

## PHLX COMPLEX ORDER SYSTEM: OVERVIEW OF CLEARANCE PRACTICES

As of **February 1, 2011**, the NASDAQ OMX PHLX<sup>SM</sup> (PHLX<sup>®</sup>) Complex Order system accepts orders with up to six components (i.e. legs), *one* of which can be stock. When a complex order containing a stock component is executed on PHLX, the stock portion of the trade is reported and cleared separately from the option leg(s).

### Complex Order System Transactions – Option Component(s)

The option portion of any complex order execution is trade reported and cleared as normal. There are no special instructions or new information needed for the option portion of a complex order execution.

### Complex Order System Transactions – Stock Component

#### **Trade Reporting**

The stock component of complex order executions is reported to the equity consolidated tape via [ACT](#). The NASDAQ Options Services, LLC (NOS) broker dealer is the executing party on the trade report. No other parties are named in the trade report to the tape. Trades are trade-through exempt because they are contingent upon the pricing of a derivative instrument (i.e. the option leg(s) of the complex order transaction).

#### **Clearing**

The stock component of complex order executions is cleared via ACT. NOS reports clearing only, no tape transactions to ACT. NOS is the buyer to every seller and the seller to every buyer, i.e. NOS is in the middle of every stock transaction tied to a complex order execution. The stock clearing transactions on ACT are “locked-in” at the National Securities Clearing Corporation (NSCC) for clearance. No further action is needed by firms who are parties to the trade, i.e. firms do not have to meet NOS on ACT.

#### **Example:**

- Member Firm A sells a buy-write (long stock, short call) to Member Firm B in the PHLX Complex Order System.
- NOS executes and reports the stock portion of the trade to the consolidated tape via ACT (no other parties are associated with the trade report).
- NOS submits a locked-in, no-tape, clearing record to ACT buying from Member Firm A.
- NOS submits a locked-in, no-tape, clearing record to ACT selling to Member Firm B.
- ACT submits all clearing records to the NSCC for clearance.

NOS will be represented by the PHLX MPID on ACT and the 520 clearing number at the NSCC.

### Forms and Agreements

#### **AGU**

FINRA<sup>™</sup>/NASDAQ Stock Market<sup>®</sup> (NASDAQ<sup>®</sup>) members who wish to submit complex orders containing a stock component are required to sign a [Uniform Service Bureau/Executing Broker Agreement](#) (AGU) with NOS. This agreement allows NOS to lock-in the firm for clearance via ACT.

## **QSR**

If a firm is neither a FINRA nor a NASDAQ member, and the firm does not have access to ACT through its clearing broker dealer, the firm's clearing broker dealer may set up a [Qualified Special Representative \(QSR\) arrangement \(Form 9A, 9B and Attachment 1\)](#) with NOS. Under this arrangement, NOS will lock-in the firm directly with the NSCC for clearance of the stock portion of the complex transaction.

*All agreements should be submitted to NASDAQ OMX membership services:*

Email: [Membership@nasdaqomx.com](mailto:Membership@nasdaqomx.com)

Fax: +1 215 496 5399

Mail: 1900 Market Street, 8<sup>th</sup> Floor

Philadelphia, PA 19103

## **PHLX House Account and Mnemonic Set-up**

PHLX member firms should notify NASDAQ OMX Membership of the proper stock clearance for each PHLX house account by filling out the [PHLX Complex Order with Stock Authorization Form](#). If a firm does not set up an AGU or QSR agreement with NOS, all orders containing a stock component will be rejected by the system.

### **Example:**

PHLX Member Firm A — Mnemonic of XYZ; PHLX house account 123

- Member Firm A would like the stock component of complex trades to clear under MPID ABCD with the NSCC clearing number of 789.
- PHLX will need to set up the above house account with an NSCC clearing number and FINRA/NASDAQ MPID for clearance of the stock component.
- The firm will notify PHLX that XYZ/123 should always clear using an MPID of ABCD and NSCC clearing number of 789 for the stock component of any complex order executions.
- PHLX will verify that the proper agreements are in place.

Once these steps have been completed, PHLX will begin accepting complex orders with stock from Member Firm A on the XYZ mnemonic.

## **Multiple Clearing Arrangements**

Multiple clearing arrangements can be set up by utilizing more than one PHLX house account number.

### **Example:**

- Member Firm A currently has mnemonic XYZ linked to PHLX house account 123 and clears with MPID ABCD and NSCC clearing number 789.
- Member Firm A would like some executions to clear with MPID EFGH and NSCC clearing number 456.
- Member Firm A sets up a new mnemonic of TUV and house account of 999 with PHLX.
- This new mnemonic/house account will be set up to clear MPID EFGH and NSCC clearing number 456 for all stock components of complex order executions.

A valid Market Participant Identifier (MPID) is required to clear the stock leg of a complex order. Firms that do not currently have an assigned MPID should submit the [MPID Request Form](#).

## **More Information**

Learn more about the PHLX Complex Order system changes in [Options Technical Update # 2010-9](#) and contact [Transaction Services, U.S.](#) with additional questions.