

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-74874; File No. SR-Phlx-2015-37)

May 5, 2015

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Exchange Rules to Describe How All-or-None Orders Are Handled by Its New Options Floor Broker Management System

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 22, 2015, NASDAQ OMX 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 the Substance of the Proposed Rule Change

The Exchange proposes to amend Exchange rules to describe how All-or-None (“AON”) orders are handled by its new Options Floor Broker Management System (“FBMS”).

The text of the proposed rule change is below; proposed new language is italicized; proposed deletions are in brackets.

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**A-9 All-or-None Option Orders**

An all-or-none option order is a limit order which is to be executed in its entirety, or not at all. Unlike a fill-or-kill order, an all-or-none order is not cancelled if it is not executed as soon as it is represented in the trading crowd. An all-or-none order has no standing respecting executions in the crowd except with respect to other all-or-none orders.

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

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

When represented in the crowd, [A]all-or-none orders are not included as part of the bid or offer. [However, an all-or-none order entrusted to a Specialist should be disclosed to the trading crowd if such order falls within or upon the bid or offer for the particular option series.

For example, if the market in XYZ Oct 30 calls is 4 - 4.25, 10×15, and there is an all-or-none order on the Specialist's book to sell 10 XYZ Oct 30 calls at 4.25 all-or-none, the Specialist, in response to a request for the market in XYZ Oct 30 calls, should respond:

"The market is 4 - 4.25, 10×15, 10 (to sell) at 4.25 all-or-none."

Accordingly, under this policy, all-or-none option orders should be announced to the trading crowd as part of the quoted market, but not as part of the bid or offer.]

When entered electronically pursuant to Rule 1080 or into Options Floor Broker Management System pursuant to Rule 1063, an all-or-none order has standing and is eligible for execution in time priority with all other customer orders and all-or-none professional orders (as specified in Rule 1000(b)(14)) at that price if the all-or-none contingency can be met.

## FINE SCHEDULE

Fine not applicable

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## 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

## Background

Today, the Exchange is operating two versions of FBMS as part of an implementation period for the new FBMS. The old FBMS enabled Floor Brokers and/or their employees to enter, route, and report transactions stemming from options orders executed manually (verbally) in open outcry on the Exchange. It also established an electronic audit trail for options orders represented by Floor Brokers on the Exchange. Floor Brokers can use old FBMS to submit orders to the PHLX XL II System (“System”) pursuant to Rule 1063, rather than executing the orders in the trading crowd.

With the new FBMS, all options transactions on the Exchange involving at least one Floor Broker can continue to be represented in open outcry in the trading crowd but are now required to be executed by and through the new FBMS. In connection with order execution, the Exchange allows FBMS to execute two-sided orders entered by Floor Brokers, including multi-leg orders up to 15 legs, after the Floor Broker has represented the orders in the trading crowd. FBMS also provides Floor Brokers with an enhanced functionality called the complex calculator that calculates and displays a suggested price of each individual component of a multi-leg order, up to 15 legs, submitted on a net debit or credit basis. The Exchange deployed the new FBMS in March 2014. Despite the initial intent to phase out the old FBMS after an implementation period involving the old and new FBMS operating concurrently, the Exchange has determined to operate the old FBMS until November 3, 2015 and is planning to implement a new, third FBMS, the details of which will be filed as a proposed rule change.<sup>3</sup> In the event that the Floor Broker is utilizing the new FBMS and the new FBMS malfunctions or is otherwise not available after a Floor Broker has entered an order, the Floor Broker can re-enter that order into the old FBMS.

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<sup>3</sup> Securities Exchange Act Release No. 73586 (November 13, 2014), 79 FR 68931(November 19, 2014)(SR-Phlx-2014-71).

## Proposal

The purpose of the proposal is to address the way AON orders on the book are handled electronically by the new FBMS.<sup>4</sup> In its filing for approval of the new FBMS, the Exchange addressed AON orders merely by referring to Advice A-9, which provides, in pertinent part, that an AON option order is a limit order which is to be executed in its entirety, or not at all.<sup>5</sup> Advice A-9 further provides that an AON order has no standing in the crowd except with respect to other AON orders. Accordingly, when a Floor Broker using the old FBMS executes an order in the trading crowd today where there is an AON order executable against the Floor Broker's order on the contra-side, the Floor Broker can skip that AON order and trade with another quote or order at that price, because the AON order has no standing. This would continue to be the case for verbal executions, which occur when the old FBMS is used, when the new FBMS malfunctions<sup>6</sup> and where there is no Floor Broker involved.<sup>7</sup> The Exchange is not proposing to change this, other than to make a slight language change to clarify that the execution is occurring in the trading crowd.

Although this is how AON orders are treated on the trading floor today when executed manually in the trading crowd, AON orders are treated differently when the new FBMS is used because the System performs the execution. Specifically, in the new FBMS, AON orders that can trade against any eligible interest, not just other AON orders, and they are not skipped. When a Floor Broker seeks to execute an order using the new FBMS where there is an AON order at a price equal to or better than the Floor Broker's order on the contra-side, the Floor

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<sup>4</sup> Only customers and professionals can submit AON orders. See Rules 1000(b)(14) and Rule 1080(b).

<sup>5</sup> See also Rule 1066(c)(4).

<sup>6</sup> Rule 1063(e)(ii).

<sup>7</sup> Rule 1000(f)(ii).

Broker must enter his order into the new FBMS and execute against the full size of the AON order electronically. If the Floor Broker does not fulfill the full size of the AON order, the Floor Broker's order will be returned with no execution occurring.

This is the same way that AON orders are treated by the System; they are subject to the normal price and time priority principles of Rule 1014, except that the AON contingency must be met for the AON order to trade. An AON order with time priority will trade in time priority before another customer order if its size contingency can be met. If the size contingency order cannot be met, the AON order will be skipped and a customer order behind it in time priority may execute. Because the new FBMS executes orders electronically and generally provides more electronic functionality, the Exchange believes it is appropriate to address AON orders executed against orders submitted through the new FBMS in the same way.

Accordingly, Advice A-9 is proposed to be amended to expressly state that how AON orders are handled when executed manually (verbally) as well as when executed electronically. With respect to electronic AON orders, the Exchange proposes to expressly state that an AON order has standing and is eligible for execution in time priority with all other customer orders and AON professional orders (as specified in Rule 1000(b)(14)) at that price if the AON contingency can be met. The Exchange is not changing what types of orders a professional can submit nor the priority of those orders. Rule 1000(b)(14) will continue to state 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). It will also continue to state that a professional will be treated in the same manner as an off-floor broker-dealer for purposes of Rules 1014(g)(except with respect to AON orders, which will be treated like customer orders, except that orders submitted pursuant to Rule 1080(n)

for the beneficial account(s) of professionals with an AON designation will be treated in the same manner as off-floor broker-dealer orders), 1033(e), 1064.02 (except professional orders will be considered customer orders subject to facilitation), 1080(n) and 1080.08 as well as Options Floor Procedure Advices B-6, B- 11 and F-5.

The Exchange also proposes to delete the example at the end of Advice A-9. It is obsolete for several reasons; it refers to the “Specialist's book,” which is now generally considered the Exchange's book, the limit order book or just the book; and announcing AON orders on the book to the crowd does not occur where there is a remote specialist. For similar reasons, the Exchange proposes to delete reference to an AON order being “entrusted to a Specialist.” This process is no longer performed.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>8</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>9</sup> in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest, by specifically providing how an AON order executes against orders submitted through the new FBMS and by improving the treatment of such AON orders as opposed to AON orders handled manually. Specifically, the proposal results in improving the treatment of electronic AON orders by increasing their interaction with other orders on the Exchange, because AON orders are electronically executed against contra-side orders entered into the new FBMS. More specifically, such orders have standing and time priority, as explained above. The Exchange is not changing the priority of afforded to electronic AON orders, but rather is codifying such treatment in its rules.

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<sup>8</sup> 15 U.S.C. 78f(b).

<sup>9</sup> 15 U.S.C. 78f(b)(5).

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. This treatment of AON orders should help the Exchange compete with other floor-based exchanges for AON orders. More importantly, the proposal should result in more interaction between AON orders and all other orders, as explained above, thereby promoting a more competitive marketplace.

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) of the Act<sup>10</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>11</sup>

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative for 30 days after the date of filing.<sup>12</sup> 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

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<sup>10</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>11</sup> 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.

<sup>12</sup> 17 CFR 240.19b-4(f)(6)(iii).

interest.<sup>13</sup> The Exchange has asked the Commission to waive the 30-day operative delay so that the proposed rule change may become operative immediately upon filing. The Commission notes that the proposal is designed to provide Exchange members with more specificity regarding how the Exchange handles AON orders in the new FBMS system. The Commission also notes that the Exchange represents that the proposal does not affect the priority of electronic AON orders. Accordingly, the Commission hereby waives the 30-day operative delay and designates the proposal operative upon filing.<sup>14</sup>

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.<sup>15</sup> If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule change should be approved or disapproved.<sup>16</sup>

#### 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

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<sup>13</sup> Id.

<sup>14</sup> 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).

<sup>15</sup> 15 U.S.C. 78s(b)(3)(C).

<sup>16</sup> Id.



- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2015-37 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-Phlx-2015-37. 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 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-2015-37, 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.<sup>17</sup>

Jill M. Peterson  
Assistant Secretary

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