

Required fields are shown with yellow backgrounds and asterisks.

Proposed Rule Change by NASDAQ OMX BX, Inc.
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *		Section 19(b)(3)(B) *		
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>		
			Rule					
Pilot	Extension of Time Period for Commission Action *	Date Expires *	19b-4(f)(1)	19b-4(f)(2)	19b-4(f)(3)	19b-4(f)(4)	19b-4(f)(5)	19b-4(f)(6)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="text"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Exhibit 2 Sent As Paper Document	Exhibit 3 Sent As Paper Document
<input type="checkbox"/>	<input type="checkbox"/>

Description
Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *).

Contact Information
Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name * Last Name *
Title *
E-mail *
Telephone * Fax

Signature
Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.

Date
By
(Name *) (Title *)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information (required)

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change (required)

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

Add Remove View

Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

Add Remove View

Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

Add Remove View

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

Add Remove View

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) NASDAQ OMX BX, Inc. (“BX” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² is filing with the Securities and Exchange Commission (“Commission”) a proposal for the BX Options Market (“BX Options”) to add an additional execution algorithm and priority overlays to govern the priority of orders, as explained more fully below.

The text of the proposed rule change is set forth below. Proposed new language is underlined; proposed deletions are in brackets.

* * * * *

Chapter VI Trading Systems

* * * * *

Sec. 10 Book Processing

System orders shall be executed through the BX Book Process set forth below:

(1) Execution Algorithm - The Exchange will determine to apply, for each option, one of the following execution algorithms described in paragraphs (A) or (B). The Exchange will issue an Options Alert specifying which execution algorithm will govern which options any time it is modified.

(A) Price/Time - The System shall execute trading interest within the System in price /time priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. Within each price level, if there are two or more quotes or orders at the best price, trading interest will be executed in time priority.

(B) Size Pro-Rata - The System shall execute trading interest within the System in price priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. Within each price level, if there are two or more quotes or orders at the best price, trading interest will be executed based on the size of each Participant's quote or order as a percentage of the total size of all orders and quotes resting at that price. If the result is not a whole number, it will be rounded down to the nearest whole

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

number. If there are residual contracts remaining after rounding, such contracts will be distributed one contract at a time to the remaining Participants in time priority.

(C) Priority Overlays Applicable to Size Pro-Rata Execution Algorithm: the Exchange will apply the following designated Participant priority overlays, which are always in effect when the Size Pro-Rata execution algorithm is in effect.

(i) Public Customer Priority: the highest bid and lowest offer shall have priority except that Public Customer orders shall have priority over non-Public Customer orders at the same price. If there are two or more Public Customer orders for the same options series at the same price, priority shall be afforded to such Public Customer orders in the sequence in which they are received by the System. For purposes of this Rule, a Public Customer order does not include a Professional Order.

(ii) Market Maker Priority: After all Public Customer orders have been fully executed, BX Options Market Makers shall have priority over all other Participant orders at the same price. If there are two or more BX Options Market Maker quotes and orders for the same options series at the same price, those shall be executed based on the Size Pro-Rata execution algorithm. If there are contracts remaining after all Market Maker interest has been fully executed, such contracts shall be executed based on the Size Pro-Rata execution algorithm.

(2) – (7) No change.

* * * * *

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of BX pursuant to authority delegated by the Board of Directors on July 10, 2012. No other action is necessary for the filing of the rule change. Questions and comments on the proposed rule change may be directed to Edith Hallahan at 215-496-5179.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

a. Purpose

The BX Options market launched on June 29, 2012 as a fully automated, price/time priority execution system built on the core functionality of the NASDAQ Options Market (“NOM”).³ BX Options operates as an all-electronic system (“System” or “Trading System”) with no physical trading floor and provides for the electronic display and execution of orders in price/time priority without regard to the status of the entities that are entering orders. The BX Options market closely resembles NOM, including, most prominently, by offering true price/time priority across all orders and participants rather than differentiating between participant/trading interest. Like on NOM, all trading interest entered into the System is automatically executable.

In its proposed rule change to create the BX Options market, BX stated that, initially, BX Options would have the same market structure and rules as NOM, focusing on a price/time priority market.⁴

BX further stated that, over time, as the BX Options market secured more participants, it would introduce additional, innovative technology.⁵ At this time, BX proposes its first enhancement to BX Options by offering a different priority rule.

Currently, Chapter VI, Section 10, Book Processing, provides that the System, like NOM,

³ See BX Options Rules, Chapter VI, Section 1(e)(11). Securities Exchange Act Release No. 67256 (June 26, 2012), 77 FR 39277 (July 2, 2012) (SR-BX-2012-030) (Approving the establishment of the BX Options market).

⁴ See *id.* at 39278.

⁵ Securities Exchange Act Release No. 66983 (May 14, 2012), 77 FR 29730 (May 18, 2012) (Notice of filing of SR-BX-2012-030).

will have a single execution algorithm based on price/time priority. The System and rules provide for the ranking, display, and execution of all orders in price/time priority without regard to the status of the entity entering an order. For each order, among equally-priced or better-priced trading interest, the System currently executes against available contra-side displayed contract amounts in full, in price/time priority.

At this time, the Exchange proposes to amend Chapter VI, Section 10, to provide for a Size Pro-Rata execution algorithm. In order to make clear that only one of the two execution algorithms is applicable to a particular option, BX proposes to add introductory language to Section 10(1) to state that the Exchange will determine to apply, for each option, one of the execution algorithms described in subparagraphs (A)⁶ or (B). The Exchange will issue an Options Alert specifying which execution algorithm will govern which options any time a change is made.

Further, BX proposes to adopt new subparagraph (B) to provide that when the Size Pro-Rata execution algorithm is in effect the System shall execute trading interest in price priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. Within each price level, if there are two or more quotes or orders at the best price, trading interest will be executed based on the size of each Participant's quote or order as a percentage of the total size of all orders and quotes resting at that price. If this is not a whole number, it will be rounded down to the nearest whole number. If there are residual contracts remaining after rounding, such contracts will be distributed one contract at a time to the remaining

⁶ BX is also proposing to amend subparagraph (A) to provide that, respecting the price/time execution algorithm, within each price level, if there are two or more quotes or orders at the best price, trading interest will be executed in time priority. This is intended to be clearer and match the new language in subparagraph (B).

Participants in time priority. The Size Pro-Rata execution algorithm will, initially, always operate with the priority overlays, as described further below. The Size Pro-Rata execution algorithm is similar to the Pro-Rata Priority provision in CBOE Rule 6.45A(a)(ii), which provides that resting quotes and orders in the book are prioritized according to price. CBOE Rule 6.45A(a)(ii) further provides that if there are two or more quotes or orders at the best price then trades are allocated proportionally according to size (in a pro-rata fashion). The executable quantity is allocated to the nearest whole number, with fractions $1/2$ or greater rounded up and fractions less than $1/2$ rounded down. If there are two market participants that both are entitled to an additional $1/2$ contract and there is only one contract remaining to be distributed, the additional contract will be distributed to the market participant whose quote or order has time priority. This is substantially similar to the proposal at hand.⁷ However, CBOE provides for rounding to the nearest whole number, while the proposal at hand provides for the BX Options market to round down in each case to the nearest whole number. BX does not believe this is a significant difference between the two methods. The following examples demonstrate how rounding differs between CBOE's rule and BX's proposal:

Example 1⁸ – CBOE rounding approach

Order 1: Buy 10 contracts for 1.84, Non-Market Maker broker-dealer

⁷ Meaning, BX's general pro-rata priority rule is substantially similar to CBOE's, operating without a customer or market maker priority overlay, which are discussed below.

⁸ In each example, the orders and quotes are listed in the order in which they were received. Example 1 is intended to show how rounding works pursuant to CBOE's rules, but does not include the operation of the priority overlays, which will, as described below, initially always operate with the Size Pro-Rata execution algorithm.

Order 2: Buy 10 contracts for 1.84, Public Customer

Quote: 1.84 (70) x 1.86 (10) MM1

Order 3: Buy 10 contracts for 1.84, Market Maker

Market: 1.84 (100 contracts total) x 1.86 (10 contracts)

Sell order received: Sell 25 contracts at 1.84

Execution:

Order 1 represents 10 of 100 (10%) total contracts at 1.84.

10% of 25 contracts (which is the sell order) execute = 2.5, rounds up to 3 contracts.

Order 2 represents 10 of 100 (10%) total contracts at 1.84.

10% of 25 contracts (which is the sell order) execute = 2.5, rounds up to 3 contracts.

MM1's quote represents 70 of 100 (70%) total contracts at 1.84.

Again, 70% of 25 contracts execute = 17.5, rounds up to 18 contracts but to avoid over-allocation, MM1 receives 17.

Order 3 represents 10 of 100 (10%) total contracts at 1.84.

10% of 25 contracts (which is the sell order) execute = 2.5, rounds up to 3 contracts but to avoid over-allocation, Order 3 receives 2.

Example 2 – BX Options proposed rounding approach⁹

Order 1: Buy 10 contracts for 1.84, Non-Market Maker broker-dealer

Order 2: Buy 10 contracts for 1.84, Public Customer

Quote: 1.84 (70) x 1.86 (10) MM1

Order 3: Buy 10 contracts for 1.84, Market Maker

Market: 1.84 (100 contracts total) x 1.86 (10 contracts)

Sell order received: Sell 25 contracts at 1.84

Execution:

⁹ CBOE and BX methodology results in the same allocation in this example, but there could be instances where the result differs, depending on the number of contracts involved.

Order 1 represents 10 of 100 (10%) total contracts at 1.84.

10% of 25 contracts (which is the sell order) execute = 2.5, rounds down to 2 contracts.

Order 2 represents 10 of 100 (10%) total contracts at 1.84.

10% of 25 contracts (which is the sell order) execute = 2.5, rounds down to 2 contracts.

MM1's quote represents 70 of 100 (70%) total contracts at 1.84.

Again, 70% of 25 contracts execute = 17.5, rounds down to 17 contracts.

Order 3 represents 10 of 100 (10%) total contracts at 1.84.

10% of 25 contracts (which is the sell order) execute = 2.5, rounds down to 2 contracts.

Total executed: 23. There are 2 residual contracts remaining from the 25 contract sell order. The remaining 2 contracts are allocated one at a time based on time as follows:

Order 1 receives 1 additional residual contract.

Order 2 receives 1 additional residual contract.

The 25 contract sell order is now completely executed.

BX believes that this rounding method is appropriate and fair, and will be clear to Participants. In particular, BX has chosen to round down because it is a more efficient way to calculate the distribution of non-whole number allocations. Rather than having to break a tie by time whenever there are two or more Participants entitled to $\frac{1}{2}$ a contract, BX will simply round down in all cases and distribute any residual one contract at a time to each Participant based on time priority as illustrated in Example 2 above.

In addition, BX proposes to adopt two priority overlays. The new subparagraph (C), Priority Overlays Applicable to Size Pro-Rata Execution Algorithm, will provide that the Exchange will apply these priority overlays. BX plans to initially implement the Size Pro-Rata execution algorithm with both the Public Customer and Market Maker priority overlays.

The first priority overlay, Public Customer Priority, is proposed to be subparagraph (1)(C)(i). Under this priority overlay, interest at the highest bid and lowest offer shall have priority except that Public Customer orders shall have priority over non-Public Customer orders at the same price. If there are two or more Public Customer orders for the same options series at the same price, priority shall be afforded to such Public Customer orders in the sequence in which they are received by the System. For purposes of this Rule, a Public Customer order does not include a Professional Order. This is substantially similar to CBOE Rule 6.45A(a)(ii)(1) and ISE Rule 713(d).

The second proposed priority overlay is contained in subparagraph (1)(C)(ii), Market Maker Priority. Under this priority overlay, the highest bid and lowest offer shall have priority except that BX Options Market Maker orders, after all Public Customer orders have been fully executed in time priority, shall have priority over all other Participant orders at the same price. The Public Customer priority is always a part of the Market Maker Priority overlay and both overlays will always apply to the Size Pro-Rata execution algorithm initially.¹⁰ If there are two or more BX Options Market Maker quotes and orders for the same options series at the same price, those orders shall be executed based on the Size Pro-Rata execution algorithm.¹¹ If there are contracts remaining after all Market Maker interest has been fully executed (meaning, Non-Public

¹⁰ BX may later file a proposed rule change to make available the Size Pro-Rata execution algorithm without the Public Customer or Market Maker priority overlays, or with just the Public Customer priority overlay.

¹¹ This is similar to Phlx Rule 1014(g)(vii)(B)(1)(b).

Customer and Non-Market Maker), such contracts shall be executed based on the Size Pro-Rata execution algorithm.¹²

The following is an example of the Public Customer and Market Maker priority overlays applied to the proposed Size Pro-Rata execution algorithm:

Example 3:

Order 1: Buy 10 contracts for 1.84, Non-MM broker-dealer

Order 2: Buy 10 contracts for 1.84, Public Customer

Quote MM1: 1.84 (10) x 1.86 (10)

Order 3: Buy MM 1.84 (10)

Sell order received: Sell 21 contracts at 1.84

Execution:

Order 2 allocated 10 contracts because of Public Customer priority

Quote MM1 represents 10 of 20 (50%) total MM contracts at 1.84. 50% of 11 contracts to execute = 5.5, rounds down to 5 contracts.

Order 3 represents 10 of 20 (50%) total MM contracts at 1.84. 50% of 11 contracts to execute = 5.5, rounds down to 5 contracts.

Remaining 1 contract is allocated to MM1 based on time among MMs.

Order 1 is not executed because Market Makers have priority over non-Market Maker broker-dealers. Order 1 would only be executed if all interest at the Public Customer priority level and the Market Maker level was first completely executed.

In summary, this proposed rule change will allow for a different execution algorithm for BX Options. To be clear, two different execution algorithms will not operate in the same option. In addition, when the Size Pro-Rata execution algorithm is

¹² This is similar to Phlx Rule 1014(g)(vii)(B)(1)(d).

selected by BX, the proposed new priority overlays will be applied first as part of the execution algorithm used to allocate the order. These additional priority overlays are Public Customer priority and Market Maker priority, which will only apply to the Size Pro-Rata execution algorithm. BX notes that the execution algorithm will be selected and communicated by BX to its Participants. The Public Customer and Market Maker priority overlays will, initially, always operate with the Size Pro-Rata execution algorithm.

b. Statutory Basis

BX believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,¹³ in general, and with Section 6(b)(5) of the Act,¹⁴ in particular, in that the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. In addition, BX believes that the proposed rule change is consistent with the provisions of Section 6(b)(6) and 6(b)(7) of the Act,¹⁵ which require an exchange to provide fair procedures for the disciplining of members and persons associated with members. Specifically, BX believes that the proposal will promote the settlement of disciplinary cases by allowing members to make installment payments. BX believes that settlement is a beneficial method of disciplining members because it imposes meaningful sanctions on the member while avoiding the cost and uncertainty of

¹³ 15 U.S.C. 78f.

¹⁴ 15 U.S.C. 78f(b)(5).

¹⁵ 15 U.S.C. 78f(b)(6) and (b)(7).

a protracted disciplinary proceeding. BX further believes that affording members with the opportunity to pay a regulatory fine over a period of time may allow BX to impose higher fines in appropriate circumstances and diminish the risk that sanctioned members will fail to pay.

4. 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.

5. 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.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Pursuant to Section 19(b)(3)(A) of the Act¹⁶ and Rule 19b-4(f)(6)¹⁷ thereunder, the Exchange has designated this proposal as one that effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. The Exchange believes that the proposal is non-controversial, because it adds a set of

¹⁶ 15 U.S.C. 78s(b)(3)(A).

¹⁷ 17 CFR 240.19b-4(f)(6).

alternative execution algorithms and priority rules that determine the priority in which orders are executed, which are in the rules of other exchanges, as explained in detail below.

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. Furthermore, a proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act¹⁸ normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)¹⁹ permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

The proposal is similar to CBOE's rules, which has a "pro rata" priority rule applicable either to all options²⁰ or some²¹ of its options. However, CBOE's rules round contracts differently, as explained in Examples 1 and 2 above. In addition, CBOE can implement its respective priority algorithm based on option class, while BX proposes to do so by option (not distinguishing between puts and calls). BX does not believe that either difference is significant.

¹⁸ 17 CFR 240.19b-4(f)(6).

¹⁹ 17 CFR 240.19b-4(f)(6).

²⁰ See also Phlx Rule 1014(g)(vii) and ISE Rule 713(e) and Supplementary Material .01.

²¹ See CBOE Rule 6.45A(a)(ii) – Price/Time or Pro-Rata Priority. See also C2 Rule 6.12(a)(1) and (2).

The proposed priority overlays are very similar to Phlx's rule, which has customer priority²² as well as market maker priority.²³ However, Phlx's rule has a formula that is more complicated than BX's proposed rule, which, as explained above, is substantially similar to CBOE's rule.

9. Exhibits

1. Notice of proposed rule for publication in the Federal Register.

²² See Phlx Rule 1014(g)(vii)(first line). Like on PHLX, BX is proposing that the Size Pro-Rata execution algorithm always operate with the Public Customer and Market Maker overlays.

²³ See Phlx Rule 1014(g)(vii (B)(1)(b) and (d).

EXHIBIT 1SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-BX-2012-065)

Self-Regulatory Organizations; NASDAQ OMX BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Add an Additional Execution Algorithm and Priority Overlays to Govern the Priority of Orders

September __, 2012

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on September 27, 2012, NASDAQ OMX BX, Inc. (“BX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III 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 add an additional execution algorithm and priority overlays to govern the priority of orders. The text of the proposed rule change is available at <http://nasdaqomxbx.cchwallstreet.com>, at the Exchange’s principal office, and at the Commission’s Public Reference Room.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

The BX Options market launched on June 29, 2012 as a fully automated, price/time priority execution system built on the core functionality of the NASDAQ Options Market ("NOM").³ BX Options operates as an all-electronic system ("System" or "Trading System") with no physical trading floor and provides for the electronic display and execution of orders in price/time priority without regard to the status of the entities that are entering orders. The BX Options market closely resembles NOM, including, most prominently, by offering true price/time priority across all orders and participants rather than differentiating between participant/trading interest. Like on NOM, all trading interest entered into the System is automatically executable.

In its proposed rule change to create the BX Options market, BX stated that, initially, BX Options would have the same market structure and rules as NOM, focusing on a price/time priority market.⁴

BX further stated that, over time, as the BX Options market secured more participants, it would introduce additional, innovative technology.⁵ At this time, BX

³ See BX Options Rules, Chapter VI, Section 1(e)(11). Securities Exchange Act Release No. 67256 (June 26, 2012), 77 FR 39277 (July 2, 2012) (SR-BX-2012-030) (Approving the establishment of the BX Options market).

⁴ See *id.* at 39278.

⁵ Securities Exchange Act Release No. 66983 (May 14, 2012), 77 FR 29730 (May 18, 2012) (Notice of filing of SR-BX-2012-030).

proposes its first enhancement to BX Options by offering a different priority rule.

Currently, Chapter VI, Section 10, Book Processing, provides that the System, like NOM, will have a single execution algorithm based on price/time priority. The System and rules provide for the ranking, display, and execution of all orders in price/time priority without regard to the status of the entity entering an order. For each order, among equally-priced or better-priced trading interest, the System currently executes against available contra-side displayed contract amounts in full, in price/time priority.

At this time, the Exchange proposes to amend Chapter VI, Section 10, to provide for a Size Pro-Rata execution algorithm. In order to make clear that only one of the two execution algorithms is applicable to a particular option, BX proposes to add introductory language to Section 10(1) to state that the Exchange will determine to apply, for each option, one of the execution algorithms described in subparagraphs (A)⁶ or (B). The Exchange will issue an Options Alert specifying which execution algorithm will govern which options any time a change is made.

Further, BX proposes to adopt new subparagraph (B) to provide that when the Size Pro-Rata execution algorithm is in effect the System shall execute trading interest in price priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. Within each price level, if there are two or more quotes or orders at the best price, trading interest will be executed based on the size of each Participant's quote or order as a percentage of the total size of all orders and quotes resting at that price. If this is not a whole number, it will be rounded

⁶ BX is also proposing to amend subparagraph (A) to provide that, respecting the price/time execution algorithm, within each price level, if there are two or more quotes or orders at the best price, trading interest will be executed in time priority. This is intended to be clearer and match the new language in subparagraph (B).

down to the nearest whole number. If there are residual contracts remaining after rounding, such contracts will be distributed one contract at a time to the remaining Participants in time priority. The Size Pro-Rata execution algorithm will, initially, always operate with the priority overlays, as described further below. The Size Pro-Rata execution algorithm is similar to the Pro-Rata Priority provision in CBOE Rule 6.45A(a)(ii), which provides that resting quotes and orders in the book are prioritized according to price. CBOE Rule 6.45A(a)(ii) further provides that if there are two or more quotes or orders at the best price then trades are allocated proportionally according to size (in a pro-rata fashion). The executable quantity is allocated to the nearest whole number, with fractions $1/2$ or greater rounded up and fractions less than $1/2$ rounded down. If there are two market participants that both are entitled to an additional $1/2$ contract and there is only one contract remaining to be distributed, the additional contract will be distributed to the market participant whose quote or order has time priority. This is substantially similar to the proposal at hand.⁷ However, CBOE provides for rounding to the nearest whole number, while the proposal at hand provides for the BX Options market to round down in each case to the nearest whole number. BX does not believe this is a significant difference between the two methods. The following examples demonstrate how rounding differs between CBOE's rule and BX's proposal:

⁷ Meaning, BX's general pro-rata priority rule is substantially similar to CBOE's, operating without a customer or market maker priority overlay, which are discussed below.

Example 1⁸ – CBOE rounding approach

Order 1: Buy 10 contracts for 1.84, Non-Market Maker broker-dealer

Order 2: Buy 10 contracts for 1.84, Public Customer

Quote: 1.84 (70) x 1.86 (10) MM1

Order 3: Buy 10 contracts for 1.84, Market Maker

Market: 1.84 (100 contracts total) x 1.86 (10 contracts)

Sell order received: Sell 25 contracts at 1.84

Execution:

Order 1 represents 10 of 100 (10%) total contracts at 1.84.

10% of 25 contracts (which is the sell order) execute = 2.5, rounds up to 3 contracts.

Order 2 represents 10 of 100 (10%) total contracts at 1.84.

10% of 25 contracts (which is the sell order) execute = 2.5, rounds up to 3 contracts.

MM1's quote represents 70 of 100 (70%) total contracts at 1.84.

Again, 70% of 25 contracts execute = 17.5, rounds up to 18 contracts but to avoid over-allocation, MM1 receives 17.

Order 3 represents 10 of 100 (10%) total contracts at 1.84.

10% of 25 contracts (which is the sell order) execute = 2.5, rounds up to 3 contracts but to avoid over-allocation, Order 3 receives 2.

Example 2 – BX Options proposed rounding approach⁹

Order 1: Buy 10 contracts for 1.84, Non-Market Maker broker-dealer

Order 2: Buy 10 contracts for 1.84, Public Customer

⁸ In each example, the orders and quotes are listed in the order in which they were received. Example 1 is intended to show how rounding works pursuant to CBOE's rules, but does not include the operation of the priority overlays, which will, as described below, initially always operate with the Size Pro-Rata execution algorithm.

⁹ CBOE and BX methodology results in the same allocation in this example, but there could be instances where the result differs, depending on the number of contracts involved.

Quote: 1.84 (70) x 1.86 (10) MM1

Order 3: Buy 10 contracts for 1.84, Market Maker

Market: 1.84 (100 contracts total) x 1.86 (10 contracts)

Sell order received: Sell 25 contracts at 1.84

Execution:

Order 1 represents 10 of 100 (10%) total contracts at 1.84.

10% of 25 contracts (which is the sell order) execute = 2.5, rounds down to 2 contracts.

Order 2 represents 10 of 100 (10%) total contracts at 1.84.

10% of 25 contracts (which is the sell order) execute = 2.5, rounds down to 2 contracts.

MM1's quote represents 70 of 100 (70%) total contracts at 1.84.

Again, 70% of 25 contracts execute = 17.5, rounds down to 17 contracts.

Order 3 represents 10 of 100 (10%) total contracts at 1.84.

10% of 25 contracts (which is the sell order) execute = 2.5, rounds down to 2 contracts.

Total executed: 23. There are 2 residual contracts remaining from the 25 contract sell order. The remaining 2 contracts are allocated one at a time based on time as follows:

Order 1 receives 1 additional residual contract.

Order 2 receives 1 additional residual contract.

The 25 contract sell order is now completely executed.

BX believes that this rounding method is appropriate and fair, and will be clear to Participants. In particular, BX has chosen to round down because it is a more efficient way to calculate the distribution of non-whole number allocations. Rather than having to break a tie by time whenever there are two or more Participants entitled to $\frac{1}{2}$ a contract, BX will simply round down in all cases and distribute any residual one contract at a time to each Participant based on time priority as illustrated in Example 2 above.

In addition, BX proposes to adopt two priority overlays. The new subparagraph (C), Priority Overlays Applicable to Size Pro-Rata Execution Algorithm, will provide that the Exchange will apply these priority overlays. BX plans to initially implement the Size Pro-Rata execution algorithm with both the Public Customer and Market Maker priority overlays.

The first priority overlay, Public Customer Priority, is proposed to be subparagraph (1)(C)(i). Under this priority overlay, interest at the highest bid and lowest offer shall have priority except that Public Customer orders shall have priority over non-Public Customer orders at the same price. If there are two or more Public Customer orders for the same options series at the same price, priority shall be afforded to such Public Customer orders in the sequence in which they are received by the System. For purposes of this Rule, a Public Customer order does not include a Professional Order. This is substantially similar to CBOE Rule 6.45A(a)(ii)(1) and ISE Rule 713(d).

The second proposed priority overlay is contained in subparagraph (1)(C)(ii), Market Maker Priority. Under this priority overlay, the highest bid and lowest offer shall have priority except that BX Options Market Maker orders, after all Public Customer orders have been fully executed in time priority, shall have priority over all other Participant orders at the same price. The Public Customer priority is always a part of the Market Maker Priority overlay and both overlays will always apply to the Size Pro-Rata execution algorithm initially.¹⁰ If there are two or more BX Options Market Maker quotes and orders for the same options series at the same price, those orders shall be

¹⁰ BX may later file a proposed rule change to make available the Size Pro-Rata execution algorithm without the Public Customer or Market Maker priority overlays, or with just the Public Customer priority overlay.

executed based on the Size Pro-Rata execution algorithm.¹¹ If there are contracts remaining after all Market Maker interest has been fully executed (meaning, Non-Public Customer and Non-Market Maker), such contracts shall be executed based on the Size Pro-Rata execution algorithm.¹²

The following is an example of the Public Customer and Market Maker priority overlays applied to the proposed Size Pro-Rata execution algorithm:

Example 3:

Order 1: Buy 10 contracts for 1.84, Non-MM broker-dealer

Order 2: Buy 10 contracts for 1.84, Public Customer

Quote MM1: 1.84 (10) x 1.86 (10)

Order 3: Buy MM 1.84 (10)

Sell order received: Sell 21 contracts at 1.84

Execution:

Order 2 allocated 10 contracts because of Public Customer priority

Quote MM1 represents 10 of 20 (50%) total MM contracts at 1.84. 50% of 11 contracts to execute = 5.5, rounds down to 5 contracts.

Order 3 represents 10 of 20 (50%) total MM contracts at 1.84. 50% of 11 contracts to execute = 5.5, rounds down to 5 contracts.

Remaining 1 contract is allocated to MM1 based on time among MMs.

Order 1 is not executed because Market Makers have priority over non-Market Maker broker-dealers. Order 1 would only be executed if all interest at the Public Customer priority level and the Market Maker level was first completely executed.

¹¹ This is similar to Phlx Rule 1014(g)(vii)(B)(1)(b).

¹² This is similar to Phlx Rule 1014(g)(vii)(B)(1)(d).

In summary, this proposed rule change will allow for a different execution algorithm for BX Options. To be clear, two different execution algorithms will not operate in the same option. In addition, when the Size Pro-Rata execution algorithm is selected by BX, the proposed new priority overlays will be applied first as part of the execution algorithm used to allocate the order. These additional priority overlays are Public Customer priority and Market Maker priority, which will only apply to the Size Pro-Rata execution algorithm. BX notes that the execution algorithm will be selected and communicated by BX to its Participants. The Public Customer and Market Maker priority overlays will, initially, always operate with the Size Pro-Rata execution algorithm.

2. Statutory Basis

BX believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,¹³ in general, and with Section 6(b)(5) of the Act,¹⁴ in particular, in that the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. In addition, BX believes that the proposed rule change is consistent with the provisions of Section 6(b)(6) and 6(b)(7) of the Act,¹⁵ which

¹³ 15 U.S.C. 78f.

¹⁴ 15 U.S.C. 78f(b)(5).

¹⁵ 15 U.S.C. 78f(b)(6) and (b)(7).

require an exchange to provide fair procedures for the disciplining of members and persons associated with members. Specifically, BX believes that the proposal will promote the settlement of disciplinary cases by allowing members to make installment payments. BX believes that settlement is a beneficial method of disciplining members because it imposes meaningful sanctions on the member while avoiding the cost and uncertainty of a protracted disciplinary proceeding. BX further believes that affording members with the opportunity to pay a regulatory fine over a period of time may allow BX to impose higher fines in appropriate circumstances and diminish the risk that sanctioned members will fail to pay.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor 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 Act¹⁶ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹⁷

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 necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule change should be approved or disapproved.

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
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-BX-2012-065 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-BX-2012-065. This file number should be included on the subject line if e-mail is used.

¹⁶ 15 U.S.C. 78s(b)(3)(A).

¹⁷ 17 CFR 240.19b-4(f)(6).

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 Web site (<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 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-BX-2012-065, 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.¹⁸

Kevin M. O'Neill
Deputy Secretary

¹⁸ 17 CFR 200.30-3(a)(12).