

### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Phlx Rule 1063, Responsibilities of Floor Brokers, and Phlx Rule 1080, Philadelphia Stock Exchange Automated Options Market (AUTOM) and Automatic Execution System (AUTO-X)<sup>4</sup> by adopting new Phlx Rules 1063(e) and 1080, Commentary .06 relating to the Exchange's Options Floor Broker Management System (the "System") for equity options and index options. The Exchange further proposes to amend various Exchange Rules and Options Floor Procedure Advices ("OFPA's") that currently include order ticket marking requirements to require Floor Brokers to make similar notations in the System. Finally, the Exchange proposes to amend Phlx Rule 1051, General Comparison and Clearance Rule, and corresponding OFPA F-2, to provide that when an order represented by a Floor Broker is executed against a limit order on the book, the specialist must report or ensure that the portion of the transaction represented by such specialist is reported to the tape.

The text of the proposed rule change is set forth below. New text is in italics; deletions are in brackets.

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#### Obligations And Restrictions Applicable To Specialists And Registered Options Traders

##### Rule 1014.

(a)-(f) No change.

##### (g) Equity Option and Index Option Priority and Parity

(i)(A) Exchange Rules 119 and 120 direct members in the establishment of priority of orders on the floor. In addition, equity option and index option orders of controlled accounts are required to yield priority to customer orders when competing at the same price, as described below.

For the purpose of paragraph (g) of this Rule, "Initiating Order" means an incoming contra-side order. "Remainder of the Order" means the portion of an Initiating Order that remains following the allocation of contracts to customers

that are on parity, in accordance with this Rule 1014(g)(i). The remainder of the Order shall be allocated pursuant to this Rule 1014. An account type is either a controlled account or a customer account. A controlled account includes any account controlled by or under common control with a broker-dealer. Customer accounts are all other accounts.

Orders of controlled accounts must yield priority to customer orders. Orders of controlled accounts are not required to yield priority to other controlled account orders.

Orders of controlled accounts, other than ROTs and Specialists market making in-person, must be: (1) Verbally communicated as for a controlled account when placed on the floor and when represented to the trading crowd and (2) recorded as for a controlled account by appropriately circling the "yield" field on the floor ticket of any such order (except market maker tickets) *or, in the case of trades involving a Floor Broker, by making the appropriate notation the Options Floor Broker Management System.*

(ii)-(v) No change.

(vi) In order to facilitate timely tape reporting of executed trades, it is the duty of the persons identified below to allocate, match and time stamp manually executed trades as well as to submit the matched trade to the appropriate person at the respective specialist post immediately upon execution:

(i)-(iv) No change.

The person responsible for trade allocation (the "Allocating Participant") shall, for each trade allocated by such Allocating Participant, circle his or her badge identification number on the trade tickets, identifying himself or herself as the Allocating Participant in the particular trade. If the Allocating Participant is not a participant in the trade to be allocated, he/she shall identify himself/herself by initiating the trade tickets. *In the case of a trade in which a Floor Broker is the Allocating Participant, such Floor Broker shall allocate the trade using the Options Floor Broker Management System.*

#### Execution Guarantees

Rule 1015. (a)(i)-(v) No change.

(vi) Floor Brokers must make reasonable efforts to ascertain whether each order entrusted to them is for the account of a customer or a broker-dealer. If it is ascertained that the order is for the account of a broker-dealer, the responsible Floor Broker must advise the crowd of that fact prior to bidding/ offering on behalf of the order or executing the order. The [responsible

floor agent] *Floor Broker or his employees* must [legibly mark the floor ticket as "B/D"] *make the appropriate notation on the Options Floor Broker Management System* when it has been determined that the order is for an account of a broker/dealer.

(vii) No change.

(b) No change.

#### General Comparison And Clearance Rule

Rule 1051. (a) A member or member organization initiating an options transaction, whether acting as principal or agent, must report or ensure that the transaction is reported within 90 seconds of the execution to the tape, *except that, when an order represented by a Floor Broker is executed against a limit order on the book, the specialist must report or ensure that the portion of the transaction represented by such specialist is reported to the tape.* Transactions not reported within 90 seconds after execution shall be designated as late. A pattern or practice of late reporting without exceptional circumstances may be considered conduct inconsistent with just and equitable principles of trade.

(b) No change.

#### Responsibilities of Floor Brokers

Rule 1063. (a)-(d) No change.

(e) *Options Floor Broker Management System. In order to create an electronic audit trail for options orders represented by Floor Brokers on the Exchange's Options Floor, a Floor Broker or such Floor Broker's employees shall, contemporaneously upon receipt of an order and prior to the representation of such an order in the trading crowd, record all options orders represented by such Floor Broker onto the electronic Options Floor Broker Management System (as described in Rule 1080, Commentary .06). The following specific information with respect to orders represented by a Floor Broker shall be recorded by such Floor Broker or such Floor Broker's employees: (i) The order type (i.e., customer, firm, broker-dealer); (ii) the option symbol; (iii) buy, sell, or cancel; (iv) call, put, complex (i.e., spread, straddle), or contingency order as described in Rule 1066; (v) number of contracts; (vi) limit price or market order or, in the case of a complex order, net debit or credit, if applicable; (vii) whether the transaction is to open or close a position. Upon the execution of such an order, the Floor Broker shall enter the time of execution of the trade. Floor Brokers or their employees shall enter clearing information onto the Options Floor Broker Management*

<sup>4</sup> AUTOM is the Exchange's electronic order delivery, routing, execution and reporting system, which provides for the automatic entry and routing of equity option and index option orders to the Exchange trading floor. Orders delivered through AUTOM may be executed manually, or certain orders are eligible for AUTOM's automatic execution feature, AUTO-X. Equity option and index option specialists are required by the Exchange to participate in AUTOM and its features and enhancements. Option orders entered by Exchange members into AUTOM are routed to the appropriate specialist unit on the Exchange trading floor.