

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="31"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2013"/> - * <input type="text" value="025"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by **NASDAQ OMX BX, Inc.**
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

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

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010 Section 806(e)(1) <input type="checkbox"/> Section 806(e)(2) <input type="checkbox"/>	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) <input type="checkbox"/>
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Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

A Proposed Rule Change to Amend Exchange Rule 4120

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 action.

First Name * <input type="text" value="Jeffrey"/>	Last Name * <input type="text" value="Davis"/>
Title * <input type="text" value="VP and Deputy General Counsel"/>	
E-mail * <input type="text" value="jeffrey.davis@nasdaqomx.com"/>	
Telephone * <input type="text" value="(301) 978-8484"/>	Fax <input type="text" value="(301) 978-8472"/>

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.

(Title *)

Date <input type="text" value="03/11/2013"/>	Executive Vice President and General Counsel
By <input type="text" value="Edward S. Knight"/> (Name *)	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Edward S Knight,</div>

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 EFFF website.

Form 19b-4 Information *

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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 *

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 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies

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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, security-based swap submission, or advance notice 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

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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

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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

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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 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 to amend Exchange Rule 4120 to establish rules to comply with the requirements of the Plan to Address Extraordinary Market Volatility submitted to the Commission pursuant to Rule 608 of Regulation NMS.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and the text of the proposed rule change is attached as Exhibit 5.

(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 of BX on July 10, 2012. BX staff will advise the Board of Directors of BX of any action taken pursuant to delegated authority. No other action by BX is necessary for the filing of the rule change.

Questions regarding this rule filing may be directed to Jeffrey S. Davis, Deputy General Counsel, NASDAQ OMX Group, Inc. at (301) 978-8484, or Manny Alicandro,

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Associate General Counsel, NASDAQ OMX Group, Inc., at (212) 401-8982 (telephone) or (212) 213-5435 (fax).

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

(a) Purpose

The Exchange proposes to amend Exchange Rule 4120 to establish rules to comply with the requirements of the Plan to Address Extraordinary Market Volatility submitted to the Commission pursuant to Rule 608 of Regulation NMS under the Act (the “Plan”).³

Background

Since May 6, 2010, when the markets experienced excessive volatility in an abbreviated time period, i.e., the “flash crash,” the equities exchanges and FINRA have implemented market-wide measures designed to restore investor confidence by reducing the potential for excessive market volatility. Among the measures adopted include pilot plans for stock-by-stock trading pauses⁴ and related changes to the equities market clearly erroneous execution rules⁵ and more stringent equities market maker quoting requirements.⁶ On May 31, 2012, the Commission approved the Plan, as amended, on a one-year pilot basis.⁷ In addition, the Commission approved changes to the equities

³ See Securities Exchange Act Release No. 68953 (Feb. 20, 2013) (Notice of Filing and Immediate Effectiveness of the Second Amendment to the National Market System Plan to Address Extraordinary Market Volatility, File No. 4-631).

⁴ See, e.g., BX Rule 4120.

⁵ See, e.g., BX Rule 11890.

⁶ See, e.g., BX Rule 4613(a).

⁷ See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (File No. 4-631) (Order Approving, on a Pilot Basis, the National Market System Plan To Address Extraordinary Market Volatility).

market-wide circuit breaker rules on a pilot basis to coincide with the pilot period for the Plan.⁸

The Plan is designed to prevent trades in individual NMS Stocks from occurring outside of specified Price Bands.⁹ As described more fully below, the requirements of the Plan are coupled with Trading Pauses to accommodate more fundamental price moves (as opposed to erroneous trades or momentary gaps in liquidity). All trading centers in NMS Stocks, including both those operated by Participants and those operated by members of Participants, are required to establish, maintain, and enforce written policies and procedures that are reasonably designed to comply with the requirements specified in the Plan.¹⁰ As set forth in more detail in the Plan, Price Bands consisting of a Lower Price Band and an Upper Price Band for each NMS Stock are calculated by the Processors.¹¹ When the National Best Bid (Offer) is below (above) the Lower (Upper) Price Band, the Processors shall disseminate such National Best Bid (Offer) with an appropriate flag identifying it as non-executable. When the National Best Bid (Offer) is equal to the Upper (Lower) Price Band, the Processors shall distribute such National Best Bid (Offer) with an appropriate flag identifying it as a Limit State Quotation.¹² All

⁸ See Securities Exchange Act Release No. 67090 (May 31, 2012), 77 FR 33531 (June 6, 2012) (SR-BATS-2011-038; SR-BYX-2011-025; SR-BX-2011-068; SR-CBOE-2011-087; SR-C2-2011-024; SR-CHX-2011-30; SR-EDGA-2011-31; SR-EDGX-2011-30; SR-FINRA-2011-054; SR-ISE-2011-61; SR-NASDAQ-2011-131; SR-NSX-2011-11; SR-NYSE-2011-48; SR-NYSEAmex-2011-73; SR-NYSEArca-2011-68; SR-Phlx-2011-129).

⁹ Unless otherwise specified, capitalized terms used in this rule filing are based on the defined terms of the Plan.

¹⁰ The Exchange is a Participant in the Plan.

¹¹ See Section (V)(A) of the Plan.

¹² See Section VI(A) of the Plan.

trading centers in NMS Stocks must maintain written policies and procedures that are reasonably designed to prevent the display of offers below the Lower Price Band and bids above the Upper Price Band for NMS Stocks. Notwithstanding this requirement, the Processor shall display an offer below the Lower Price Band or a bid above the Upper Price Band, but with a flag that it is non-executable. Such bids or offers shall not be included in the National Best Bid or National Best Offer calculations.¹³

Trading in an NMS Stock immediately enters a Limit State if the National Best Offer (Bid) equals but does not cross the Lower (Upper) Price Band.¹⁴ Trading for an NMS stock exits a Limit State if, within 15 seconds of entering the Limit State, all Limit State Quotations were executed or canceled in their entirety. If the market does not exit a Limit State within 15 seconds, then the Primary Listing Exchange would declare a five-minute Trading Pause pursuant to Section VII of the LULD Plan, which would be applicable to all markets trading the security.¹⁵ In addition, the Plan defines a Straddle State as when the National Best Bid (Offer) is below (above) the Lower (Upper) Price Band and the NMS Stock is not in a Limit State. For example, assume the Lower Price Band for an NMS Stock is \$9.50 and the Upper Price Band is \$10.50, such NMS stock would be in a Straddle State if the National Best Bid were below \$9.50, and therefore non-executable, and the National Best Offer were above \$9.50 (including a National Best Offer that could be above \$10.50). If an NMS Stock is in a Straddle State and trading in

¹³ See Section VI(A)(3) of the Plan.

¹⁴ See Section VI(B)(1) of the Plan.

¹⁵ The primary listing market would declare a trading pause in an NMS Stock; upon notification by the primary listing market, the Processor would disseminate this information to the public. No trades in that NMS Stock could occur during the trading pause, but all bids and offers may be displayed. See Section VII(A) of the Plan.

that stock deviates from normal trading characteristics, the Primary Listing Exchange may declare a Trading Pause for that NMS Stock.

Proposed Amendment to Rule 4120

The Exchange is required by the Plan to establish, maintain, and enforce written policies and procedures that are reasonably designed to comply with the limit up-limit down and trading pause requirements specified in the Plan. In response to the new Plan, the Exchange proposes to amend its Rules accordingly.

The Exchange proposes to add Rule 4120(a)(13)(A)(1) to define that “Plan” means the Plan to Address Extraordinary Market Volatility Submitted to the Securities and Exchange Commission Pursuant to Rule 608 of Regulation NMS under the Securities Exchange Act of 1934, Exhibit A to Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012). In addition, proposed Rule 4120(a)(13)(A)(2) provides that all capitalized terms not otherwise defined in this Rule shall have the meanings set forth in the Plan or Exchange rules, as applicable.

The Exchange proposes to add Rule 4120(a)(13)(C) to provide that Exchange members shall comply with the applicable provisions of the Plan. The Exchange believes that this requirement will help ensure the compliance by its members with the provisions of the Plan as required pursuant to Section II(B) of the Plan.¹⁶

The Exchange proposes to add Rule 4120(a)(13)(D) to provide that Exchange systems shall not display or execute buy (sell) interest above (below) the Upper (Lower) Price Bands, unless such interest is specifically exempted under the Plan. The Exchange believes that this requirement is reasonably designed to help ensure the compliance with

¹⁶ See Section II(B) of the Plan.

the limit up-limit down and trading pause requirements specified in the Plan, by preventing executions outside the Price Bands as required pursuant to Section VI(A)(1) of the Plan.¹⁷

The Exchange proposes Rules regarding the treatment of certain trading interest on the Exchange in order to prevent executions outside the Price Bands and to comply with the new LULD Plan. In particular, the Exchange proposes to add Rule 4120(a)(13)(E) to provide that Exchange systems shall re-price or cancel buy (sell) interest that is priced or could be executed above (below) the Upper (Lower) Price Band. Any interest that is repriced pursuant to this Rule shall receive a new time stamp and new execution priority.¹⁸ Specifically, the Exchange proposes the following provisions regarding the repricing or canceling of certain trading interest:

- Market Orders. If a market order with a time in force other than Immediate or Cancel cannot be fully executed at or within the Price Bands, Exchange systems shall post the unexecuted portion of the buy (sell) market order at the Upper (Lower) Price Band.
- Limit-priced Interest. Both displayable and non-displayable incoming limit-priced interest to buy (sell) that is priced above (below) the Upper (Lower) Price Band shall be repriced to the Upper (Lower) Price Band. The treatment of limit-priced interest will depend upon its order entry protocol. For limit-priced orders entered via the OUCH protocol, the order shall be re-priced

¹⁷ See Section VI(A)(1) of the Plan.

¹⁸ BX believes it is appropriate for re-priced orders to receive a new time stamp and new execution priority rather than jump ahead of previously-entered orders. In effect, an adjustment in price is equivalent to the entry of a new order; that function is simply being automated.

upon entry only if the Price Bands are such that the price of the limit-priced interest to buy (sell) would be above (below) the upper (lower) Price Band. Once slid, the treatment of that interest will further depend upon whether it becomes passive or aggressive interest. Specifically, if the order becomes passively priced such that the Price Bands move and the price of the order to buy (sell) would be below (below) the lower (upper) Price Band, the order will not be re-priced again. Rather, the order will either remain on the book at the same price or be cancelled back to the entering party, depending on how the entering party has configured its order entry port. If the interest becomes aggressively priced such that the Price Bands move and the price of the order to buy (sell) would be above (below) the upper (lower) Price Band, the order will not be re-priced again. Rather, the order will be cancelled.

- For limit-priced orders entered via RASH or FIX protocols, the order shall be priced upon order entry and then shall be eligible to be repriced by the system multiple times if the Price Bands move such that the price of resting limit-priced interest to buy (sell) would be above (below) the upper (lower) Price Band. Once slid, if the Price Bands move such that the price of resting limit interest to buy (sell) would be below (above) the upper (lower) Price Band the order will continue to be repriced either to its original limit price or to the new price bands, whichever is less aggressive.¹⁹

¹⁹ The NASDAQ system will treat limit-priced orders differently depending upon whether the entering firm uses the OUCH protocol on one hand or the RASH or FIX protocols on the other. This different treatment stems from the ultimate destination for orders entered via those protocols. Orders entered via OUCH are destined for direct entry to the NASDAQ matching engine. As such, they are not

- IOC Orders. If an IOC order cannot be fully executed at or within the Price Bands, Exchange systems shall cancel any unexecuted portion of the IOC Order.
- Routable Orders. Exchange systems shall not route buy (sell) interest to an away market displaying a sell (buy) quote that is above (below) the Upper (Lower) Price Band. Orders that are eligible to be routed to away destinations will be price slid before routing if the buy (sell) is priced above (below) the Upper (Lower) Price Band.
- Sell Short Orders. During a Short Sale Price Test, as defined in Rule 4763(b), Short Sale Orders priced below the Lower Price Band shall be repriced to the higher of the Lower Price Band or the Permitted Price, as defined in Rule 4763(b).

The Exchange believes these provisions are reasonably designed to prevent executions outside the Price Bands as required by the limit up-limit down and trading pause requirements specified in the Plan.

The Exchanges also proposes to amend Rule 4120(a)(11) regarding Trading Pauses to correspond with the LULD Plan. The proposed change clarifies that the Exchange will continue to follow pauses called by the primary listing market for each security until such time as the LULD Plan is fully implemented. As a result, during Phase 1 of the LULD Plan, a Trading Pause in Tier 1 NMS Stocks shall be subject to the

eligible for special treatments or calculations, including re-pricing. Orders entered via RASH (short for “routing and special handling”) and FIX are destined for the indirect entry into the matching engine. They are eligible for special treatments and calculations, including re-pricing. This difference in the protocols is longstanding and well-known to NASDAQ members.

requirements of the LULD Plan and a Trading Pause in Tier 2 NMS Stocks shall be subject to the requirements set forth in Exchange Rule 4120(a)(11). Once the Plan has been fully implemented and all NMS Stocks are subject to the Plan, a Trading Pause under the Plan shall be subject to Exchange Rule 4120(a)(13). These proposed changes are designed to comply with Section VIII of the LULD Plan to ensure implementation of the Plan's requirements.²⁰

(b) Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act²¹ in general, and furthers the objectives of Section 6(b)(5),²² in particular, in that it is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

The proposal will ensure that the Exchange systems will not display or execute trading interest outside the Price Bands in a manner that promotes just and equitable principles of trade and removes impediments to, and perfects the mechanism of, a free and open market and a national market system.

The proposal will also ensure that the trading interest on the Exchange is either repriced or canceled in a manner that is consistent with just and equitable principles of trade and removes impediments to, and perfects the mechanism of, a free and open market and a national market system. Specifically, when trading interest is re-priced to comply with the requirements of the Plan, that trading interest will receive a new

²⁰ See Section VIII of the Plan.

²¹ 15 U.S.C. 78f (b).

²² 15 U.S.C. 78f(b)(5).

timestamp and new execution priority. Re-pricing is the automated equivalent of the entry of a new order which would, if done manually, result in a new timestamp and placement in the execution queue. The proposal will help market participants to continue to trade NMS Stocks within Price Bands in compliance with the Plan with certainty on how orders and trading interest will be treated. Reducing uncertainty regarding the treatment and priority of trading interest with the Price Bands should help encourage market participants to continue to provide liquidity during extraordinary market volatility.

The proposal will also ensure that orders in NMS Stocks are not routed to other exchanges in situations where an execution may occur outside Price Bands, and thus promotes just and equitable principles of trade and removes impediments to, and perfects the mechanism of, a free and open market and a national market system.

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 that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the proposal is specifically designed to ensure cooperation between and among all national securities exchanges and FINRA to promote uniform and effective regulation of the national market system. The proposal is specifically aimed at reducing competition among exchanges that is based on differences in regulations, otherwise known as regulatory arbitrage. In actuality, the proposal is pro-competitive because it promotes fair and orderly markets and investor protection, which in turn will restore investor confidence and attract more investors into U.S. equities markets.

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

The Exchange has neither solicited nor received written comments on the proposed rule change.

6. Extension of Time Period for Commission Action

The Exchange does not consent at this time to an extension of any time period for Commission action.

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

The Exchange believes that the proposal qualifies for immediate effectiveness upon filing as a “non-controversial” rule change in accordance with Section 19(b)(3)(A) of the Act²³ and Rule 19b-4(f)(6) thereunder.²⁴

The Exchange asserts that the proposed rule change (i) will not significantly affect the protection of investors or the public interest, (ii) will not impose any significant burden on competition, and (iii) by its terms, will not become operative for 30 days after the date of this filing, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest. In addition, the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing, or such shorter time as the Commission may designate.

²³ 15 U.S.C. 78s(b)(3)(A).

²⁴ 17 CFR 240.19b-4(f)(6).

The Exchange believes that this proposal is non-controversial and eligible to become effective immediately because it establishes rules that are reasonably designed to comply with the limit up-limit down and trading pause requirements specified in the Plan. Specifically, the proposal is designed to ensure that the Exchange systems will not display or execute trading interest outside the Price Bands and to help allow market participants to continue to trade NMS Stocks within Price Bands in compliance with the Plan with certainty on how certain orders and trading interest will be treated, in a manner that help encourages market participants to continue to provide liquidity during extraordinary market volatility while protecting investors and the public interest. For the foregoing reasons, this rule filing qualifies for immediate effectiveness as a “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4.²⁵ The Exchange respectfully requests that the Commission designate an operative date of April 8, 2013 to allow the Rules to effective and operative on the initial date of operation of the Plan.

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.

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

The proposed rule change is not based on the rules of another self-regulatory organization or of the Commission.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

²⁵

Id.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act
Not applicable.

11. Exhibits

Exhibit 1 –Form of Notice of Proposed Rule Change for Federal Register

Exhibit 5 –Text of Proposed Changes

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- _____ ; File No. SR-BX-2013-025)

March __, 2013

Self-Regulatory Organizations; NASDAQ OMX BX, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Exchange Rule 4120

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 March 11, 2013, NASDAQ OMX BX, Inc. (“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 amend Exchange Rule 4120 to establish rules to comply with the requirements of the Plan to Address Extraordinary Market Volatility submitted to the Commission pursuant to Rule 608 of Regulation NMS.

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 Exchange proposes to amend Exchange Rule 4120 to establish rules to comply with the requirements of the Plan to Address Extraordinary Market Volatility submitted to the Commission pursuant to Rule 608 of Regulation NMS under the Act (the "Plan").³

Background

Since May 6, 2010, when the markets experienced excessive volatility in an abbreviated time period, *i.e.*, the "flash crash," the equities exchanges and FINRA have implemented market-wide measures designed to restore investor confidence by reducing the potential for excessive market volatility. Among the measures adopted include pilot plans for stock-by-stock trading pauses⁴ and related changes to the equities market clearly erroneous execution rules⁵ and more stringent equities market maker quoting requirements.⁶ On May 31, 2012, the Commission approved the Plan, as amended, on a one-year pilot basis.⁷ In addition, the Commission approved changes to the equities

³ See Securities Exchange Act Release No. 68953 (Feb. 20, 2013) (Notice of Filing and Immediate Effectiveness of the Second Amendment to the National Market System Plan to Address Extraordinary Market Volatility, File No. 4-631).

⁴ See, e.g., BX Rule 4120.

⁵ See, e.g., BX Rule 11890.

⁶ See, e.g., BX Rule 4613(a).

⁷ See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (File No. 4-631) (Order Approving, on a Pilot Basis, the National Market System Plan To Address Extraordinary Market Volatility).

market-wide circuit breaker rules on a pilot basis to coincide with the pilot period for the Plan.⁸

The Plan is designed to prevent trades in individual NMS Stocks from occurring outside of specified Price Bands.⁹ As described more fully below, the requirements of the Plan are coupled with Trading Pauses to accommodate more fundamental price moves (as opposed to erroneous trades or momentary gaps in liquidity). All trading centers in NMS Stocks, including both those operated by Participants and those operated by members of Participants, are required to establish, maintain, and enforce written policies and procedures that are reasonably designed to comply with the requirements specified in the Plan.¹⁰ As set forth in more detail in the Plan, Price Bands consisting of a Lower Price Band and an Upper Price Band for each NMS Stock are calculated by the Processors.¹¹ When the National Best Bid (Offer) is below (above) the Lower (Upper) Price Band, the Processors shall disseminate such National Best Bid (Offer) with an appropriate flag identifying it as non-executable. When the National Best Bid (Offer) is equal to the Upper (Lower) Price Band, the Processors shall distribute such National Best Bid (Offer) with an appropriate flag identifying it as a Limit State Quotation.¹² All

⁸ See Securities Exchange Act Release No. 67090 (May 31, 2012), 77 FR 33531 (June 6, 2012) (SR-BATS-2011-038; SR-BYX-2011-025; SR-BX-2011-068; SR-CBOE-2011-087; SR-C2-2011-024; SR-CHX-2011-30; SR-EDGA-2011-31; SR-EDGX-2011-30; SR-FINRA-2011-054; SR-ISE-2011-61; SR-NASDAQ-2011-131; SR-NSX-2011-11; SR-NYSE-2011-48; SR-NYSEAmex-2011-73; SR-NYSEArca-2011-68; SR-Phlx-2011-129).

⁹ Unless otherwise specified, capitalized terms used in this rule filing are based on the defined terms of the Plan.

¹⁰ The Exchange is a Participant in the Plan.

¹¹ See Section (V)(A) of the Plan.

¹² See Section VI(A) of the Plan.

trading centers in NMS Stocks must maintain written policies and procedures that are reasonably designed to prevent the display of offers below the Lower Price Band and bids above the Upper Price Band for NMS Stocks. Notwithstanding this requirement, the Processor shall display an offer below the Lower Price Band or a bid above the Upper Price Band, but with a flag that it is non-executable. Such bids or offers shall not be included in the National Best Bid or National Best Offer calculations.¹³

Trading in an NMS Stock immediately enters a Limit State if the National Best Offer (Bid) equals but does not cross the Lower (Upper) Price Band.¹⁴ Trading for an NMS stock exits a Limit State if, within 15 seconds of entering the Limit State, all Limit State Quotations were executed or canceled in their entirety. If the market does not exit a Limit State within 15 seconds, then the Primary Listing Exchange would declare a five-minute Trading Pause pursuant to Section VII of the LULD Plan, which would be applicable to all markets trading the security.¹⁵ In addition, the Plan defines a Straddle State as when the National Best Bid (Offer) is below (above) the Lower (Upper) Price Band and the NMS Stock is not in a Limit State. For example, assume the Lower Price Band for an NMS Stock is \$9.50 and the Upper Price Band is \$10.50, such NMS stock would be in a Straddle State if the National Best Bid were below \$9.50, and therefore non-executable, and the National Best Offer were above \$9.50 (including a National Best Offer that could be above \$10.50). If an NMS Stock is in a Straddle State and trading in

¹³ See Section VI(A)(3) of the Plan.

¹⁴ See Section VI(B)(1) of the Plan.

¹⁵ The primary listing market would declare a trading pause in an NMS Stock; upon notification by the primary listing market, the Processor would disseminate this information to the public. No trades in that NMS Stock could occur during the trading pause, but all bids and offers may be displayed. See Section VII(A) of the Plan.

that stock deviates from normal trading characteristics, the Primary Listing Exchange may declare a Trading Pause for that NMS Stock.

Proposed Amendment to Rule 4120

The Exchange is required by the Plan to establish, maintain, and enforce written policies and procedures that are reasonably designed to comply with the limit up-limit down and trading pause requirements specified in the Plan. In response to the new Plan, the Exchange proposes to amend its Rules accordingly.

The Exchange proposes to add Rule 4120(a)(13)(A)(1) to define that “Plan” means the Plan to Address Extraordinary Market Volatility Submitted to the Securities and Exchange Commission Pursuant to Rule 608 of Regulation NMS under the Securities Exchange Act of 1934, Exhibit A to Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012). In addition, proposed Rule 4120(a)(13)(A)(2) provides that all capitalized terms not otherwise defined in this Rule shall have the meanings set forth in the Plan or Exchange rules, as applicable.

The Exchange proposes to add Rule 4120(a)(13)(C) to provide that Exchange members shall comply with the applicable provisions of the Plan. The Exchange believes that this requirement will help ensure the compliance by its members with the provisions of the Plan as required pursuant to Section II(B) of the Plan.¹⁶

The Exchange proposes to add Rule 4120(a)(13)(D) to provide that Exchange systems shall not display or execute buy (sell) interest above (below) the Upper (Lower) Price Bands, unless such interest is specifically exempted under the Plan. The Exchange believes that this requirement is reasonably designed to help ensure the compliance with

¹⁶ See Section II(B) of the Plan.

the limit up-limit down and trading pause requirements specified in the Plan, by preventing executions outside the Price Bands as required pursuant to Section VI(A)(1) of the Plan.¹⁷

The Exchange proposes Rules regarding the treatment of certain trading interest on the Exchange in order to prevent executions outside the Price Bands and to comply with the new LULD Plan. In particular, the Exchange proposes to add Rule 4120(a)(13)(E) to provide that Exchange systems shall re-price or cancel buy (sell) interest that is priced or could be executed above (below) the Upper (Lower) Price Band. Any interest that is repriced pursuant to this Rule shall receive a new time stamp and new execution priority.¹⁸ Specifically, the Exchange proposes the following provisions regarding the repricing or canceling of certain trading interest:

- Market Orders. If a market order with a time in force other than Immediate or Cancel cannot be fully executed at or within the Price Bands, Exchange systems shall post the unexecuted portion of the buy (sell) market order at the Upper (Lower) Price Band.
- Limit-priced Interest. Both displayable and non-displayable incoming limit-priced interest to buy (sell) that is priced above (below) the Upper (Lower) Price Band shall be repriced to the Upper (Lower) Price Band. The treatment of limit-priced interest will depend upon its order entry protocol. For limit-priced orders entered via the OUCH protocol, the order shall be re-priced

¹⁷ See Section VI(A)(1) of the Plan.

¹⁸ BX believes it is appropriate for re-priced orders to receive a new time stamp and new execution priority rather than jump ahead of previously-entered orders. In effect, an adjustment in price is equivalent to the entry of a new order; that function is simply being automated.

upon entry only if the Price Bands are such that the price of the limit-priced interest to buy (sell) would be above (below) the upper (lower) Price Band. Once slid, the treatment of that interest will further depend upon whether it becomes passive or aggressive interest. Specifically, if the order becomes passively priced such that the Price Bands move and the price of the order to buy (sell) would be below (below) the lower (upper) Price Band, the order will not be re-priced again. Rather, the order will either remain on the book at the same price or be cancelled back to the entering party, depending on how the entering party has configured its order entry port. If the interest becomes aggressively priced such that the Price Bands move and the price of the order to buy (sell) would be above (below) the upper (lower) Price Band, the order will not be re-priced again. Rather, the order will be cancelled.

- For limit-priced orders entered via RASH or FIX protocols, the order shall be priced upon order entry and then shall be eligible to be repriced by the system multiple times if the Price Bands move such that the price of resting limit-priced interest to buy (sell) would be above (below) the upper (lower) Price Band. Once slid, if the Price Bands move such that the price of resting limit interest to buy (sell) would be below (above) the upper (lower) Price Band the order will continue to be repriced either to its original limit price or to the new price bands, whichever is less aggressive.¹⁹

¹⁹ The NASDAQ system will treat limit-priced orders differently depending upon whether the entering firm uses the OUCH protocol on one hand or the RASH or FIX protocols on the other. This different treatment stems from the ultimate destination for orders entered via those protocols. Orders entered via OUCH are destined for direct entry to the NASDAQ matching engine. As such, they are not

- IOC Orders. If an IOC order cannot be fully executed at or within the Price Bands, Exchange systems shall cancel any unexecuted portion of the IOC Order.
- Routable Orders. Exchange systems shall not route buy (sell) interest to an away market displaying a sell (buy) quote that is above (below) the Upper (Lower) Price Band. Orders that are eligible to be routed to away destinations will be price slid before routing if the buy (sell) is priced above (below) the Upper (Lower) Price Band.
- Sell Short Orders. During a Short Sale Price Test, as defined in Rule 4763(b), Short Sale Orders priced below the Lower Price Band shall be repriced to the higher of the Lower Price Band or the Permitted Price, as defined in Rule 4763(b).

The Exchange believes these provisions are reasonably designed to prevent executions outside the Price Bands as required by the limit up-limit down and trading pause requirements specified in the Plan.

The Exchanges also proposes to amend Rule 4120(a)(11) regarding Trading Pauses to correspond with the LULD Plan. The proposed change clarifies that the Exchange will continue to follow pauses called by the primary listing market for each security until such time as the LULD Plan is fully implemented. As a result, during Phase 1 of the LULD Plan, a Trading Pause in Tier 1 NMS Stocks shall be subject to the

eligible for special treatments or calculations, including re-pricing. Orders entered via RASH (short for “routing and special handling”) and FIX are destined for the indirect entry into the matching engine. They are eligible for special treatments and calculations, including re-pricing. This difference in the protocols is longstanding and well-known to NASDAQ members.

requirements of the LULD Plan and a Trading Pause in Tier 2 NMS Stocks shall be subject to the requirements set forth in Exchange Rule 4120(a)(11). Once the Plan has been fully implemented and all NMS Stocks are subject to the Plan, a Trading Pause under the Plan shall be subject to Exchange Rule 4120(a)(13). These proposed changes are designed to comply with Section VIII of the LULD Plan to ensure implementation of the Plan's requirements.²⁰

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act²¹ in general, and furthers the objectives of Section 6(b)(5),²² in particular, in that it is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

The proposal will ensure that the Exchange systems will not display or execute trading interest outside the Price Bands in a manner that promotes just and equitable principles of trade and removes impediments to, and perfects the mechanism of, a free and open market and a national market system.

The proposal will also ensure that the trading interest on the Exchange is either repriced or canceled in a manner that is consistent with just and equitable principles of trade and removes impediments to, and perfects the mechanism of, a free and open market and a national market system. Specifically, when trading interest is re-priced to

²⁰ See Section VIII of the Plan.

²¹ 15 U.S.C. 78f (b).

²² 15 U.S.C. 78f(b)(5).

comply with the requirements of the Plan, that trading interest will receive a new timestamp and new execution priority. Re-pricing is the automated equivalent of the entry of a new order which would, if done manually, result in a new timestamp and placement in the execution queue. The proposal will help market participants to continue to trade NMS Stocks within Price Bands in compliance with the Plan with certainty on how orders and trading interest will be treated. Reducing uncertainty regarding the treatment and priority of trading interest with the Price Bands should help encourage market participants to continue to provide liquidity during extraordinary market volatility.

The proposal will also ensure that orders in NMS Stocks are not routed to other exchanges in situations where an execution may occur outside Price Bands, and thus promotes just and equitable principles of trade and removes impediments to, and perfects the mechanism of, a free and open market and a national market system.

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 that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the proposal is specifically designed to ensure cooperation between and among all national securities exchanges and FINRA to promote uniform and effective regulation of the national market system. The proposal is specifically aimed at reducing competition among exchanges that is based on differences in regulations, otherwise known as regulatory arbitrage. In actuality, the proposal is pro-competitive because it promotes fair and orderly markets and investor protection, which in turn will restore investor confidence and attract more investors into U.S. equities markets.

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)(ii) of the Act²³ and subparagraph (f)(6) of Rule 19b-4 thereunder.²⁴

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. The Exchange has provided the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as amended, is consistent with the Act. Comments may be submitted by any of the following methods:

²³ 15 U.S.C. 78s(b)(3)(a)(ii).

²⁴ 17 CFR 240.19b-4(f)(6).

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-2013-025 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-2013-025. 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 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-2013-025, 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.²⁵

Kevin M. O'Neill
Deputy Secretary

²⁵ 17 CFR 200.30-3(a)(12).

Exhibit 5

Additions underlined.
Deletions [bracketed].

BX EQUITY RULES

Rule 4120. Limit Up-Limit Down Plan and Trading Halts

(a)(1) - (10) No changes.

(11) If a primary listing market issues an individual stock trading pause in any of the Circuit Breaker Securities, as defined in IM-4120-3, the Exchange will pause trading in that security until trading has resumed on the primary listing market. If, however, trading has not resumed on the primary listing market and ten minutes have passed since the individual stock trading pause message has been received from the responsible single plan processor, the Exchange may resume trading in such stock. The provisions of this subparagraph shall be in effect during a pilot set to end on February 4, 2014. During the pilot, the term "Circuit Breaker Securities" shall mean all NMS stocks other than NMS stocks subject to the Regulation NMS Plan to Address Extraordinary Market Volatility.

(12) No change.

(13) Limit Up-Limit Down Mechanism.

(A) Definitions.

(1) "Plan" means the Plan to Address Extraordinary Market Volatility Submitted to the Securities and Exchange Commission Pursuant to Rule 608 of Regulation NMS under the Securities Exchange Act of 1934, Exhibit A to Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012).

(2) All capitalized terms not otherwise defined in this Rule shall have the meanings set forth in the Plan or Exchange rules, as applicable.

(B) Exchange Participation in the Plan. The Exchange is a Participant in, and subject to the applicable requirements of, the Plan, which establishes procedures to address extraordinary volatility in NMS Stocks.

(C) Member Organization Compliance. Member organizations shall comply with the applicable provisions of the Plan.

(D) Exchange Compliance with the Plan. Exchange systems shall not display or execute buy (sell) interest above (below) the Upper (Lower) Price Bands, unless such interest is specifically exempted under the Plan.

(E) Repricing and Cancellation of Interest. Exchange systems shall reprice and/or cancel buy (sell) interest that is priced or could be executed above (below) the Upper (Lower) Price Band. Any interest that is repriced pursuant to this Rule shall receive a new time stamp and new execution priority.

(1) Market Orders. If a market order with a time in force other than Immediate or Cancel cannot be fully executed at or within the Price Bands, Exchange systems shall post the unexecuted portion of the buy (sell) market order at the Upper (Lower) Price Band.

(2) Limit-priced Interest. Both displayable and non-displayable incoming limit-priced interest to buy (sell) that is priced above (below) the Upper (Lower) Price Band shall be repriced to the Upper (Lower) Price Band.

(a) For limit-priced orders entered via the OUCH protocol, the order shall be re-priced upon entry only if the Price Bands are such that the price of the limit-priced interest to buy (sell) would be above (below) the upper (lower) Price Band. Once slid:

(i) if the Price Bands move such that the price of the order to buy (sell) would be below (above) the lower (upper) Price Band, the order will not be re-priced again. Rather, the order will either remain on the book at the same price or be cancelled back to the entering party, depending on how the entering party has configured its order entry port.

(ii) if the Price Bands move such that the price of the order to buy (sell) would be above (below) the upper (lower) Price Band, the order will not be re-priced again. Rather, the order will be cancelled.

(b) For limit-priced orders entered via RASH or FIX protocols, the order shall be eligible to be repriced by the system multiple times if the Price Bands move such that the price of resting limit-priced interest to buy (sell) would be above (below) the upper (lower) Price Band. Once slid, if the Price Bands again move such that the price of resting limit interest to buy (sell) would be below (above) the upper (lower) Price Band the order will continue to be repriced either to its original limit price or to the new price bands, whichever is less aggressive.

(3) IOC Orders. If an IOC order cannot be fully executed at or within the Price Bands, Exchange systems shall cancel any unexecuted portion of the IOC Order.

(4) Routable Orders. Exchange systems shall not route buy (sell) interest to an away market displaying a sell (buy) quote that is above (below) the Upper (Lower) Price Band. Orders that are eligible to be routed to away destinations will be price slid before routing if the buy (sell) is priced above (below) the Upper (Lower) Price Band.

(5) Auction Orders. On close or halt auction orders are not price slid or cancelled due to LULD price bands.

(6) Sell Short Orders. During a Short Sale Price Test, as defined in Rule 4763(b), Short Sale Orders priced below the Lower Price Band shall be repriced to the higher of the Lower Price Band or the Permitted Price, as defined in Rule 4763(b).
