

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-75743; File No. SR-NASDAQ-2015-096]

### Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing of Proposed Rule Change To Adopt a Kill Switch for NOM

August 20, 2015.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 7, 2015, 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 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 Substance of the Proposed Rule Change

The Exchange proposes to amend Chapter VI, Section 6, entitled “Acceptance of Quotes and Orders,” of the rules governing the NASDAQ Options Market (“NOM” or “Exchange”). The Exchange proposes to adopt an optional Kill Switch protection.

The text of the proposed rule change is available on the Exchange’s Web site at <http://nasdaq.cchwallstreet.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 the filing is to adopt a new risk protection, a Kill Switch, applicable to all NOM Participants. The Kill Switch will allow NOM Participants to remove quotes and cancel open orders and prevent new order submission. This feature provides firms with a powerful risk management tool for immediate control of their quote and order activity.

The Exchange proposes to amend Chapter VI, Section 6, entitled “Acceptance of Quotes and Orders,” to add new section (d) to adopt the Kill Switch. The NASDAQ Options Kill Switch will be an optional tool that enables Participants to initiate a message(s)<sup>3</sup> to the System to: (i) Promptly remove quotes; and/or (ii) promptly cancel orders. Participants may submit a request to the System to remove/cancel quotes and/or orders based on certain identifiers on either a user or group level. Participants may elect to remove quotes and cancel orders by Exchange account, port, and/or badge or mnemonic (“Identifier”) or by a group (one or more Identifier combinations),<sup>4</sup> which are provided by such Participant to the Exchange.<sup>5</sup> Participants may not remove quotes/orders by symbol. The System will send an automated message to the Participant when a Kill Switch request has been processed by the Exchange’s System.

If the Participant selects quotes to be cancelled utilizing the Kill Switch, the NOM Participant must send a message to the Exchange to request the removal of all quotes requested for the certain specified Identifier(s).<sup>6</sup> The NOM Participant will be unable to enter any additional quotes for the affected Identifier(s) until re-entry has been enabled pursuant to proposed section (d)(iii).<sup>7</sup>

If the Participant selects orders to be cancelled utilizing the Kill Switch, the

<sup>3</sup> NOM Participants will be able to utilize an interface to send a message to the Exchange to initiate the Kill Switch or they may contact the Exchange directly.

<sup>4</sup> The type of group permissible would be within a broker-dealer. For example, this could be including but not limited to all market maker accounts or all order entry ports.

<sup>5</sup> Orders submitted by NOM Market Makers over Ouch to Trade Options (OTTO) interface will be treated as quotes for purposes of this rule.

<sup>6</sup> See note 3.

<sup>7</sup> Sweeps will also be cancelled. A sweep is a one-sided electronic quote submitted over the Specialized Quote Feed, which is the market making quoting interface.

NOM Participant must send a message to the Exchange to request the cancellation of all orders requested for the certain specified Identifier(s).<sup>8</sup> The NOM Participant will be unable to enter additional orders for the affected Identifier(s) until re-entry has been enabled pursuant to section (d)(iii).

Proposed section (d)(iii) stipulates that after quotes and/or orders are removed/cancelled by the NOM Participant utilizing the Kill Switch, the NOM Participant will be unable to enter additional quotes and/or orders for the affected Identifier(s) until the NOM Participant has made a request to the Exchange and Exchange staff has set a re-entry indicator to enable re-entry.<sup>9</sup> Once enabled for re-entry, the System will send a Re-entry Notification Message to the NOM Participant. The applicable Clearing Participant for that NOM Participant also will be notified of the re-entry into the System after quotes and/or orders are removed/cancelled as a result of the Kill Switch, provided the Clearing Participant has requested to receive such notification.

The Exchange offers many risk mitigation and management tools today including, but not limited to, certain rapid fire risk controls,<sup>10</sup> 15c3-5 risk controls, Order Price Protections,<sup>11</sup> and cancel on disconnect and purge functionality for Specialized Quote Feed (SQF), Ouch to Trade Orders (OTTO) and FIX. The Kill Switch offers Participants a means to control their exposure, through an interface which is not dependent on the integrity of the Participant’s own systems, should the Participant experience a failure.

The Exchange proposes to implement this rule within ninety (90) days of the implementation date. The Exchange will issue an Options Trader Alert in advance to inform market participants of such date.

##### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>12</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>13</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by enhancing the risk protections available

<sup>8</sup> See note 3.

<sup>9</sup> The NOM Participant must directly and verbally contact the Exchange to request the re-set.

<sup>10</sup> See NOM Rules at Chapter VII, Section 6(f).

<sup>11</sup> See NOM Rules at Chapter VI, Section 18.

<sup>12</sup> 15 U.S.C. 78f(b).

<sup>13</sup> 15 U.S.C. 78f(b)(5).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

to Exchange members. The proposal promotes policy goals of the Commission which has encouraged execution venues, exchange and non-exchange alike, to enhance risk protection tools and other mechanisms to decrease risk and increase stability.

The individual firm benefits of enhanced risk protections flow downstream to counter-parties both at the Exchange and at other options exchanges, thereby increasing systemic protections as well. Additionally, because the Exchange offers this risk tool to all NOM Participants, the Exchange believes it will encourage liquidity generally and remove impediments to and perfect the mechanism of a free and open market and a national market system and protect investors and the public interest.

This optional risk tool as noted above will be offered to all NOM Participants. The Exchange further represents that its proposal will operate consistently with the firm quote obligations of a broker-dealer pursuant to Rule 602 of Regulation NMS and that the functionality is not mandatory. Specifically, any interest that is executable against a NOM Participant's quotes and orders that are received<sup>14</sup> by the Exchange prior to the time the Kill Switch is processed by the System will automatically execute at the price up to the NOM Participant's size. The Kill Switch message will be accepted by the System in the order of receipt in the queue and will be processed in that order so that interest that is already accepted into the System will be processed prior to the Kill Switch message.

A NOM Market Makers' obligation to provide continuous two-sided quotes on a daily basis is not diminished by the removal of such quotes and/or orders by utilizing the Kill Switch. NOM Market Makers will be required to provide continuous two-sided quotes on a daily basis. NOM Market Makers that utilize the Kill Switch will not be relieved of the obligation to provide continuous two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a NOM Market Maker for failing to meet the continuous quoting obligation each trading day.

With respect to providing information regarding the removal of quotes and/or cancellation of orders as a result of the Kill Switch to the Clearing Participant, each Member that transacts through a Clearing Member on the Exchange

executes a Letter of Guarantee wherein the Clearing Member accepts financial responsibility for all Exchange transactions made by the NOM Participant on whose behalf the Clearing Member submits the letter of guarantee. The Exchange believes that because Clearing Members guarantee all transactions on behalf of a Participant, and therefore bear the risk associated with those transactions, it is appropriate for Clearing Members to have knowledge of the utilization of the Kill Switch, should the Clearing Member request such notification.

#### *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 not necessary or appropriate in furtherance of the purposes of the Act. The proposal does not impose an undue burden on inter-market competition because all NOM Participants may avail themselves of the Kill Switch, which functionality will be optional. The proposed rule change is meant to protect NOM Participants in the event the NOM Participant is suffering from a systems issue or from the occurrence of unusual or unexpected market activity that would require them to withdraw from the market in order to protect investors. The ability to control risk at either the user or group level will permit the NOM Participant to protect itself from inadvertent exposure to excessive risk at the each level. Reducing such risk will enable NOM Participants to enter quotes and orders without any fear of inadvertent exposure to excessive risk, which in turn will benefit investors through increased liquidity for the execution of their orders. Such increased liquidity benefits investors because they receive better prices and because it lowers volatility in the options market. For these reasons, the Exchange does not believe this proposal imposes an undue burden on inter-market competition, rather the proposed rule change will have no impact on competition.

#### *C. 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.

### **III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period (i)

as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) By order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved.

### **IV. Solicitation of Comments**

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

#### *Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2015-096 on the subject line.

#### *Paper Comments*

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

All submissions should refer to File Number SR-NASDAQ-2015-096. 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, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office 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.

<sup>14</sup> The time of receipt for an order or quote is the time such message is processed by the Exchange book.

All submissions should refer to File Number SR–NASDAQ–2015–096 and should be submitted on or before September 16, 2015.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>15</sup>

Robert W. Errett,

Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–75746; File No. SR–EDGX–2015–37]

### Self-Regulatory Organizations; EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Rule 2.11, BATS Trading as Outbound Router

August 20, 2015.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b–4 thereunder,<sup>2</sup> notice is hereby given that on August 11, 2015, EDGX Exchange, Inc. (the “Exchange” or “EDGX”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated this proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b–4(f)(6)(iii) thereunder,<sup>4</sup> which renders it effective upon filing with the Commission. 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

The Exchange filed a proposal to amend Rule 2.11, BATS Trading as Outbound Router, in order to conform to the rules of BATS Exchange, Inc. (“BZX”) and BATS Y-Exchange, Inc. (“BYX”).<sup>5</sup>

The text of the proposed rule change is available at the Exchange’s Web site

at [www.batstrading.com](http://www.batstrading.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 parts of such statements.

##### (A) Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

In early 2014, the Exchange and its affiliate, EDGA Exchange, Inc. (“EDGA”), received approval to effect a merger (the “Merger”) of the Exchange’s parent company, Direct Edge Holdings LLC, with BATS Global Markets, Inc., the parent of BZX and BYX (together with EDGA, and EDGX, the “BGM Affiliated Exchanges”).<sup>6</sup> In the context of the Merger, the BGM Affiliated Exchanges are working to align certain system and regulatory functionality, retaining only intended differences between the BGM Affiliated Exchanges. Thus, the proposal set forth below is intended to amend Rule 2.11, BATS Trading as an Outbound Router, to make such Rule identical to the corresponding Rule 2.11 on BZX and BYX. The Exchange does not propose to alter its current system functionality with regard to its use of BATS Trading, Inc. (“BATS Trading”) as an outbound router and its use of an error account. Rather, the proposed rule change is designed to provide a consistent rule set across each of the BGM Affiliated Exchanges.<sup>7</sup>

Pursuant to Exchange Rule 2.11, the Exchange relies on BATS Trading to provide outbound routing services from itself to a routing destination. Rule 2.11 also provides the authority to the Exchange or BATS Trading to cancel orders on the Exchange’s equity

securities platform when a technical or system issue occurs. Rule 2.11 also describes the operation of an error account for BATS Trading. The Exchange proposes to make the amendments to Rule 2.11 described below to align each subparagraph with the corresponding subparagraph within BZX and BYX Rules 2.11.<sup>8</sup> Again, none of these proposed changes alter the authority of the Exchange or BATS Trading to cancel orders that result from a technical or system issue nor do they amend the operation of an error account for BATS Trading.

First, the Exchange proposes to make the follow ministerial changes to Rule 2.11 to conform to BZX and BYX Rules 2.11, none of which amend the substance or meaning of each section of the rule:

- Add “, Inc.” after “BATS Trading” in the title of Rule 2.11 to align with the title of BZX and BYX Rules 2.11; and
- Replace the word “accordance” with the word “compliance” in subparagraph (a)(4) to align with BZX and BYX Rules 2.11(a)(4);

None of the above changes alter the meaning of each subparagraph. They are simply intended to align each subparagraph with the corresponding subparagraph within Rule 2.11.

Second, the Exchange proposes to amend Rule 2.11(a)(6) to align with BZX and BYX Rules 2.11(a)(6). Rule 2.11(a)(6) will continue to provide that the Exchange or BATS Trading may cancel orders as either deems to be necessary to maintain fair and orderly markets if a technical or systems issue occurs at the Exchange, BATS Trading or a routing destination. The Exchange proposes to replace: (i) the phrase “if and when a systems, technical or operational issue” with “if a technical or systems issue”; and (ii) the term “Trading Center” with “routing destination.” Replacement of these terms do not alter the meaning of Rule 2.11(a)(6). Rather, they simply align the rule’s text with that of BZX and BYX Rules 2.11(a)(6). To further align the rule text with BZX and BYX Rules 2.11(a)(6), the Exchange proposes to delete the phrase “of orders” from the last sentence of Exchange Rule 2.11(a)(6). Rule 2.11(a)(6) will continue to require that the Exchange or BATS Trading provide notice of the cancellation of orders to affected Members as soon as practicable.

Third, the Exchange proposes to amend Rule 2.11(a)(7) to align with BZX

<sup>8</sup> The Exchange notes that it does not propose to amend Rules 2.11(a)(1)–(3) and (b) as those subparagraphs are identical to BZX and BYX Rules 2.11(a)(1)–(3) and (b).

<sup>15</sup> 17 CFR 200.30–3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b–4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b–4(f)(6)(iii).

<sup>5</sup> See BZX and BYX Rules 2.11. See also Securities Exchange Act Release Nos. 69744 (June 12, 2015), 78 FR 36612 (June 18, 2015) (SR–BYX–2013–018); and 69744 (June 12, 2015), 78 FR 36621 (June 18, 2015) (SR–BATS–2013–032) (notices of filing and immediate effectiveness of proposed rule changes to amend BYX and BZX Rules 2.11, entitled “BATS Trading, Inc. as Outbound Router”).

<sup>6</sup> See Securities Exchange Act Release No. 71449 (January 30, 2014), 79 FR 6961 (February 5, 2014) (SR–EDGX–2013–043; SR–EDGA–2013–034).

<sup>7</sup> See BZX and BYX Rules 2.11. The Exchange notes that EDGA intends to file a similar proposal that will align the rules related to its use of BATS Trading as an outbound router across each of the BGM Affiliated Exchanges.