

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 27	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2012 - * 65	Amendment No. (req. for Amendments *)
Proposed Rule Change by NASDAQ OMX PHLX LLC. 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 checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>
			Section 19(b)(3)(B) * <input type="checkbox"/>	
			Rule	
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<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 type="checkbox"/> 19b-4(f)(6)
Exhibit 2 Sent As Paper Document <input type="checkbox"/>		Exhibit 3 Sent As Paper Document <input type="checkbox"/>		
<b>Description</b> Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *). A Proposal to Modify Exchange Rule 1092, Obvious Errors and Catastrophic Errors.				
<b>Contact Information</b> Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.				
First Name *	Arlinda	Last Name *	Clark	
Title *	Assistant General Counsel			
E-mail *	arlinda.clark@nasdaqomx.com			
Telephone *	(301) 978-8317	Fax	(301) 978-8472	
<b>Signature</b> Pursuant to the requirements of the Securities Exchange Act of 1934,  has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.				
Date	05/11/2012			
By	Edward S. Knight	Executive Vice President and General Counsel		
	(Name *)	(Title *)		
NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.		Edward S Knight,		

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information (required)**

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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 (required)**

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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 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**

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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**

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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 the Proposed Rule Change

(a) 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> NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”) proposes to modify Exchange Rule 1092, Obvious Errors and Catastrophic Errors.

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The Board of Directors of the Exchange approved the submission of this proposed rule change on May 9, 2012. No other action by the Exchange is necessary for the filing of the rule change. The Exchange will implement the proposed change 30 days after Commission approval.

Questions and comments on the proposed rule change may be directed to Arlinda J. Clark, Assistant General Counsel, The NASDAQ OMX Group, Inc. at (301) 978-8317 (telephone) or (301) 98-8472 (fax).

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

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

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

a. Purpose

The Exchange proposes to modify Exchange Rule 1092 regarding Obvious Errors and Catastrophic Errors. In most circumstances trades that are executed between parties should be honored. However, there are occasions when the price of the executed trade indicates that the terms of the execution are obviously unrealistic, and there is no expectation that the parties to the trade had come to a meeting of the minds regarding the terms of the transaction. These circumstances are classified as obvious errors (“Obvious Errors”), which are governed by Exchange Rule 1092.<sup>3</sup> Exchange Rule 1092 provides objective criteria for determining when a transaction is clearly the result of an Obvious Error; governs under what circumstances a trade will be adjusted or nullified; and governs the price to which a trade would be adjusted if appropriate.

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<sup>3</sup> See Securities and Exchange Act Release No. 49785 (May 28, 2004), 69 FR 32090 (June 8, 2004) (SR-Phlx-2003-68) (establishing the Obvious Error rule). See also Securities and Exchange Act Release Nos. 54009 (June 16, 2006), 71 FR 36592 (June 27, 2006) (SR-Phlx-2005-42) (concerning referee review); 54070 (June 29, 2006), 71 FR 38441 (July 6, 2006) (SR-Phlx-2005-73) (revising definition of Obvious Error); 55877 (June 7, 2007), 72 FR 32937 (June 14, 2007) (SR-Phlx-2006-87) (establishing Options Exchange Officer); 56034 (July 10, 2007), 72 FR 38853 (July 16, 2007) (SR-Phlx-2007-34) (clarifying applicability to U.S. dollar-settled FCOs); 57712 (April 24, 2008), 73 FR 24100 (May 1, 2008) (SR-Phlx-2007-69) (covering Theoretical Price); 58002 (June 23, 2008), 73 FR 36581 (June 27, 2008) (SR-Phlx-2008-42) (defining Catastrophic Error); 59322 (January 30, 2009), 74 FR 6680 (February 10, 2009) (SR-Phlx-2009-03) (clarifying when options trader can be nullified as “no bid” option); 59924 (May 14, 2009), 74 FR 23759 (May 20, 2009) (SR-Phlx-2009-23) (defining governance structure); 60169 (June 24, 2009), 74 FR 31782 (July 2, 2009) (SR-Phlx-2009-40) (regarding FCO); 60687 (September 18, 2009), 74 FR 49060 (September 25, 2009) (SR-Phlx-2009-59) (concerning governance provisions); (January 28, 2010), 75 FR 5827 (February 4, 2010) (SR-Phlx-2010-13) (reviewing transactions on Exchange’s own motion); 63692 (January 11, 2011), 76 FR 2940 (January 18, 2011) (SR-Phlx-2010-163) (addressing Obvious Error and Catastrophic Error involving Complex Orders); 63860 (February 7, 2011), 76 FR 7888 (February 11, 2011) (SR-Phlx-2010-176) (nullifying Alpha Index Options); 64338 (April 25, 2011), 76 FR 24069 (April 29, 2011) (SR-Phlx-2011-13) (conforming By-Laws); and 64584 (May 25, 2011), 76 FR 33378 (June 8, 2011) (SR-Phlx-2011-69) (regarding routing fees).

More specifically, the purpose of the proposed rule change is to modify Exchange Rule 1092 to: (i) change the definition of Catastrophic Error by making reasonable modifications to the Catastrophic Errors adjustment table and making the same adjustments in the procedures regarding the handling of Catastrophic Errors; (ii) modify the Obvious Error procedures to indicate that members or member organizations have until 8:30 A.M. the next business day to notify Regulatory Staff of Obvious Error transactions resulting from stop or stop limit orders; (iii) modify the Obvious Error procedures to provide that an adjustment to the execution price of the transaction may not violate the limit price of any non-broker customer; and (iv) modify the Obvious Error procedures to provide that adjustments will carry a \$.15 or \$.30 penalty depending on the Theoretical Price.

*Catastrophic Errors Definition*

Pursuant to Exchange Rule 1092(a)(ii), a Catastrophic Error is deemed to have occurred when the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the minimum amount shown below:

<b>Theoretical Price</b>	<b>Minimum Amount</b>
Below \$2	\$1
\$2 to \$5	\$2
Above \$5 to \$10	\$5
Above \$10 to \$50	\$10
Above \$50 to \$100	\$20
Above \$100	\$30

The Exchange proposes to modify the definition of Catastrophic Error by modifying the Catastrophic Error adjustment table to reflect a reduction in the minimum amounts. The Exchange believes, based on its experience and feedback from market

participants since the rule has been in place, that the current minimum amount now appears excessive and does not correlate with the amount of risk in the option. For example, a \$2.00 call may have the same amount of delta or exposure to the firms participating on the trade as a \$10 option. Furthermore, the higher priced options have a little more risk, but many “in the money” options could have less risk than lower priced “out of the money” options. For these reasons, the Exchange proposes to adjust the Catastrophic Error table by lowering the graduated minimum amounts to more accurately reflect the risk in various circumstances. The adjustment table will also include a category for “in the money” and “out of the money” options since the risk for each group differs. Additionally, the Exchange believes the proposed adjustments are more in line with the amounts indicated by other exchanges in the marketplace.<sup>4</sup>

For the above-stated reasons, the Exchange proposes to revise the definition of a Catastrophic Error by deeming a “catastrophic error” to have occurred when the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the minimum amount shown below:

<b>Theoretical Price</b>	<b>Minimum Amount</b>
Below \$2	\$.50
\$2 to \$5	\$1.00
Above \$5 to \$10	\$1.25
Above \$10 to \$50	\$1.50
Above \$50 (in the money)	\$1.50
Above \$50 (out of the money)	\$3.00

*Obvious Error Procedures – Notification of Stop Orders*

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<sup>4</sup> See NOM Chapter V, Section 6(e)(i)

Exchange Rule 1092(e)(i)(A) sets forth the notification procedure when an Obvious Error has occurred. Generally, when a member or member organization believes it has participated in a transaction that was the result of an Obvious Error, it must notify the Exchange's Regulatory staff within a specified time of the execution to allow the transaction to be nullified or adjusted. Currently, if a specialist or Registered Options Trader ("ROT")<sup>5</sup> on the Exchange believes that he/she participated in a transaction that was the result of an Obvious Error, he/she must notify Regulatory staff within fifteen minutes of the transaction. If a member or member organization that initiated the order from off the floor of the Exchange believes a transaction on the Exchange was the result of an Obvious Error, such member or member organization must notify Regulatory Staff within twenty minutes of the Execution. Absent unusual circumstances, Regulatory Staff will not grant relief under this rule unless notification is made within the prescribed time period.

The Exchange believes that market participants who use stop orders have no clear expectation when those orders may be executed since they are dependent on the price movement of the underlying stock price. Sometimes the stop orders may not be executed for days, weeks or months, if at all. Since there is no expected indication of when the orders may be executed, the Exchange believes the stop orders should be held to a lesser standard, but still prior to the next day's opening. Therefore, the Exchange proposes to modify Exchange Rule 1092(e)(i)(A) to provide that members or member organizations

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<sup>5</sup> An ROT is a regular member or a foreign currency options participant of the Exchange located on the trading floor who has received permission from the Exchange to trade in options for his own account. The term "ROT" includes a Streaming Quote Trader and a Remote Streaming Quote Trader. See Exchange Rule 1014(b).

will have until 8:30 A.M. the following business day to notify Regulatory Staff concerning Obvious Errors that are the result of an elected stop or stop limit order.

*Obvious Error Procedure - Adjustments*

Exchange Rule 1092(e)(ii) provides procedures for adjusting or busting trades where there is an Obvious Error. The Exchange proposes to modify Exchange Rule 1092(e)(ii) first by eliminating the reference to the categories of specialist and ROT when adjusting the execution price of the transaction; and second, by adding provisions that adjustments will now carry a \$.15 to \$.30 penalty.

First, the Exchange proposes to eliminate all references to ROTs and specialists when adjusting the execution price of the transaction by providing that the adjustment will apply to all market participants. In the Exchange's experience, once a trade is consummated, many parties will create an offsetting transaction or hedge that is also affected by the Obvious Error. The Exchange believes that the adjustments will reduce the risk associated with Obvious Errors for all market participants. Therefore, the Exchange proposes to modify Exchange Rule 1092(e)(ii) by eliminating references to categories of specialist or ROT, and revising the language to state that if it is determined that an Obvious Error has occurred, the execution price of the transaction will be adjusted (provided the adjustment does not violate the limit price of any non-broker dealer Customer) by an Options Exchange Official, unless both parties agree to nullify the transaction within ten minutes of being notified of the Obvious Error by Regulatory staff.

Second, the Exchange proposes to modify Exchange Rule 1092(e)(ii) by providing that erroneous buy transactions will be adjusted to their Theoretical Price plus \$.15 if the Theoretical Price is under \$3, or plus \$.20 if the Theoretical Price is at or

above \$3. Conversely erroneous sell transactions will be adjusted to their Theoretical Price minus \$.15 if the Theoretical Price is under \$3, or minus \$.30 if the Theoretical Price is at or above \$3. The Exchange is making this change to ensure that Obvious Error determinations are in accord with the determinations made by other options markets to minimize the uncertainty and disruption faced by market participants that trade on multiple exchanges.<sup>6</sup>

Exchange Rule 1092(f) sets forth the procedure to be followed when an Exchange member believes that he/she has participated in a trade resulting from a Catastrophic Error. The procedure provides Exchange staff with a consistent, established course of action to be taken when a transaction has resulted from a Catastrophic Error, and ensures prompt notification of an adjustment or nullification of such a transaction. In correlation to the proposed change contained in Exchange Rule 1092(a)(ii) above, the Exchange proposes to modify the adjustment table in Exchange Rule 1092(f) to reflect the changes made in the adjustment table under Exchange Rule 1092 (a)(ii) discussed above.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>7</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>8</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.

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<sup>6</sup> See supra note 4.

<sup>7</sup> 15 U.S.C. 78f(b).

<sup>8</sup> 15 U.S.C. 78f(b)(5).

*Protection of Investors and Public Interest*

The Exchange believes that it is consistent with just and equitable principles of trade to not allow one market participant to receive a windfall at the expense of another market participant that made an Obvious Error. The Exchange believes the proposed changes will protect the marketplace and investors by adjusting the criteria for the definition of a Catastrophic Error to numbers that are not only similar to those of other exchanges, but also reflect a more reasonable consideration of the risk that is apportioned to such an error. Such changes will allow members or member organizations greater relief from errors that result in large losses. Furthermore, the proposed changes to the procedures provide assurance to all market participants that the Regulatory Staff will handle the proposed Obvious Error and Catastrophic Error adjustments objectively, thus eliminating any unfair treatment in the handling of such errors.

In addition, the investors and public interest are further protected because the procedures dictate that transactions can only be adjusted if the error meets the objective criteria of this rule. Furthermore, the Catastrophic Error definition and procedural changes are more in line with that of the marketplace.

*Removes Impediments and Perfects Mechanism of a Free and Open Market*

The Exchange's proposal is designed to set more reasonable parameters in deeming when a Catastrophic Error occurs by adjusting the minimum amount on the Catastrophic Error table to amounts that more adequately reflect today's environment, as well as comport with other exchanges in the marketplace. As a result, the Exchange believes the proposal to adjust the minimal amount in the Catastrophic Error table removes impediments and perfects the mechanism of a free and open market.

Additionally, the proposed changes regarding Obvious Error procedures, including Catastrophic Error procedures, are applied uniformly to all market participants and provide a clear delineation of the handling of Obvious Errors by the Exchange. For these reasons, the Exchange believes the proposal to adjust the definition of Catastrophic Errors by lowering the minimum amounts in the Catastrophic Error table, as well as the proposals to modify the procedures regarding Obvious Errors, provides a more reasonable and efficient mechanism for the marketplace as a whole and is more in line with other Exchanges, and therefore lessens the confusion and risk in the marketplace.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange's proposal will improve the quality while at the same time progress the consistency of the Obvious Error rule relative to other options exchanges.<sup>9</sup> Also, the Exchange believes the proposal will result in mitigated risk, increased protection, and less confusion among all participants.

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

The Exchange 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)

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<sup>9</sup> See supra, note 4.

Not applicable.

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

Certain parts of the Exchange's proposed rule change are based on the rules of NOM as described above.<sup>10</sup>

9. Exhibits

1. Exhibit 1, Notice of proposed rule for publication in the Federal Register.
2. Exhibit 5, Proposed rule text

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<sup>10</sup> See supra note 4.

Exhibit 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-Phlx-2012-65)

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by NASDAQ OMX PHLX LLC to Modify Exchange Rule 1092, Obvious Errors and Catastrophic Errors.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4<sup>2</sup> thereunder, notice is hereby given that on May 11, 2012, NASDAQ OMX PHLX LLC (“Phlx” 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 modify Exchange Rule 1092, Obvious Errors and Catastrophic Errors. The Exchange will implement the proposed change 30 days after Commission approval.

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaqtrader.com/micro.aspx?id=PHLXRulefilings>, 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

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

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

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 Exchange proposes to modify Exchange Rule 1092 regarding Obvious Errors and Catastrophic Errors. In most circumstances trades that are executed between parties should be honored. However, there are occasions when the price of the executed trade indicates that the terms of the execution are obviously unrealistic, and there is no expectation that the parties to the trade had come to a meeting of the minds regarding the terms of the transaction. These circumstances are classified as obvious errors (“Obvious Errors”), which are governed by Exchange Rule 1092.<sup>3</sup> Exchange Rule 1092 provides

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<sup>3</sup> See Securities and Exchange Act Release No. 49785 (May 28, 2004), 69 FR 32090 (June 8, 2004) (SR-Phlx-2003-68) (establishing the Obvious Error rule). See also Securities and Exchange Act Release Nos. 54009 (June 16, 2006), 71 FR 36592 (June 27, 2006) (SR-Phlx-2005-42) (concerning referee review); 54070 (June 29, 2006), 71 FR 38441 (July 6, 2006) (SR-Phlx-2005-73) (revising definition of Obvious Error); 55877 (June 7, 2007), 72 FR 32937 (June 14, 2007) (SR-Phlx-2006-87) (establishing Options Exchange Officer); 56034 (July 10, 2007), 72 FR 38853 (July 16, 2007) (SR-Phlx-2007-34) (clarifying applicability to U.S. dollar-settled FCOs); 57712 (April 24, 2008), 73 FR 24100 (May 1, 2008) (SR-Phlx-2007-69) (covering Theoretical Price); 58002 (June 23, 2008), 73 FR 36581 (June 27, 2008) (SR-Phlx-2008-42) (defining Catastrophic Error); 59322 (January 30, 2009), 74 FR 6680 (February 10, 2009) (SR-Phlx-2009-03) (clarifying when options trader can be nullified as “no bid” option); 59924 (May 14, 2009), 74 FR 23759 (May 20, 2009) (SR-Phlx-2009-23) (defining governance structure); 60169 (June 24, 2009), 74 FR 31782 (July 2, 2009) (SR-Phlx-2009-40) (regarding FCO); 60687 (September 18, 2009), 74 FR 49060 (September 25, 2009) (SR-Phlx-2009-59) (concerning governance provisions); (January 28, 2010), 75 FR 5827 (February 4, 2010)

objective criteria for determining when a transaction is clearly the result of an Obvious Error; governs under what circumstances a trade will be adjusted or nullified; and governs the price to which a trade would be adjusted if appropriate.

More specifically, the purpose of the proposed rule change is to modify Exchange Rule 1092 to: (i) change the definition of Catastrophic Error by making reasonable modifications to the Catastrophic Errors adjustment table and making the same adjustments in the procedures regarding the handling of Catastrophic Errors; (ii) modify the Obvious Error procedures to indicate that members or member organizations have until 8:30 A.M. the next business day to notify Regulatory Staff of Obvious Error transactions resulting from stop or stop limit orders; (iii) modify the Obvious Error procedures to provide that an adjustment to the execution price of the transaction may not violate the limit price of any non-broker customer; and (iv) modify the Obvious Error procedures to provide that adjustments will carry a \$.15 or \$.30 penalty depending on the Theoretical Price.

*Catastrophic Errors Definition*

Pursuant to Exchange Rule 1092(a)(ii), a Catastrophic Error is deemed to have occurred when the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the minimum amount shown below:

<b>Theoretical Price</b>	<b>Minimum Amount</b>
Below \$2	\$1

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(SR-Phlx-2010-13) (reviewing transactions on Exchange's own motion); 63692 (January 11, 2011), 76 FR 2940 (January 18, 2011) (SR-Phlx-2010-163) (addressing Obvious Error and Catastrophic Error involving Complex Orders); 63860 (February 7, 2011), 76 FR 7888 (February 11, 2011) (SR-Phlx-2010-176) (nullifying Alpha Index Options); 64338 (April 25, 2011), 76 FR 24069 (April 29, 2011) (SR-Phlx-2011-13) (conforming By-Laws); and 64584 (May 25, 2011), 76 FR 33378 (June 8, 2011) (SR-Phlx-2011-69) (regarding routing fees).

\$2 to \$5	\$2
Above \$5 to \$10	\$5
Above \$10 to \$50	\$10
Above \$50 to \$100	\$20
Above \$100	\$30

The Exchange proposes to modify the definition of Catastrophic Error by modifying the Catastrophic Error adjustment table to reflect a reduction in the minimum amounts. The Exchange believes, based on its experience and feedback from market participants since the rule has been in place, that the current minimum amount now appears excessive and does not correlate with the amount of risk in the option. For example, a \$2.00 call may have the same amount of delta or exposure to the firms participating on the trade as a \$10 option. Furthermore, the higher priced options have a little more risk, but many “in the money” options could have less risk than lower priced “out of the money” options. For these reasons, the Exchange proposes to adjust the Catastrophic Error table by lowering the graduated minimum amounts to more accurately reflect the risk in various circumstances. The adjustment table will also include a category for “in the money” and “out of the money” options since the risk for each group differs. Additionally, the Exchange believes the proposed adjustments are more in line with the amounts indicated by other exchanges in the marketplace.<sup>4</sup>

For the above-stated reasons, the Exchange proposes to revise the definition of a Catastrophic Error by deeming a “catastrophic error” to have occurred when the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the minimum amount shown below:

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<sup>4</sup> See NOM Chapter V, Section 6(e)(i)

<b>Theoretical Price</b>	<b>Minimum Amount</b>
Below \$2	\$.50
\$2 to \$5	\$1.00
Above \$5 to \$10	\$1.25
Above \$10 to \$50	\$1.50
Above \$50 (in the money)	\$1.50
Above \$50 (out of the money)	\$3.00

*Obvious Error Procedures – Notification of Stop Orders*

Exchange Rule 1092(e)(i)(A) sets forth the notification procedure when an Obvious Error has occurred. Generally, when a member or member organization believes it has participated in a transaction that was the result of an Obvious Error, it must notify the Exchange's Regulatory staff within a specified time of the execution to allow the transaction to be nullified or adjusted. Currently, if a specialist or Registered Options Trader ("ROT")<sup>5</sup> on the Exchange believes that he/she participated in a transaction that was the result of an Obvious Error, he/she must notify Regulatory staff within fifteen minutes of the transaction. If a member or member organization that initiated the order from off the floor of the Exchange believes a transaction on the Exchange was the result of an Obvious Error, such member or member organization must notify Regulatory Staff within twenty minutes of the Execution. Absent unusual circumstances, Regulatory Staff will not grant relief under this rule unless notification is made within the prescribed time period.

The Exchange believes that market participants who use stop orders have no clear expectation when those orders may be executed since they are dependent on the price

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<sup>5</sup> An ROT is a regular member or a foreign currency options participant of the Exchange located on the trading floor who has received permission from the Exchange to trade in options for his own account. The term "ROT" includes a Streaming Quote Trader and a Remote Streaming Quote Trader. See Exchange Rule 1014(b).

movement of the underlying stock price. Sometimes the stop orders may not be executed for days, weeks or months, if at all. Since there is no expected indication of when the orders may be executed, the Exchange believes the stop orders should be held to a lesser standard, but still prior to the next day's opening. Therefore, the Exchange proposes to modify Exchange Rule 1092(e)(i)(A) to provide that members or member organizations will have until 8:30 A.M. the following business day to notify Regulatory Staff concerning Obvious Errors that are the result of an elected stop or stop limit order.

*Obvious Error Procedure - Adjustments*

Exchange Rule 1092(e)(ii) provides procedures for adjusting or busting trades where there is an Obvious Error. The Exchange proposes to modify Exchange Rule 1092(e)(ii) first by eliminating the reference to the categories of specialist and ROT when adjusting the execution price of the transaction; and second, by adding provisions that adjustments will now carry a \$.15 to \$.30 penalty.

First, the Exchange proposes to eliminate all references to ROTs and specialists when adjusting the execution price of the transaction by providing that the adjustment will apply to all market participants. In the Exchange's experience, once a trade is consummated, many parties will create an offsetting transaction or hedge that is also affected by the Obvious Error. The Exchange believes that the adjustments will reduce the risk associated with Obvious Errors for all market participants. Therefore, the Exchange proposes to modify Exchange Rule 1092(e)(ii) by eliminating references to categories of specialist or ROT, and revising the language to state that if it is determined that an Obvious Error has occurred, the execution price of the transaction will be adjusted (provided the adjustment does not violate the limit price of any non-broker dealer

Customer) by an Options Exchange Official, unless both parties agree to nullify the transaction within ten minutes of being notified of the Obvious Error by Regulatory staff.

Second, the Exchange proposes to modify Exchange Rule 1092(e)(ii) by providing that erroneous buy transactions will be adjusted to their Theoretical Price plus \$.15 if the Theoretical Price is under \$3, or plus \$.20 if the Theoretical Price is at or above \$3. Conversely erroneous sell transactions will be adjusted to their Theoretical Price minus \$.15 if the Theoretical Price is under \$3, or minus \$.30 if the Theoretical Price is at or above \$3. The Exchange is making this change to ensure that Obvious Error determinations are in accord with the determinations made by other options markets to minimize the uncertainty and disruption faced by market participants that trade on multiple exchanges.<sup>6</sup>

Exchange Rule 1092(f) sets forth the procedure to be followed when an Exchange member believes that he/she has participated in a trade resulting from a Catastrophic Error. The procedure provides Exchange staff with a consistent, established course of action to be taken when a transaction has resulted from a Catastrophic Error, and ensures prompt notification of an adjustment or nullification of such a transaction. In correlation to the proposed change contained in Exchange Rule 1092(a)(ii) above, the Exchange proposes to modify the adjustment table in Exchange Rule 1092(f) to reflect the changes made in the adjustment table under Exchange Rule 1092 (a)(ii) discussed above.

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<sup>6</sup> See supra note 4.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>7</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>8</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.

### *Protection of Investors and Public Interest*

The Exchange believes that it is consistent with just and equitable principles of trade to not allow one market participant to receive a windfall at the expense of another market participant that made an Obvious Error. The Exchange believes the proposed changes will protect the marketplace and investors by adjusting the criteria for the definition of a Catastrophic Error to numbers that are not only similar to those of other exchanges, but also reflect a more reasonable consideration of the risk that is apportioned to such an error. Such changes will allow members or member organizations greater relief from errors that result in large losses. Furthermore, the proposed changes to the procedures provide assurance to all market participants that the Regulatory Staff will handle the proposed Obvious Error and Catastrophic Error adjustments objectively, thus eliminating any unfair treatment in the handling of such errors.

In addition, the investors and public interest are further protected because the procedures dictate that transactions can only be adjusted if the error meets the objective

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<sup>7</sup> 15 U.S.C. 78f(b).

<sup>8</sup> 15 U.S.C. 78f(b)(5).

criteria of this rule. Furthermore, the Catastrophic Error definition and procedural changes are more in line with that of the marketplace.

*Removes Impediments and Perfects Mechanism of a Free and Open Market*

The Exchange's proposal is designed to set more reasonable parameters in deeming when a Catastrophic Error occurs by adjusting the minimum amount on the Catastrophic Error table to amounts that more adequately reflect today's environment, as well as comport with other exchanges in the marketplace. As a result, the Exchange believes the proposal to adjust the minimal amount in the Catastrophic Error table removes impediments and perfects the mechanism of a free and open market. Additionally, the proposed changes regarding Obvious Error procedures, including Catastrophic Error procedures, are applied uniformly to all market participants and provide a clear delineation of the handling of Obvious Errors by the Exchange. For these reasons, the Exchange believes the proposal to adjust the definition of Catastrophic Errors by lowering the minimum amounts in the Catastrophic Error table, as well as the proposals to modify the procedures regarding Obvious Errors, provides a more reasonable and efficient mechanism for the marketplace as a whole and is more in line with other Exchanges, and therefore lessens the confusion and risk in the marketplace.

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 Exchange's proposal will improve the quality while at the same time progress the consistency of the Obvious Error rule relative to other options exchanges.<sup>9</sup> Also, the

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<sup>9</sup> See supra, note 4.

Exchange believes the proposal will result in mitigated risk, increased protection, and less confusion among all participants.

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 e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2012-65 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-Phlx-2012-65. 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, 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.

All submissions should refer to File Number SR-Phlx-2012-65 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.<sup>10</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

*Proposed new language is underlines; proposed deletions are in brackets.*

\* \* \* \* \*

**Rule 1092. Obvious Errors and Catastrophic Errors**

The Exchange shall either nullify a transaction or adjust the execution price of a transaction that results in an Obvious Error as provided in this Rule.

(a) (i) No change.

(ii) *Catastrophic Error.* For purposes of this Rule only, a Catastrophic Error will be deemed to have occurred when the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the minimum amount shown below:

<b>Theoretical Price</b>	<b>Minimum Amount</b>
Below \$2	\$[1]. <u>.50</u>
\$2 to \$5	\$[2] <u>1.00</u>
Above \$5 to \$10	\$[5] <u>1.25</u>
Above \$10 to \$50	\$[10] <u>1.50</u>
Above \$50 [to \$100] <u>(in the money)</u>	\$[20] <u>1.50</u>
Above \$[100] <u>50 (out of the money)</u>	\$[30] <u>3.00</u>

(b)-(d) No change

(e) *Obvious Error Procedure.* Regulatory staff shall administer the application of this Rule as follows:

(i) (A) Notification. If a specialist or Registered Options Trader ("ROT") on the Exchange believes that he/she participated in a transaction that was the result of an Obvious Error, he/she must notify Regulatory staff within fifteen minutes of the transaction. If a member or member organization that initiated the order from off the floor of the Exchange believes a transaction on the Exchange was the result of an Obvious Error, such member or member organization must notify Regulatory staff within twenty minutes of the execution. Absent unusual circumstances, Regulatory staff will not grant relief under this Rule unless notification is made within the prescribed time period. Additionally, members or member organizations will have until 8:30 a.m. the following business day to notify Regulatory Staff concerning Obvious Errors that are the result of an elected stop or stop limit order. Notwithstanding the foregoing, respecting transactions that occur as part of the Exchanges automated opening process, after the twenty minute notification period as described above and until 4:30 p.m. Eastern Time ("ET") on the subject trade date, where parties to the transaction are a non-broker-dealer customer and an Exchange

specialist, SQT, RSQT or non-SQT ROT, the non-broker-dealer customer may request review of the subject transaction, and the execution price of the transaction will be adjusted to the first quote after the transaction(s) in question that does not reflect the erroneous transaction(s) (provided the adjustment does not violate the customer's limit price) by an Options Exchange Official.

(B) Procedures for Reviewing Trades on Exchange Motion. In the interest of maintaining a fair and orderly market for the protection of investors, the President or designee thereof, who is an officer of the Exchange (collectively "Exchange officer") may, on his or her own motion or upon request, determine to review any transaction occurring on the Exchange that is believed to be erroneous. A transaction reviewed pursuant to this provision may be nullified or adjusted only if it is determined by the Exchange officer that the transaction is an Obvious Error as provided in this Rule 1092. A transaction would be adjusted or nullified in accordance with the provision under which it is deemed an Obvious Error. The Exchange officer may be assisted by an Options Exchange Official in reviewing a transaction.

The Exchange officer shall act as soon as possible after receiving notification of the transaction, and ordinarily would be expected to act on the same day as the transaction occurred. In no event shall the Exchange officer act later than 9:30 a.m. (ET) on the next trading day following the date of the transaction in question. A party affected by a determination to nullify or adjust a transaction pursuant to this provision may appeal such determination in accordance with Rule 1092; however, a determination by an Exchange officer not to review a transaction, or a determination not to nullify or adjust a transaction for which a review was requested or conducted, is not appealable. If a transaction is reviewed and a determination is rendered pursuant to another provision of Rule 1092, no additional relief may be granted under this provision.

(ii) Adjust or Bust. An Options Exchange Official will determine whether there is an Obvious Error as defined in this Rule. If it is determined that an Obvious Error has occurred, [ (A) where each party to the transaction is either a specialist or ROT on the Exchange,] the execution price of the transaction will be adjusted (provided the adjustment does not violate the limit price of any non-broker dealer Customer) by an Options Exchange Official, unless both parties agree to nullify the transaction within ten minutes of being notified by Regulatory staff of the Obvious Error, [; or (B) where at least one party to the transaction in which an Obvious Error occurred is not a specialist or ROT on the Exchange, an Options Exchange Official will nullify the transaction, unless both parties agree to adjust the price of the transaction within 30 minutes of being notified by Regulatory staff of the Obvious Error.] Erroneous buy transactions will be adjusted to their Theoretical Price plus \$4.15 if the Theoretical Price is under \$3.00, or plus \$.30 if the Theoretical Price is at or above \$3.00. Erroneous sell transactions will be adjusted to their Theoretical Price minus \$.15 if the Theoretical Price is under \$3.00, or minus \$.30 if the Theoretical Price is at or above

\$3.00. Upon final Options Exchange Official action, Regulatory staff, in conjunction with the Help Desk, where appropriate, shall promptly notify both parties to the trade.

(f)(i)-(ii) No change.

(iii) *Adjustment.* If it is determined that a Catastrophic Error has occurred, unless both (all) parties agree to adjust the transaction to a different price, the execution price(s) of the transaction(s) will be adjusted to the theoretical price, (i) plus the adjustment value provided below for erroneous buy transactions, and (ii) minus the adjustment value provided for erroneous sell transactions.

<b>Theoretical Price</b>	<b>Minimum Amount</b>
Below \$2	<u>[\$1].50</u>
\$2 to \$5	<u>[\$2]1.00</u>
Above \$5 to \$10	<u>[\$3]1.25</u>
Above \$10 to \$50	<u>[\$5]1.50</u>
Above \$50 [to \$100]( <u>in the money</u> )	<u>[\$7]1.50</u>
Above <u>[\$100]50 (out of the money)</u>	<u>[\$10]3.00</u>

(iv) *Appeal.* An Exchange member may appeal the Options Exchange Officials determination to the Market Operations Review Committee pursuant to paragraph (g) below.

(g) No change.

**Commentary:** -----

**.01 - .02** No change.

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