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Elizabeth M . Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street N.E
Washington, D.C 20549-0609

Re: File No. SR-Phlx-2014-47

Dear Ms. Murphy,

NASDAQ OMX PHLX, LLC ("Phlx" or "Exchange") submits this letter as a supplemental document to SR-Phlx-2014-47 ("Rule Proposal"), which filing amended certain portions of the Phlx Pricing Schedule. Among other things, the Phlx Rule Proposal reduced the Firm Options Transaction Charge in Penny Pilot Options[1] and non-Penny Pilot Options for electronic simple orders in various symbols.[2] Therefore, a Firm that was previously assessed an electronic Options Transaction Charge for electronic simple orders in these symbols of $0.48 per contract (Penny Pilot Options) or $0.70 (non-Penny Pilot Options) is assessed $0.25 per contract as of July 1, 2014.

Phlx noted in the Rule Proposal that the reduction of the Firm Options Transaction Charge to $0.25 per contract in the Specified Options is reasonable, equitable and not unfairly discriminatory, because it will allow the Exchange to incentivize Firms to send electronic simple orders in these symbols to the Exchange and because pricing by symbol is a common practice on many U.S. options exchanges as a means to incentive order flow to be sent to an exchange for execution. The Exchange believes it is reasonable to use a pricing reduction to provide additional opportunities for members to increase their participation in the market. The Exchange noted that

[1] The Penny Pilot was established in January 2007 and was last extended in May 2014. See Securities and Exchange Release No. 72245 (May 23, 2014), 79 FR 31164 (May 30, 2014) (SR-Phlx-2014-37).

[2] The symbols include Apple Inc. ("AAPL"), Bank of America Corporation ("BAC"), iShares MSCI Emerging Markets ETF ("EEM"), Facebook, Inc. ("FB"), iShares China Large-Cap ETF ("FXI"), iShares Russell 2000 ETF ("IWM"), PowerShares QQQ Trust ("QQQ"), Twitter, Inc. ("TWTR"), iPath S&P 500 VIX Short-Term Futures ETF ("VXX") and Financial Select Sector SPDR Fund ("XLF") ("Specified Options").

its fees remain competitive with fees at other options markets. Firms are assessed $0.25 in the Specified Options which is less than the fees assessed Professional and Broker-Dealer transactions ($0.48 per contract for Penny Pilot Options or $0.70 per contract for non-Penny Pilot Options). The Exchange noted that the fee differential between Firms and Broker-Dealers is equitable and not unfairly discriminatory because it is similar to the pricing offered by another options exchange, MIAX Options Exchange ("MIAX"). MIAX assesses non-member Broker-Dealers a $0.45 per contract standard options transaction fee and assesses a Firm a $0.25 per contract standard options transaction fee. Further, MIAX assesses Professionals $0.25 per contract similar to a Firm.

Further, Phlx noted in its Rule Proposal that it desires to incentivize Firms that receive reduced rates at other options exchanges to select Phlx as a venue by offering competitive pricing to these market participants. Such competitive, differentiated pricing exists today on other options exchanges. The Chicago Board of Options Exchange, Incorporated ("CBOE") assesses a reduced fee to Clearing Trading Permit Holder Proprietary participants of $0.35 per contract for electronic penny and non-penny pilot options. CBOE assesses Broker-Dealers/Professionals/Non-Trading Permit Holder Market Makers a $0.45 per contact fee for electronic penny pilot options and a $0.60 per contract fee for electronic non-penny pilot options classes.[3] A Clearing Trading Permit clears in the Firm range at OCC.[4] CBOE has a differential as between Clearing Trading Permit Holder Proprietary participants (the equivalent of Firm on Phlx) and other non-Customer, non-Market Maker participants of $0.10 per contract in electronic penny pilot options and $0.25 per contract in non-penny pilot options. Further, CBOE assesses Broker-Dealers/Professionals/Non-Trading Permit Holder Market Makers between $0.35 - $0.44 per contract for SPX executions (a singly listed CBOE proprietary product) versus the Clearing Trading Permit Holder Proprietary (the equivalent of Firm on Phlx) who is assessed between $0.25 - $0.01 per contract in SPX for a maximum differential of $0.43 per contract in a CBOE proprietary product.[5]

Phlx's differential in its Rule Proposal, as between a Firm and other non-Customer, non-Specialist/Market Makers, is less than CBOE's pricing differential. Further, Phlx argued that the pricing is competitive given current pricing differentials on other options exchange such as MIAX and CBOE. The Exchange believes there is nothing impermissible about Phlx offering a discount solely to Firm since this is consistent with the above examples and longstanding differentials between Firm, other broker-dealers and professionals. The options exchanges have differentiated between retail customers and professional customers, broker/dealers clearing in the "Firm" range at The Options Clearing Corporation ("OCC"), broker/dealers registered as market makers, away market makers, early-adopting market makers, and many others; and the Commission has permitted price differentiation based on whether an order is processed manually versus electronically. The proposal is consistent with previously accepted pricing proposals accepted by the Commission.

[3] See CBOE's Fees Schedule.

[4] See CBOE's Fees Schedule at note 11. See also Regulatory Circular RG13-038.

[5] Id.

Phlx assesses pricing to Firms to any transaction that is identified by a member or member organization for clearing in the Firm range at OCC.[6] Members of OCC are subject to OCC's By-Laws and Rules. OCC defines and describes clearing in the Firm range in its Rules. All OCC Member transactions that clear in the Firm range at OCC are subject to the same set of rules regardless on which options exchange the options was transacted on and sent to clearing.[7] As noted herein, CBOE defines Firm in the same manner as Phlx. CBOE's Regulatory Circular RG13-038 defines the various origin codes and indicates that "F" clears in the firm range at OCC with respect to firm proprietary accounts. Further CBOE caps trades for Clearing Trading Permit Holders in addition to the reduced fee noted herein.

MIAX also has a cap on Firm transactions similar to CBOE, which further reduces Firm fees.[8] MIAX notes that Firm orders are orders entered by an electronic exchange member or EEM that is executed for an account identified by the EEM for clearing in the OCC "Firm" range.[9] It should also be noted that NYSE MKT LLC ("NYSE Amex") assesses electronic Broker Dealers, Professional Customers, and Non NYSE Amex Options Market Makers $0.44 per contract and Firm Proprietary transactions are assessed $0.34 per contract in penny pilot options.[10] Phlx does not have any cap on Firm orders with respect to electronic orders. NYSE Amex defines transactions that clear in the Firm range as Firm.[11]

With respect to the differential as between Firms and Professionals, Phlx argued in its Rule Proposal that Professionals have the same technological and information advantages as Broker-Dealers trading for their own account,[12] and as such receive similar rates. In its filing, NYSE Amex noted that "[t]he Exchange believes that the per contract differential between these market participants [Firms, Broker Dealers, Professional Customers and Non NYSE Amex Options Market Makers] is reasonable, equitable and not unfairly discriminatory because, among other reasons (discussed below), the rate differential falls within the range that already exists in

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[6] See the Preface to Phlx's Pricing Schedule.

[7] Of note, Joint Back Office ("JBO") Participants clear in the Firm range at OCC. These participants are defined in OCC's Rules.

[8] See MIAX's Fee Schedule.

[9] Id.

[10] See NYSE Amex's Options Fee Schedule.

[11] Id.

[12] See Securities Exchange Act Release No. 66668 (March 28, 2012), 77 FR 20090 (April 3, 2012) (SR-Phlx-2012-35) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Equity Options Fees and Singly Listed Options Fee) at page 20091.

the industry."[13] Similar to the Phlx Rule Proposal, NYSE Amex cited MIAX and CBOE in support of its statement that their fee differential was similar to those on competing exchanges, on similar market participants, for the same types of transactions. NYSE Amex, citing a MIAX rule proposal, noted its fee differential as between Firms and other market participants is designed to attract order flow to the Exchange in a manner consistent with other exchanges, which will, in turn, increase liquidity and enhance the quality of the market to the benefit of the investing public.

The Exchange believes that similar to MIAX, CBOE and NYSE Amex it should be permitted to file proposals which also favor Firms as compared to Broker-Dealers and Professionals. The Exchange believes that similar to arguments made by other options markets, this proposal does not impose an undue burden on competition because it is intended as a competitive response to create an additional incentive for Firms to send order flow to the Exchange in a manner consistent with other exchanges. Firms that value such incentives will have another venue to send their order flow. To the extent that there is additional competitive burden on non-Firm members, the Exchange believes that this is appropriate because the proposal should incent members to direct additional order flow to the Exchange and thus provide additional liquidity that enhances the quality of its markets and increases the volume of contracts traded here. To the extent that this purpose is achieved, all the Exchange's market participants should benefit from the improved market liquidity. The Securities and Exchange Commission ("Commission") has for many years accepted such differentiations as that proposed in the Rule Proposal.

In summary, Phlx respectfully submits that the Commission should not institute proceedings, but rather permit the Rule Proposal to remain effective and permit the Exchange to compete with other options exchanges which already have such fees in places. The Phlx Rule Proposal is consistent with many years of past practice as reflected in dozens of rule filings by multiple options exchanges. To depart from this history to invalidate one exchange rule while permitting similar rules to stand would be arbitrary and capricious.

Sincerely,

Walt Smith
Vice President

[13] See Securities Exchange Act Release No. 47485 (August 13, 2014), 79 FR 47485 (August 7, 2014) (SR-NYSEMKT-2014-66).