equitable allocation of shares of these market participants. The Exchange does not believe that allocating remaining contracts to off-floor broker-dealers in time priority creates an undue burden on competition because the method will be applied uniformly among these participants. Finally, the Exchange does not believe that allocating remaining contracts to Complex Orders in time priority creates an undue burden on competition because the method will be applied uniformly to all transactions involving Complex Orders.

Public Customers

The Exchange's amendment to add more specificity concerning public customer orders to indicate that a public customer paired with an order for the account of another public customer will be automatically executed without a PIXL Auction, provided there is not currently an Auction in progress in the same series or same strategy, in which case the orders will be rejected, does not impose an undue burden on intra-market competition. This non-substantive change adds more clarity to the rule text. Also, the Exchange's amendment to add more specificity concerning public customer orders to indicate that a public customer paired with an order for the account of another public customer will be automatically executed without a PIXL Auction, provided there is not currently an Auction in progress in the same strategy, does not impose an undue burden on intra-market competition because this is consistent with the general caveat in the PIXL Auction that only one Auction may be conducted at a time in any given series or strategy.

Non-Displayed Prices

The Exchange's proposal to amend Rule 1080(n) for the addition of language to include the "Reference BBO" to clarify where the price is equal to or better than the NBBO or PBBO and the Reference BBO (internal market BBO), due to repricing for trade-throughs or locked and crossed markets, does not impose an undue burden on intra-market competition, rather the more precise language adds clarity and precision to the current rule text. This additional information will provide all market participants with information to anticipate the manner in which the Exchange's trading system operates in PIXL Auctions.

Conforming Change

The Exchange's proposal to clarify Rule 1080(n)(ii)(G) to include a reference to the PBBO to conform the Exchange's PIXL rule text does not impose an undue burden on intra-market competition because the amendment is non-substantive.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act³² and subparagraph (f)(6) of Rule 19b-4 thereunder.³³

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, 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 pre-operative waiting period contained in Rule 19b-4(f)(6)(iii) so that Phlx make conform its current rule text to that of BX PRISM to compete effectively against

³² 15 U.S.C. 78s(b)(3)(a)(iii).

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

this market. The Commission has determined to waive the 30-day operative delay in order to permit Phlx to implement without delay its proposed rule changes to incorporate recently-approved provisions in the substantially similar rules of BX. The Commission believes that such waiver is consistent with the protection of investors and the public interest as the proposed changes do not raise any material new issues that have not been previously considered by the Commission.³⁴

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2016-40 on the subject line.

³⁴ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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-2016-40. 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 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-2016-40 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.³⁵

Robert W. Errett
Deputy Secretary

³⁵ 17 CFR 200.30-3(a)(12).

