Electronic Comments
- Use the Commission’s Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an email to rule-comments@ sec.gov. Please include File Number SR–Phlx–2014–54 on the subject line.

Paper Comments
- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549–1090. All submissions should refer to File Number SR–Phlx–2014–54. This file number should be included on the subject line if email 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 Web site viewing and printing in the Commission’s Public Reference Room, 100 F Street NE., Washington, DC 20549–1090 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–Phlx–2014–54, and should be submitted on or before December 4, 2014.

V. Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1

The Commission finds good cause for approving the proposed rule change, as amended by Amendment No. 1, prior to the 30th day after the date of publication of notice in the Federal Register. Amendment No. 1 revises the proposal to, among other things, provide for two instances whereby the Exchange will remove legging orders to ensure that legging orders are removed when public customer orders are crossed through the Exchange’s PIXL auction pursuant to Phlx Rule 1080(b)(vi) and to ensure that legging orders are removed consistent with Phlx Rule 1084 governing order protection.37 The Commission notes that the revisions are designed to provide market participants with more specificity regarding the operation and implementation of the Exchange’s legging order functionality. Accordingly, the Commission finds good cause for approving the proposed rule change, as amended, on an accelerated basis, pursuant to Section 19(b)(2) of the Act.38

VI. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,39 that the proposed rule change (SR–Phlx–2014–54), as amended, be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.40

Kevin M. O’Neill,
Deputy Secretary.

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BILLING CODE 8011–01–P

SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Cancel-Replacement and Route Timer

November 6, 2014.

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 October 28, 2014, The NASDAQ Stock Market LLC ("NASDAQ" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by NASDAQ. 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 Substance of the Proposed Rule Change

NASDAQ proposes to add specificity to the Exchange’s options trading rules.

37 See supra note 4 for a description of Amendment No. 1.
39 Id.
containing two orders (versus two messages as described above) will also result in the original order being cancelled, provided the original order was not already filled partially or in its entirety. The replacement order will be considered a new order by the System and will have time priority as of the time that order is entered into the System, except in the case that the replacement order only serves to reduce the size of the order. A cancel-replacement order which only reduces the size of the order will continue to retain priority of the original order.

The replacement order will not retain the priority of the cancelled order except when the replacement reduces the size of the order and all other terms and conditions are retained. This is similar to the manner in which partially executed orders are prioritized in the System.

By way of example, if the original order is for 600 contracts and a market participant submits a cancel-replacement order for 600 contracts and in doing so, amends a term or condition such as the order type, presuming the original order was not filled in its entirety or partially, the entire original order would be cancelled. If the original order is for 600 contracts and a market participant submits a cancel-replacement order for 600 contracts and in doing so, amends a term or condition such as the order type, and 600 contracts were already filled, the cancel-replacement order would be returned to the market participant. If the original order is for 600 contracts and a market participant submits a cancel-replacement order for 600 contracts and in doing so, amends a term or condition such as the order type, and 600 contracts were already filled, the order would be modified to 300 contracts.

Finally, if the original order is for 600 contracts and a market participant submits a cancel-replacement order solely reducing the size of the order by 300 contracts, the order would be modified to 300 contracts and the original order would retain its priority. In the previous examples provided, the orders would not retain the priority of the original orders.

The Exchange proposes to add the following definition in Chapter VI, Section 1.

“Cancel-replacement order shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order with new terms and conditions. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will not retain the priority of the cancelled order except when the replacement reduces the size of the order and all other terms and conditions are retained.” This language is being added to Section 10(e)(1) to reflect the manner in which cancel-replacement orders function today. This filing does not reflect a change to the System; rather, the Exchange is memorializing in its rules the manner in which cancel-replacement orders are treated today.

Route Timer

Today, the System provides a number of routing options pursuant to which orders are sent to other available market centers for potential execution, per the entering market participant’s instructions. The System routing options are SEEK or SRCH. With SEEK and SRCH, an order will first check the System for available contracts for execution. After checking the System for available contracts, orders are sent to other available market centers for potential execution, per the entering firm’s instructions.

The Exchange proposes to add language in a new Section 11(a)(1)(C) to specify that after an order is initially routed, pursuant to either the SEEK or SRCH routing option, the order will post to the book and will be routed after a time period (“Route Timer”) not to exceed one second as specified by the Exchange on its Web site provided that the order’s limit price would lock or cross other market center(s). If, during the Route Timer, any new interest arrives opposite the order that is equal to or better than the away best bid or offer (“ABBO”) price, the order will trade against such new interest at the ABBO price. Eligible unexecuted orders will be routed at the end of the Route Timer provided the order was not filled and the order’s limit price would continue to lock or cross the ABBO. If an order was routed with either the SEEK or SRCH routing option, and has size after such routing, it will execute against contra side interest in the book, post in the book, and route again pursuant to the process described above, if applicable, if the order’s limit price would lock or cross another market center(s).

This language is being added to Section 11 to reflect the manner in which the Exchange imposes a Route Timer on routed orders today to permit quote updates to occur prior to subsequent routing. This filing does not reflect a change to the System, rather the Exchange is memorializing in its rules the manner in which orders are routed today.

The Exchange also proposes to amend rule text in Section 11(a)(1)(A) of Chapter VI concerning the SEEK routing option. The Exchange proposes to add language which clarifies the differences between SEEK and SRCH routing options with respect to contracts that remain un-executed after routing and are posted on the book. The Exchange proposes to state, “Once on the book at the limit price, should the order subsequently be locked or crossed by another market center, the System will not route the order to the locking or crossing market center.” The Exchange believes this language more clearly differentiates an order routed pursuant to SEEK as compared to the SRCH routing option. An order routed pursuant to the SEEK routing option is routable until it is posted at its limit price. Once posted at its limit price, an order routed pursuant to the SEEK routing option would not continue to route, as compared to an order routed pursuant to the SRCH routing option. An order routed pursuant to the SRCH routing option is routable for the life of the order. The routing functionality is similar to functionality currently on Phlx.

The Exchange also proposes to correct a typographical error in Chapter VI, Section 11(a)(1).

2. Statutory Basis

The Exchange 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
The Exchange is adding clarifying language that after an order is initially routed, pursuant to either the SEEK or SRCH routing option, the order will post to the book and will be routed after a time period (“Route Timer”) not to exceed one second as specified by the Exchange on its Web site provided that the order would lock or cross other market center(s). If, during the Route Timer, any new interest arrives opposite the order that is equal to or better than the ABBO price, the order will trade against such new interest at the ABBO price. Eligible unexecuted orders will be routed at the end of the Route Timer.

The Exchange believes that allowing cancel-replacement orders that reduce size, the Exchange believes that allowing cancel-replacement orders where only size is reduced to retain the priority of the original order is consistent with the manner in which the Exchange treats partially executed orders, which similarly apply the priority of the executed portion of the order to the remaining portion of the order. In addition, by permitting market participants’ orders to remain on the book with the original priority and reduced size, the Exchange is providing market participants an ability to reduce exposure. The Exchange believes that adding transparency and specificity to the Rules protects investors and the public interest by reducing the potential for investor confusion.

The Exchange is also memorializing the manner in which the Exchange routes unexecuted portions of an order that will be subsequently routed to other markets when it comes back and subsequently locks and/or crosses the market. The Exchange will continue to re-route eligible unexecuted orders pursuant to a Route Timer. Contracts which remain unexecuted will be posted to the book provided the order’s limit price would not lock or cross the ABBO. Specifically, the Exchange is describing the Route Timer that applies to eligible unexecuted portions of an order which will be subsequently routed. The timer protects investors and the public interest by providing a brief time period to allow the opportunity for markets to update quotes prior to subsequent routes.

The Exchange seeks to add language concerning the specific manner in which the Exchange will handle the routed order by specifying the routing method. SEEK or SRCH orders will route to the away market(s). The Exchange is adding clarifying language to make clear that after an order is initially routed, pursuant to either the SEEK or SRCH routing option, the order will post to the book and will be routed after a time period (“Route Timer”) not to exceed one second as specified by the Exchange on its Web site provided that the order would lock or cross other market center(s).

The Exchange’s proposal is intended to provide additional specificity to the rules in the manner in which the Exchange handles cancel-replacement orders and handles routing of eligible unexecuted portions of previously routed orders, which is designed to promote just and equitable principles of trade.

The Exchange is not proposing to amend the manner in which the System operates. Cancel-replacement orders have been treated in this fashion since NOM was first launched. Further, the Exchange believes that allowing cancel-replacement orders that reduce size, the Exchange believes that allowing cancel-replacement orders where only size is reduced to retain the priority of the original order is consistent with the manner in which the Exchange treats partially executed orders, which similarly apply the priority of the executed portion of the order to the remaining portion of the order. In addition, by permitting market participants’ orders to remain on the book with the original priority and reduced size, the Exchange is providing market participants an ability to reduce exposure. The Exchange believes that adding transparency and specificity to the Rules protects investors and the public interest by reducing the potential for investor confusion.

The Exchange believes this language more clearly differentiates an order routed pursuant to the SEEK routing option as compared to SRCH routing option. The Exchange believes this language adds specificity and detail to the rule text so that market participants may anticipate the manner in which orders are handled by the Exchange when routing. The Exchange believes that adding transparency and specificity to the Rules protects investors and the public interest by reducing the potential for investor confusion.

The Exchange’s proposal is intended to provide additional specificity to the rules in the manner in which the System treats cancel-replacement orders and handles routing of eligible unexecuted portions of previously routed orders, which is designed to promote just and equitable principles of trade.

The Exchange is not proposing to amend the manner in which the System operates. Cancel-replacement orders have been treated in this fashion since NOM was first launched. Further, the Exchange believes that allowing cancel-replacement orders that reduce size, the Exchange believes that allowing cancel-replacement orders where only size is reduced to retain the priority of the original order is consistent with the manner in which the Exchange treats partially executed orders, which similarly apply the priority of the executed portion of the order to the remaining portion of the order. In addition, by permitting market participants’ orders to remain on the book with the original priority and reduced size, the Exchange is providing market participants an ability to reduce exposure. The Exchange believes that adding transparency and specificity to the Rules protects investors and the public interest by reducing the potential for investor confusion.

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The Exchange seeks to add language concerning the specific manner in which the Exchange will handle the routed order by specifying the routing method. SEEK or SRCH orders will route to the away market(s). The Exchange is adding clarifying language to make clear that after an order is initially routed, pursuant to either the SEEK or SRCH routing option, the order will post to the book and will be routed after a time period (“Route Timer”) not to exceed one second as specified by the Exchange on its Web site provided that the order would lock or cross other market center(s).

The Exchange believes that allowing cancel-replacement orders that reduce size, the Exchange believes that allowing cancel-replacement orders where only size is reduced to retain the priority of the original order is consistent with the manner in which the Exchange treats partially executed orders, which similarly apply the priority of the executed portion of the order to the remaining portion of the order. In addition, by permitting market participants’ orders to remain on the book with the original priority and reduced size, the Exchange is providing market participants an ability to reduce exposure. The Exchange believes that adding transparency and specificity to the Rules protects investors and the public interest by reducing the potential for investor confusion.
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 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);
- Send an email to rule-comments@sec.gov. Please include File Number SR–NASDAQ–2014–099 on the subject line.

Paper Comments

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549.

All submissions should refer to File Number SR–NASDAQ–2014–099. This file number should be included on the subject line if email 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 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 Web site viewing and printing in the Commission's Public Reference Room, 100 F Street NE., Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filings also will be available for inspection and copying at the principal office of the Exchange.

The text of the proposed rule change is available on the Exchange’s Web site at http://nasdaqomxphlx.chicagostreet.com/, at the principal office of the Exchange, 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 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 this filing is to amend the Routing Fees in Section V of the Pricing Schedule in order to recoup costs incurred by the Exchange to route orders to away markets, and to allow members and member organizations to aggregate their Customer volume for calculating discount thresholds and receiving discounted routing fees.

Today, the Exchange assesses a Non-Customer a $0.97 per contract Routing Fee to any options exchange for routing an order. The Customer Routing Fee for option orders routed to The NASDAQ Options Market, LLC (“NOM”) is a $0.12 per contract Fixed Fee (“Fixed Fee”) in addition to the actual transaction fee assessed. The Customer Routing Fee for option orders routed to NASDAQ OMX BX, Inc. (“BX Options”) is $0.12 per contract. The Customer Routing Fee for option orders routed to all other options exchanges 4 (excluding NOM and BX Options) is a fixed fee of $0.22 per contract in addition to the actual transaction fee assessed. If the away market pays a rebate, the Routing Fee is $0.12 per contract.

With respect to the fixed costs, the Exchange incurs a fee when it utilizes

The purpose of the proposed rule change is to amend the routing fees in order to recoup costs to route orders to away markets.