

their account status on a real-time basis. Thus, the Exchange believes that the five-minute reporting requirement for clearing information to be entered onto the System should enable crowd participants to better manage their risk.

#### System Malfunctions

Proposed Phlx Rule 1063 would provide that, in the event of a malfunction in the Options Floor Broker Management System, Floor Brokers shall record the required information on trade tickets, and shall not represent an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets shall be time stamped upon the execution of such an order. This reflects the current practice of recording information concerning orders represented and executed by Options Floor Brokers onto trade tickets, and using time stamps to record the time of receipt of an order, and the time of execution.

#### Trade Reporting

Currently, Exchange members or member organizations that initiate an options transaction are required to report the execution of such trades within 90 seconds of the execution.<sup>10</sup> Trades are currently reported by Exchange personnel known as Data Entry Terminal ("DET") Operators. DET Operators are situated at various locations on the Exchange floor, at the specialist's post. Once a trade is executed, the person who initiated the trade is required to submit the trade ticket(s) to the DET Operator, who reports the transaction by typing and entering the trade information into the DET, which in turn reports the trade to the Options Price Reporting Authority ("OPRA").

The System includes a feature that would report transactions executed in the trading crowd by the Floor Broker automatically upon execution. Once a trade involving a Floor Broker is executed in the trading crowd, such a Floor Broker would simply indicate on the system that the order was executed, which would automatically generate an electronic report. The Exchange believes that this feature should enhance the ability of Floor Brokers to comply with the 90-second trade reporting requirement. Further, such reporting

activity would be captured in the electronic audit trail, thus facilitating electronic surveillance for compliance with the reporting requirement.

The Exchange is proposing amendments to Phlx Rule 1051 and OFPA F-2 in order to address the situation in which a Floor Broker who initiates a transaction executes all or a portion of the transaction against a contra-side limit order on the specialist's limit order book.<sup>11</sup> Currently, in such a situation, the specialist manually executes the booked limit order on the AUTOM System against the order represented by the Floor Broker. Upon such manual execution, the transaction is reported automatically by AUTOM.

The proposed amendment would 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 purpose of this provision is to address the situation in which an order represented by a Floor Broker executes a booked limit order is executed by the specialist, in which case AUTOM automatically reports the execution of the booked limit order. Thus, the Floor Broker in this situation would not be required to report that portion of the transaction on the System, despite the fact that the Floor Broker involved may have in fact "initiated" the transaction. If the booked limit order represents the entire contra-side to the order represented by the Floor Broker, the specialist would be required to report the entire transaction. If the booked limit order represents a portion of the transaction, the specialist would be required to report that portion of the transaction, while the Floor Broker initiating the transaction would be responsible for reporting the remaining portion of the transaction he or she initiated.

#### Ticket Marking Requirements and the System

Currently, various Exchange rules require Floor Brokers to mark trade tickets with certain notations, depending on the type of trade and the crowd participants involved. The Exchange is proposing to amend the rules concerning the ticket marking requirements so that Floor Brokers

would be required to enter similar notations onto the System.

Specifically, the Exchange proposes the following amendments to the current Phlx rules and OFPAs concerning ticket marking requirements in order to make such rules and OFPAs applicable to the System:

- Phlx Rule 1015, Execution Guarantees, and corresponding OFPA A-11, Responsibility to Fill Customer Orders, would be amended to require a Floor Broker or his employees to make the appropriate notation on the System when it has been determined that the order is for an account of a broker/dealer.

- Phlx Rule 1064 and corresponding OFPA B-11, Crossing, Facilitation and Solicited Orders, would be amended to require that Floor Brokers who wish to execute orders as a facilitation cross (or their employees) to enter the appropriate indication onto the System for the public customer's order, together with all of the terms of the order, including any contingency involving other options or the underlying or related securities. The sections of the Rule and OFPA concerning solicited orders would require a Floor Broker or his employees to indicate on the System that the trade involves a solicited order.

- Phlx Rule 1014(g)(i)(A) and corresponding OFPA B-6, Priority of Options Orders for Equity Options and Index Options by Account Type, would be amended to require Floor Brokers representing controlled accounts<sup>12</sup> to indicate on the system that such accounts must yield to customer orders in parity situations.

- Phlx OFPA B-8, Use of Floor Brokers by an ROT While on the Floor, would be amended to require a Floor Broker or his employees to indicate on the System whether an order for an ROT that is represented by the Floor Broker is opening or closing, in order to remain consistent with the requirements of proposed Phlx Rule 1063(e) and proposed OFPA C-2.

- Phlx OFPA C-2, Clocking Tickets for Time of Entry on the Floor, which currently requires an introducing Floor Brokerage unit to time stamp an order when it is received, would be re-titled and amended to include the requirements concerning the System included in proposed Phlx Rule 1063(e).

- Phlx OFPA C-3, Handling Orders of Phlx ROTs and Other Registered Options Market Makers, would be amended to require, in the situation in

<sup>10</sup> Phlx Rule 1051 and OFPA F-2 currently provide that 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. Transactions not reported within 90 seconds after execution shall be designated as late.

<sup>11</sup> The electronic "limit order book" is the Exchange's automated specialist limit order book, which automatically routes all unexecuted AUTOM orders to the book and displays orders real-time in order of price-time priority. Orders not delivered through AUTOM may also be entered onto the limit order book. See Phlx Rule 1080, Commentary .02.

<sup>12</sup> Phlx Rule 1014(g)(i)(A) defines a "controlled account" as any account controlled by or under common control with a broker-dealer. Customer accounts are all other accounts.