A proposal to amend NOM Chapter V, Regulation of Trading on NOM, Section 6, Obvious Errors, to replace the current mid-point test applied to the definition of Theoretical Price.
| Form 19b-4 Information * | 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. |
| Add | Remove | View |

| Exhibit 1 - Notice of Proposed Rule Change * | 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) |
| Add | Remove | View |

| Exhibit 1A - Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies | 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) |
| Add | Remove | View |

| Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications | 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. |
| Add | Remove | View |

| Exhibit 3 - Form, Report, or Questionnaire | 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. |
| Add | Remove | View |

| Exhibit 4 - Marked Copies | 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. |
| Add | Remove | View |

| Exhibit 5 - Proposed Rule Text | 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. |
| Add | Remove | View |

| Partial Amendment | 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. |
| Add | Remove | View |
1. **Text of the Proposed Rule Change**

   (a) The NASDAQ Stock Market LLC (“NASDAQ” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act") and Rule 19b-4 thereunder, is filing with the Securities and Exchange Commission (“Commission”) a proposal for the NASDAQ Options Market (“NOM”) to amend Chapter V, Regulation of Trading on NOM, Section 6, Obvious Errors, to replace the current mid-point test applied to the definition of Theoretical Price, as described further below.

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

   * * * * *

**Chapter V  Regulation of Trading on NOM**

* * * * *

**Sec. 6 Obvious Errors**

(a) Nasdaq shall either nullify a transaction or adjust the execution price of a transaction that meets the standards provided in this Section.

(b) No change.

(c) *Definition of Theoretical Price.* For purposes of this Section only, the Theoretical Price of an option series is,

   (i) If the series is traded on at least one other options exchange, the [mid-point of the] last National Best Bid price with respect to an erroneous sell transaction and the last National Best Offer price with respect to an erroneous buy transaction [and Offer ("NBBO")], just prior to the transaction; or

   (ii) No change.

(d) - (e) 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 NASDAQ 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, Principal Associate General Counsel, The NASDAQ OMX Group, Inc., 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 purpose of the proposal is to help Participants to better manage their risk by modernizing the Exchange’s Obvious Errors rule. Chapter V, Section 6 governs obvious and catastrophic errors. Obvious errors are calculated under the rule by determining a theoretical price and determining, based on objective standards, whether the trade should be nullified or adjusted. The rule also contains a process for requesting an obvious error review. Certain more substantial errors may fall under the category of a catastrophic error, for which a longer time period is permitted to request a review and for which trades can only be adjusted (not nullified). Trades are adjusted pursuant to an adjustment table that, in effect, assesses an adjustment penalty. By adjusting trades above or below the theoretical price, the Rule assesses a “penalty” in that the adjustment price is not as
favorable as the amount the party making the error would have received had it not made
the error.

Currently, Chapter V, Section 6 provides that the definition of the Theoretical
Price of an option is: (i) if the series is traded on at least one other options exchange, the
mid-point of the National Best Bid and Offer ("NBBO"), just prior to the transaction; or
(ii) if there are no quotes for comparison purposes, as determined by MarketWatch as
defined in Chapter I.

The Exchange believes that in certain situations the application of the rule when
determining to nullify or adjust transactions may lead to an unfair result for one of the
parties to the transaction, particularly where the market for the affected series includes a
bid price that is relatively small (for example, $0.50) and a substantially higher offer (for
example $5.00). The result is that a transaction to sell that occurs correctly on the bid at
$0.50 could be adjusted based on the midpoint of the NBBO, which is, in this example, $2.75. In such a case, the result is unfair to the bidder at $0.50, whose price would be
adjusted based on the Theoretical Price of $2.75, and an unjust enrichment to the seller,
who is entitled to $0.50 based on the bid, but who would receive the adjusted price of
over $2.00 higher because of the rule, and not due to market conditions.

Accordingly, the proposal would re-define "Theoretical Price" to mean either the
last National Best Bid price with respect to an erroneous sell transaction or the last
National Best Offer price with respect to an erroneous buy transaction, just prior to the
trade. The purpose of this provision is to establish a Theoretical Price that is clearly
defined when there are quotations to compare to the erroneous transaction price, and to
eliminate the scenario above that arises from the "mid-point" test when the NBBO is
particularly wide. The Exchange notes that other options exchanges previously employed the mid-point test but changed it to the NBBO test.

When another options exchange’s comparable rule was first adopted, the Commission stated that it “...considers that in most circumstances trades that are executed between parties should be honored. On rare occasions, the price of the executed trade indicates an ‘obvious error’ may exist, suggesting that it is unrealistic to expect that the parties to the trade had come to a meeting of the minds regarding the terms of the transaction. In the Commission’s view, the determination of whether an ‘obvious error’ has occurred, and the adjustment or nullification of a transaction because an obvious error is considered to exist, should be based on specific and objective criteria and subject to specific and objective procedures… The Commission believes that Phlx’s proposed obvious error rule establishes specific and objective criteria for determining when a trade is an ‘obvious error.’ Moreover, the Commission believes that the Exchange’s proposal establishes specific and objective procedures governing the adjustment or nullification of a trade that resulted from an ‘obvious error.’ ”

b. Statutory Basis

NASDAQ believes that its proposal is consistent with Section 6(b) of the Act in general, and furthers the objectives of Section 6(b)(5) of the Act in particular, in that it 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 facilitating transactions in securities, and to 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, by helping Exchange members better manage the risk associated with potential erroneous trades. Specifically, the Exchange believes that the proposal is consistent with these principles, because it sets forth an objective process based on specific and objective criteria and subject to specific and objective procedures. In addition, the Exchange has again weighed carefully the need to assure that one market participant is not permitted to receive a windfall at the expense of another market participant, against the need to assure that market participants are not simply being given an opportunity to reconsider poor trading decisions. Accordingly, the Exchange has determined that defining the Theoretical Price of an option with reference to the NBBO is appropriate and consistent with the aforementioned principles.

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

NASDAQ 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. The proposal does not impose an intra-market burden on competition, because the new definition of Theoretical Price will apply to all Options Participants. Nor will the proposal impose a burden on competition among the options exchanges, because of the vigorous competition for order flow among the options exchanges. NOM competes with 10 other options exchanges in a highly competitive market, where market participants can easily and readily direct order flow to competing venues.

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**

NASDAQ does not consent to an extension of the 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)**

Pursuant to Section 19(b)(3)(A) of the Act\(^6\) and Rule 19b-4(f)(6)\(^7\) thereunder, NASDAQ 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. NASDAQ believes that the proposal is non-controversial, because it merely copies the rules of several options exchanges regarding one of the calculations of Theoretical Price.

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. NASDAQ has satisfied this requirement. Furthermore, a proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act\(^8\) normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)\(^9\) 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 substantially similar to Phlx Rule 1092(b)(i), ISE Rule 720(a)(3)(i), CBOE Rule 6.25(a)(1)(i), NYSEArca Rule 6.87(a)(2)(A) and NYSE MKT Rule 975NY(a)(2)(A).

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

   Not applicable.

10. **Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

    Not applicable.

11. **Exhibits**

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

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-     ; File No. SR-NASDAQ-2013-039)

March __, 2013

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Replace the Current Mid-Point Test Applied to the Definition of Theoretical Price

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 February 26, 2013, The NASDAQ Stock Market LLC (“NASDAQ” 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 has filed a proposed rule change for the NASDAQ Options Market (“NOM”) to amend Chapter V, Regulation of Trading on NOM, Section 6, Obvious Errors, to replace the current mid-point test applied to the definition of Theoretical Price, as described further below.

The text of the proposed rule change is below. Proposed new language is underlined.

\*\*\*\*


Chapter V  Regulation of Trading on NOM

* * * * *

Sec. 6 Obvious Errors

(a) Nasdaq shall either nullify a transaction or adjust the execution price of a transaction that meets the standards provided in this Section.

(b) No change.

(c) *Definition of Theoretical Price.* For purposes of this Section only, the Theoretical Price of an option series is,

(i) If the series is traded on at least one other options exchange, the [mid-point of the] last National Best Bid price with respect to an erroneous sell transaction and the last National Best Offer price with respect to an erroneous buy transaction [and Offer ("NBBO")], just prior to the transaction; or

(ii) No change.

(d) - (e) No change.

* * * * *

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
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 purpose of the proposal is to help Participants to better manage their risk by modernizing the Exchange’s Obvious Errors rule. Chapter V, Section 6 governs obvious and catastrophic errors. Obvious errors are calculated under the rule by determining a theoretical price and determining, based on objective standards, whether the trade should be nullified or adjusted. The rule also contains a process for requesting an obvious error review. Certain more substantial errors may fall under the category of a catastrophic error, for which a longer time period is permitted to request a review and for which trades can only be adjusted (not nullified). Trades are adjusted pursuant to an adjustment table that, in effect, assesses an adjustment penalty. By adjusting trades above or below the theoretical price, the Rule assesses a “penalty” in that the adjustment price is not as favorable as the amount the party making the error would have received had it not made the error.

Currently, Chapter V, Section 6 provides that the definition of the Theoretical Price of an option is: (i) if the series is traded on at least one other options exchange, the mid-point of the National Best Bid and Offer ("NBBO"), just prior to the transaction; or (ii) if there are no quotes for comparison purposes, as determined by MarketWatch as defined in Chapter I.

The Exchange believes that in certain situations the application of the rule when determining to nullify or adjust transactions may lead to an unfair result for one of the
parties to the transaction, particularly where the market for the affected series includes a bid price that is relatively small (for example, $0.50) and a substantially higher offer (for example $5.00). The result is that a transaction to sell that occurs correctly on the bid at $0.50 could be adjusted based on the midpoint of the NBBO, which is, in this example, $2.75. In such a case, the result is unfair to the bidder at $0.50, whose price would be adjusted based on the Theoretical Price of $2.75, and an unjust enrichment to the seller, who is entitled to $0.50 based on the bid, but who would receive the adjusted price of over $2.00 higher because of the rule, and not due to market conditions.

Accordingly, the proposal would re-define "Theoretical Price" to mean either the last National Best Bid price with respect to an erroneous sell transaction or the last National Best Offer price with respect to an erroneous buy transaction, just prior to the trade. The purpose of this provision is to establish a Theoretical Price that is clearly defined when there are quotations to compare to the erroneous transaction price, and to eliminate the scenario above that arises from the "mid-point" test when the NBBO is particularly wide. The Exchange notes that other options exchanges previously employed the mid-point test but changed it to the NBBO test.

When another options exchange’s comparable rule was first adopted, the Commission stated that it “...considers that in most circumstances trades that are executed between parties should be honored. On rare occasions, the price of the executed trade indicates an ‘obvious error’ may exist, suggesting that it is unrealistic to expect that the parties to the trade had come to a meeting of the minds regarding the terms of the transaction. In the Commission’s view, the determination of whether an ‘obvious error’ has occurred, and the adjustment or nullification of a transaction because an obvious error
is considered to exist, should be based on specific and objective criteria and subject to specific and objective procedures… The Commission believes that Phlx’s proposed obvious error rule establishes specific and objective criteria for determining when a trade is an ‘obvious error.’ Moreover, the Commission believes that the Exchange’s proposal establishes specific and objective procedures governing the adjustment or nullification of a trade that resulted from an ‘obvious error.’ ”

2. Statutory Basis

NASDAQ believes that its proposal is consistent with Section 6(b) of the Act in general, and furthers the objectives of Section 6(b)(5) of the Act in particular, in that it 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 facilitating transactions in securities, and to 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, by helping Exchange members better manage the risk associated with potential erroneous trades. Specifically, the Exchange believes that the proposal is consistent with these principles, because it sets forth an objective process based on specific and objective criteria and subject to specific and objective procedures. In addition, the Exchange has again weighed carefully the need to assure that one market participant is not permitted to receive a windfall at the expense of another.


market participant, against the need to assure that market participants are not simply
being given an opportunity to reconsider poor trading decisions. Accordingly, the
Exchange has determined that defining the Theoretical Price of an option with reference
to the NBBO is appropriate and consistent with the aforementioned principles.

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

NASDAQ 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.
The proposal does not impose an intra-market burden on competition, because the new
definition of Theoretical Price will apply to all Options Participants. Nor will the
proposal impose a burden on competition among the options exchanges, because of the
vigorous competition for order flow among the options exchanges. NOM competes with
10 other options exchanges in a highly competitive market, where market participants can
easily and readily direct order flow to competing venues.

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 Act\(^6\) and subparagraph (f)(6) of Rule 19b-4 thereunder.\(^7\)

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:

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-
  NASDAQ-2013-039 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-NASDAQ-2013-039. 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-NASDAQ-2013-039, 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.8

Kevin M. O’Neill
Deputy Secretary

---