| OMB APPROVAL |
| --- |
| OMB Number: 3235-0045<br>Estimated average burden<br>hours per response............38 |

***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 - 2013 - * 20
Amendment No. (req. for Amendments *)

Filing by NASDAQ OMX PHLX LLC.

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

| Initial * | Amendment * | Withdrawal | Section 19(b)(2) * | Section 19(b)(3)(A) * | Section 19(b)(3)(B) * |
| --- | --- | --- | --- | --- | --- |
| ☑ | ☐ | ☐ | ☐ | ☑ | ☐ |

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule

| | |
| --- | --- |
| ☐ 19b-4(f)(1) | ☐ 19b-4(f)(4) |
| ☐ 19b-4(f)(2) | ☐ 19b-4(f)(5) |
| ☐ 19b-4(f)(3) | ☑ 19b-4(f)(6) |

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) ☐ Section 806(e)(2) ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) ☐

Exhibit 2 Sent As Paper Document ☐ Exhibit 3 Sent As Paper Document ☐

**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

A proposed rule change to Exchange Rule 1047.

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Edith Last Name * Hallahan

Title * Principal Associate General Counsel

E-mail * edith.hallahan@nasdaqomx.com

Telephone * (215) 496-5179 Fax (215) 496-6729

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 02/27/2013

By Edward S. Knight

(Name *)

(Title *)

Executive Vice President and General Counsel

Edward S Knight,

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.

*Required fields are shown with yellow backgrounds and asterisks.*

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

| | |
|---|---|
| **Form 19b-4 Information *** <br> Add Remove View | 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 *** <br> Add Remove View | The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3) |
| **Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies** <br> Add Remove View | The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3) |
| **Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications** <br> Add Remove View <br> Exhibit Sent As Paper Document <br> ☐ | 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** <br> Add Remove View <br> Exhibit Sent As Paper Document <br> ☐ | 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** <br> Add Remove View | 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** <br> Add Remove View | The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change. |
| **Partial Amendment** <br> Add Remove View | If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions. |

1. Text of Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder[2], NASDAQ OMX PHLX LLC ("Exchange" or "Phlx"), is filing with the Securities and Exchange Commission ("Commission") a proposed rule change: (i) to adopt new Exchange Rule 1047(f) to provide for how the Exchange proposes to treat orders in response to the Regulation NMS Plan to Address Extraordinary Market Volatility; and (ii) to adopt new Exchange Rule 1047(g) to codify that the Exchange shall halt trading in all options overlying NMS stocks when the equities markets initiate a market-wide trading halt due to extraordinary market volatility.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1. Proposed new language is underlined; proposed deletions are in brackets.

* * * * *

**Rule 1047. Trading Rotations, Halts and Suspensions**

(a) – (e) No change.

(f) This paragraph shall be in effect during a pilot period to coincide with the pilot period for the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it may be amended from time to time ("LULD Plan"). Capitalized terms used in this paragraph shall have the same meaning as provided for in the LULD Plan. During a Limit State and Straddle State in the Underlying NMS stock:

(i) The System will not open an affected option.

(ii) After the opening, the Exchange shall reject Market Orders, as defined in Rule 1066(a) (including Complex Orders, as defined in Rule 1080.08), and shall notify Participants of the reason for such rejection. The Exchange shall cancel Complex Orders that are Market Orders residing in the System if they are about to be executed by the System.

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

(iii) After the opening, the Exchange shall elect Stop Orders, as defined in Rule 1066(c)(1), and, because they become Market Orders, shall cancel them back and notify Participants of the reason for such rejection.

(g) The Exchange shall halt trading in all options whenever the equities markets initiate a market-wide trading halt commonly known as a circuit breaker in response to extraordinary market conditions.

**• • • Commentary:**

**.01 - .03** No change.

* * * * *

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors on July 10, 2012. No other action by the Exchange is necessary for the filing of the rule change.

Questions regarding this rule filing may be directed to Edith Hallahan, Principal Associate General Counsel, The NASDAQ OMX Group, Inc., at 215-496-5179.

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

(a) Purpose

The Exchange proposes: (i) to adopt Exchange Rule 1047(f) to provide for how the Exchange will treat orders in response to the Regulation NMS Plan to Address Extraordinary Market Volatility (the "Plan"), which is applicable to all NMS stocks, as defined in Regulation NMS Rule 600(b)(47); and (ii) to adopt Exchange Rule 1047(g) to codify that the Exchange shall halt trading in all options when the equities markets initiate a market-wide trading halt due to extraordinary market volatility. The Exchange proposes to adopt new Rule 1047(f) for a pilot period that coincides with the pilot period for the Plan.

Background

Since May 6, 2010, when the markets experienced excessive volatility in an abbreviated time period, i.e., the "flash crash," the equities exchanges and the Financial Industry Regulatory Authority ("FINRA") have implemented market-wide measures designed to restore investor confidence by reducing the potential for excessive market volatility. The measures adopted include pilot plans for stock-by-stock trading pauses,[3] related changes to the equities market clearly erroneous execution rules,[4] and more stringent equities market maker quoting requirements.[5] On May 31, 2012, the Commission approved the Plan, as amended, on a one-year pilot basis.[6] In addition, the Commission approved changes to the equities market-wide circuit breaker rules on a pilot basis to coincide with the pilot period for the Plan.[7]

The Plan is designed to prevent trades in individual NMS stocks from occurring outside of specified Price Bands.[8] As described more fully below, the requirements of the Plan are coupled with Trading Pauses to accommodate more fundamental price moves (as opposed to erroneous trades or momentary gaps in liquidity). All trading centers in NMS stocks, including

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[3] See e.g., Exchange Rule 3100.

[4] See e.g., Exchange Rule 3312.

[5] See e.g., NASDAQ Rule 4613.

[6] See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (File No. 4-631) (Order Approving the Plan on a Pilot Basis).

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

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

both those operated by Participants and those operated by members of Participants, are required to establish, maintain, and enforce written policies and procedures that are reasonably designed to comply with the requirements specified in the Plan.

As set forth in more detail in the Plan, Price Bands consisting of a Lower Price Band and an Upper Price Band for each NMS Stock are calculated by the Processors.[9] When the National Best Bid (Offer) is below (above) the Lower (Upper) Price Band, the Processors shall disseminate such National Best Bid (Offer) with an appropriate flag identifying it as unexecutable. When the National Best Bid (Offer) is equal to the Upper (Lower) Price Band, the Processors shall distribute such National Best Bid (Offer) with an appropriate flag identifying it as a Limit State Quotation.[10] All trading centers in NMS stocks must maintain written policies and procedures that are reasonably designed to prevent the display of offers below the Lower Price Band and bids above the Upper Price Band for NMS stocks. Notwithstanding this requirement, the Processor shall display an offer below the Lower Price Band or a bid above the Upper Price Band, but with a flag that it is non-executable. Such bids or offers shall not be included in the National Best Bid or National Best Offer calculations.[11] Trading in an NMS stock immediately enters a Limit State if the National Best Offer (Bid) equals but does not cross the Lower (Upper) Price Band.[12] Trading for an NMS stock exits a Limit State if, within 15 seconds of entering the Limit State, all Limit State Quotations were executed or canceled in their entirety. If the market does not exit a Limit State within 15 seconds, then the Primary Listing Exchange

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[9] See Section V(A) of the Plan.

[10] See Section VI(A) of the Plan.

[11] See Section VI(A)(3) of the Plan.

[12] See Section VI(B)(1) of the Plan.

would declare a five-minute trading pause pursuant to Section VII of the Plan, which would be applicable to all markets trading the security.[13] In addition, the Plan defines a Straddle State as when the National Best Bid (Offer) is below (above) the Lower (Upper) Price Band and the NMS stock is not in a Limit State. For example, assume the Lower Price Band for an NMS Stock is $9.50 and the Upper Price Band is $10.50, such NMS stock would be in a Straddle State if the National Best Bid were below $9.50, and therefore unexecutable, and the National Best Offer were above $9.50 (including a National Best Offer that could be above $10.50). If an NMS stock is in a Straddle State and trading in that stock deviates from normal trading characteristics, the Primary Listing Exchange may declare a trading pause for that NMS stock if such Trading Pause would support the Plan's goal to address extraordinary market volatility.

Proposed Rule 1047(f)

Openings

The Exchange proposes to adopt new Exchange Rule 1047(f) to provide for how the Exchange shall treat orders and quotes in options overlying NMS stocks when the Plan is in effect. First, the Exchange proposes to adopt new subparagraph (i) to provide for how the Exchange shall treat the opening rotation. The opening in an option will not commence in the event that the underlying NMS stock is open, but has entered into a Limit State or Straddle State. If this occurs, the opening will only commence and complete if the underlying NMS stock stays out of a Limit or Straddle State. Accordingly, new Rule 1047(f)(i) will provide that the System will not open an affected option. As a result, if an opening process is occurring, it will cease and then start the opening process from the beginning once the Limit State or Straddle State is no

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

longer occurring. If a Limit State or Straddle State occurs after an option opens, but during a Complex Order Strategy opening, the Complex Order Strategy opening will continue as long as the option remains open. This is consistent with the provisions of Rule 1047 that state that the Exchange will halt an option when the underlying security is subject to a regulatory halt.

Orders

Second, the Exchange proposes to adopt provisions regarding the treatment of certain orders if the underlying NMS stock is in a Limit State or Straddle State. Whenever an NMS stock is in a Limit State or Straddle State, trading continues; however, there will not be a reliable price for a security to serve as a benchmark for the price of the option. For example, if the underlying NMS stock is in a Limit State, while trading in that stock continues, by being in a Limit State, there will be either cancellations or executions at that price, and if the Limit State is not resolved in 15 seconds, the NMS Stock will enter a Trading Pause. If an NMS stock is in a Straddle State, that means that there is either a National Best Bid or National Best Offer that is non-executable, which could result in limited price discovery in the underlying NMS stock. In addition to the lack of a reliable underlying reference price, the Exchange is concerned about the width of the markets and quality of the execution for market participants during a Limit State or Straddle State. While the Exchange recognizes the importance of continued trading in options overlying NMS stocks during Limit States and Straddle States, the Exchange believes that certain types of orders increase the risk of errors and poor executions and therefore should not be allowed during these times when there may not be a reliable underlying reference price, there may be a wide bid/ask quotation differential, and there may be lower trading liquidity in the options markets.

Therefore, the Exchange proposes that if an NMS stock is in a Limit State or Straddle State, once the option has opened for trading, the Exchange shall reject all incoming Market Orders, as defined in Rule 1066(a) (including Complex Orders, as defined in Rule 1080.08), and shall notify Participants of the reason for such rejection.[14] Market orders residing in the System will be handled in the normal fashion under Exchange rules. The Exchange shall also cancel Complex Orders that are Market Orders residing in the System if they are about to be executed by the System.[15] In addition, the System will elect Stop Orders[16] if the underlying NMS stock is in a Straddle State or a Limit State, but, because they become Market Orders, shall cancel them back and notify Participants of the reason for such rejection. The Exchange believes that permitting these order types to execute when the underlying NMS stock is in a Limit State or Straddle State would add to the volatility in the options markets during times of extraordinary market volatility and could have the potential to lead to unwanted executions. The Exchange believes that adding certainty to the treatment of Market Orders and Stop Orders when the underlying NMS stock is in these situations should encourage market participants to continue to provide liquidity to the Exchange and thus promote a fair and orderly market.

Proposed Rule 1047(g)

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14 Such orders will not be eligible for order re-entry pursuant to Rule 1082, and market orders being re-entered pursuant to this provision will be rejected as well.

15 Pursuant to Rule 1080.08, Complex Orders can become executable after a COLA and during the COLA Timer.

16 See Rule 1066(c)(1). Stop Orders when elected create a Market Order to buy or sell the option. In contrast, the Exchange is not proposing to prohibit the election of Stop Limit Orders. Stop Limit Orders when elected create a Limit Order to buy or sell the option at a specific price. See Rule 1066(c)(1). The Exchange believes that Stop Limit Orders do not raise the same risks during periods of extraordinary volatility, because, once elected, the associated limit orders would not race through the order book in the manner that an elected Market Order would.

The Exchange also proposes to adopt Rule 1047(g), which provides that the Exchange shall halt trading in all options whenever the equities markets initiate a market-wide trading halt commonly known as a circuit breaker in response to extraordinary market conditions. Although the Exchange's rules currently address a variety of situations involving halts, pauses and suspensions,[17] the Exchange has determined to adopt a very specific rule to deal with circuit breaker-related halts. The Exchange believes that this rule can be adopted on a permanent basis, even though the equities circuit breakers are subject to a pilot program, because the proposed rule refers to such circuit breakers generally.

b. Statutory Basis

The Exchange believes the proposed rule change is consistent with the provisions of Section 6 of the Act,[18] in general, and with Section 6(b)(5) of the Act,[19] in particular, which requires that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, promote just and equitable principles of trade, foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest, because it should provide certainty about how options orders and trades will be handled during periods of extraordinary volatility in the underlying security. Specifically, under the proposal, market participants will be able to continue to trade options overlying securities that are in a Limit State or Straddle State, while addressing specific order types that are subject to

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17 For example, Rule 1047(e) addresses halting an option when trading in the underlying NMS stock is paused.

18 15 U.S.C. 78f.

19 15 U.S.C. 78f(b)(5).

added risks during such periods. The Exchange believes that the rejection of options Market Orders (including elected Stop Orders) should help to prevent executions that might occur at prices that have not been reliably formed, which should, in turn, protect, in particular, retail investors from executions of un-priced orders during times of significant volatility.

Accordingly, the Exchange believes that the proposed rule change is consistent with these requirements in that it should reduce the negative impacts of sudden, unanticipated volatility in individual options, and serve to preserve an orderly market in a transparent and uniform manner, enhance the price-discovery process, increase overall market confidence, and promote fair and orderly markets and the protection of investors.

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. Specifically, the proposal does not impose an intra-market burden on competition, because it will apply to all Options Participants. Nor will the proposal impose a burden on competition among the options exchanges, because, in addition to the vigorous competition for order flow among the options exchanges, the proposal addresses a regulatory situation common to all options exchanges. To the extent that market participants disagree with the particular approach taken by the Exchange herein, market participants can easily and readily direct order flow to competing venues. The Exchange believes this proposal for how to treat options openings and orders will not impose a burden on competition and will help provide certainty during periods of extraordinary volatility in an NMS stock.

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

Written comments were neither solicited nor received.

6. Extension of Time Period for Commission Action

Not applicable.

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

Pursuant to Section 19(b)(3)(A) of the Act[20] and Rule 19b-4(f)(6)[21] thereunder, NASDAQ has designated this proposal as one that effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. PHLX believes that the proposal is non-controversial, because it addresses how opening and orders will be handled in a clear way, which is important to the protection of investors and the public interest, particularly during periods of extreme market volatility.

Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. NASDAQ has satisfied this requirement. Furthermore, a proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act[22] normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)[23] permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest.

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[20] 15 U.S.C. 78s(b)(3)(A).

[21] 17 CFR 240.19b-4(f)(6).

[22] 17 CFR 240.19b-4(f)(6).

[23] 17 CFR 240.19b-4(f)(6).

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

The proposal is similar to SR-NYSEMKT-2013-10, except that NYSE MKT will not elect Stop Orders while the Exchange will elect and reject them, and NYSE MKT will open an option during a Limit State or Straddle State.

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

Not applicable.

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

Not applicable.

11. Exhibits

1. Completed notice of proposed rule change for publication in the Federal Register.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-Phlx-2013-20)

February__, 2013

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Adopt New Exchange Rule 1047(f) and (g)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1], and Rule 19b-4 thereunder,[2] notice is hereby given that on February 27, 2013, 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: (i) adopt new Exchange Rule 1047(f) to provide for how the Exchange proposes to treat orders in response to the Regulation NMS Plan to Address Extraordinary Market Volatility; and (ii) adopt new Exchange Rule 1047(g) to codify that the Exchange shall halt trading in all options overlying NMS stocks when the equities markets initiate a market-wide trading halt due to extraordinary market volatility.

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

* * * * *

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b-4.

**Rule 1047. Trading Rotations, Halts and Suspensions**

(a) – (e) No change.

(f) This paragraph shall be in effect during a pilot period to coincide with the pilot period for the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it may be amended from time to time ("LULD Plan"). Capitalized terms used in this paragraph shall have the same meaning as provided for in the LULD Plan. During a Limit State and Straddle State in the Underlying NMS stock:

(i) The System will not open an affected option.

(ii) After the opening, the Exchange shall reject Market Orders, as defined in Rule 1066(a) (including Complex Orders, as defined in Rule 1080.08), and shall notify Participants of the reason for such rejection. The Exchange shall cancel Complex Orders that are Market Orders residing in the System if they are about to be executed by the System.

(iii) After the opening, the Exchange shall elect Stop Orders, as defined in Rule 1066(c)(1), and, because they become Market Orders, shall cancel them back and notify Participants of the reason for such rejection.

(g) The Exchange shall halt trading in all options whenever the equities markets initiate a market-wide trading halt commonly known as a circuit breaker in response to extraordinary market conditions.

**• • • Commentary:**

**.01 - .03** No change.

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## 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 Exchange proposes: (i) to adopt Exchange Rule 1047(f) to provide for how the Exchange will treat orders in response to the Regulation NMS Plan to Address Extraordinary Market Volatility (the “Plan”), which is applicable to all NMS stocks, as defined in Regulation NMS Rule 600(b)(47); and (ii) to adopt Exchange Rule 1047(g) to codify that the Exchange shall halt trading in all options when the equities markets initiate a market-wide trading halt due to extraordinary market volatility. The Exchange proposes to adopt new Rule 1047(f) for a pilot period that coincides with the pilot period for the Plan.

Background

Since May 6, 2010, when the markets experienced excessive volatility in an abbreviated time period, i.e., the “flash crash,” the equities exchanges and the Financial Industry Regulatory Authority (“FINRA”) have implemented market-wide measures designed to restore investor confidence by reducing the potential for excessive market volatility. The measures adopted include pilot plans for stock-by-stock trading pauses,[3] related changes to the equities market clearly erroneous execution rules,[4] and more stringent equities market maker quoting requirements.[5] On May 31, 2012, the Commission approved the Plan, as amended, on a one-year pilot basis.[6] In addition, the Commission approved changes to the equities market-wide circuit breaker rules on a pilot basis to coincide with the pilot period for the Plan.[7]

The Plan is designed to prevent trades in individual NMS stocks from occurring outside of specified Price Bands.[8] As described more fully below, the requirements of the Plan are coupled with Trading Pauses to accommodate more fundamental price moves (as opposed to erroneous trades or momentary gaps in liquidity). All trading centers in NMS stocks, including both those operated by Participants and those operated by members of Participants, are required to establish, maintain, and enforce written policies and

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3 See e.g., Exchange Rule 3100.

4 See e.g., Exchange Rule 3312.

5 See e.g., NASDAQ Rule 4613.

6 See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (File No. 4-631) (Order Approving the Plan on a Pilot Basis).

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

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

procedures that are reasonably designed to comply with the requirements specified in the Plan.

As set forth in more detail in the Plan, Price Bands consisting of a Lower Price Band and an Upper Price Band for each NMS Stock are calculated by the Processors.[9] When the National Best Bid (Offer) is below (above) the Lower (Upper) Price Band, the Processors shall disseminate such National Best Bid (Offer) with an appropriate flag identifying it as unexecutable. When the National Best Bid (Offer) is equal to the Upper (Lower) Price Band, the Processors shall distribute such National Best Bid (Offer) with an appropriate flag identifying it as a Limit State Quotation.[10] All trading centers in NMS stocks must maintain written policies and procedures that are reasonably designed to prevent the display of offers below the Lower Price Band and bids above the Upper Price Band for NMS stocks. Notwithstanding this requirement, the Processor shall display an offer below the Lower Price Band or a bid above the Upper Price Band, but with a flag that it is non-executable. Such bids or offers shall not be included in the National Best Bid or National Best Offer calculations.[11] Trading in an NMS stock immediately enters a Limit State if the National Best Offer (Bid) equals but does not cross the Lower (Upper) Price Band.[12] Trading for an NMS stock exits a Limit State if, within 15 seconds of entering the Limit State, all Limit State Quotations were executed or canceled in their entirety. If the market does not exit a Limit State within 15 seconds, then the Primary

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9 See Section V(A) of the Plan.

10 See Section VI(A) of the Plan.

11 See Section VI(A)(3) of the Plan.

12 See Section VI(B)(1) of the Plan.

Listing Exchange would declare a five-minute trading pause pursuant to Section VII of the Plan, which would be applicable to all markets trading the security.[13] In addition, the Plan defines a Straddle State as when the National Best Bid (Offer) is below (above) the Lower (Upper) Price Band and the NMS stock is not in a Limit State. For example, assume the Lower Price Band for an NMS Stock is $9.50 and the Upper Price Band is $10.50, such NMS stock would be in a Straddle State if the National Best Bid were below $9.50, and therefore unexecutable, and the National Best Offer were above $9.50 (including a National Best Offer that could be above $10.50). If an NMS stock is in a Straddle State and trading in that stock deviates from normal trading characteristics, the Primary Listing Exchange may declare a trading pause for that NMS stock if such Trading Pause would support the Plan's goal to address extraordinary market volatility.

Proposed Rule 1047(f)

Openings

The Exchange proposes to adopt new Exchange Rule 1047(f) to provide for how the Exchange shall treat orders and quotes in options overlying NMS stocks when the Plan is in effect. First, the Exchange proposes to adopt new subparagraph (i) to provide for how the Exchange shall treat the opening rotation. The opening in an option will not commence in the event that the underlying NMS stock is open, but has entered into a Limit State or Straddle State. If this occurs, the opening will only commence and complete if the underlying NMS stock stays out of a Limit or Straddle State.

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

Accordingly, new Rule 1047(f)(i) will provide that the System will not open an affected option. As a result, if an opening process is occurring, it will cease and then start the opening process from the beginning once the Limit State or Straddle State is no longer occurring. If a Limit State or Straddle State occurs after an option opens, but during a Complex Order Strategy opening, the Complex Order Strategy opening will continue as long as the option remains open. This is consistent with the provisions of Rule 1047 that state that the Exchange will halt an option when the underlying security is subject to a regulatory halt.

Orders

Second, the Exchange proposes to adopt provisions regarding the treatment of certain orders if the underlying NMS stock is in a Limit State or Straddle State. Whenever an NMS stock is in a Limit State or Straddle State, trading continues; however, there will not be a reliable price for a security to serve as a benchmark for the price of the option. For example, if the underlying NMS stock is in a Limit State, while trading in that stock continues, by being in a Limit State, there will be either cancellations or executions at that price, and if the Limit State is not resolved in 15 seconds, the NMS Stock will enter a Trading Pause. If an NMS stock is in a Straddle State, that means that there is either a National Best Bid or National Best Offer that is non-executable, which could result in limited price discovery in the underlying NMS stock. In addition to the lack of a reliable underlying reference price, the Exchange is concerned about the width of the markets and quality of the execution for market participants during a Limit State or Straddle State. While the Exchange recognizes the importance of continued trading in options overlying NMS stocks during Limit States and Straddle States, the Exchange believes that certain types of orders increase the risk of errors and poor executions and therefore should not be allowed during these times when there may not be a reliable underlying reference price, there may be a wide bid/ask quotation differential, and there may be lower trading liquidity in the options markets.

Therefore, the Exchange proposes that if an NMS stock is in a Limit State or Straddle State, once the option has opened for trading, the Exchange shall reject all incoming Market Orders, as defined in Rule 1066(a) (including Complex Orders, as defined in Rule 1080.08), and shall notify Participants of the reason for such rejection.[14] Market orders residing in the System will be handled in the normal fashion under Exchange rules. The Exchange shall also cancel Complex Orders that are Market Orders residing in the System if they are about to be executed by the System.[15] In addition, the System will elect Stop Orders[16] if the underlying NMS stock is in a Straddle State or a Limit State, but, because they become Market Orders, shall cancel them back and notify Participants of the reason for such rejection. The Exchange believes that permitting these order types to execute when the underlying NMS stock is in a Limit State or Straddle State would add to the volatility in the options markets during times of extraordinary

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14 Such orders will not be eligible for order re-entry pursuant to Rule 1082, and market orders being re-entered pursuant to this provision will be rejected as well.

15 Pursuant to Rule 1080.08, Complex Orders can become executable after a COLA and during the COLA Timer.

16 See Rule 1066(c)(1). Stop Orders when elected create a Market Order to buy or sell the option. In contrast, the Exchange is not proposing to prohibit the election of Stop Limit Orders. Stop Limit Orders when elected create a Limit Order to buy or sell the option at a specific price. See Rule 1066(c)(1). The Exchange believes that Stop Limit Orders do not raise the same risks during periods of extraordinary volatility, because, once elected, the associated limit orders would not race through the order book in the manner that an elected Market Order would.

market volatility and could have the potential to lead to unwanted executions. The Exchange believes that adding certainty to the treatment of Market Orders and Stop Orders when the underlying NMS stock is in these situations should encourage market participants to continue to provide liquidity to the Exchange and thus promote a fair and orderly market.

Proposed Rule 1047(g)

The Exchange also proposes to adopt Rule 1047(g), which provides that the Exchange shall halt trading in all options whenever the equities markets initiate a market-wide trading halt commonly known as a circuit breaker in response to extraordinary market conditions. Although the Exchange's rules currently address a variety of situations involving halts, pauses and suspensions,[17] the Exchange has determined to adopt a very specific rule to deal with circuit breaker-related halts. The Exchange believes that this rule can be adopted on a permanent basis, even though the equities circuit breakers are subject to a pilot program, because the proposed rule refers to such circuit breakers generally.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the provisions of Section 6 of the Act,[18] in general, and with Section 6(b)(5) of the Act,[19] in particular, which requires that the rules of an exchange be designed to prevent fraudulent and

17 For example, Rule 1047(e) addresses halting an option when trading in the underlying NMS stock is paused.

18 15 U.S.C. 78f.

19 15 U.S.C. 78f(b)(5).

manipulative acts and practices, promote just and equitable principles of trade, foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest, because it should provide certainty about how options orders and trades will be handled during periods of extraordinary volatility in the underlying security. Specifically, under the proposal, market participants will be able to continue to trade options overlying securities that are in a Limit State or Straddle State, while addressing specific order types that are subject to added risks during such periods. The Exchange believes that the rejection of options Market Orders (including elected Stop Orders) should help to prevent executions that might occur at prices that have not been reliably formed, which should, in turn, protect, in particular, retail investors from executions of un-priced orders during times of significant volatility.

Accordingly, the Exchange believes that the proposed rule change is consistent with these requirements in that it should reduce the negative impacts of sudden, unanticipated volatility in individual options, and serve to preserve an orderly market in a transparent and uniform manner, enhance the price-discovery process, increase overall market confidence, and promote fair and orderly markets and the protection of investors. .

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. Specifically, the proposal does not impose an intra-market burden on competition, because it will apply to all Options Participants. Nor will the proposal impose a burden on competition among the options exchanges, because, in addition to the vigorous competition for order flow among the options exchanges, the proposal addresses a regulatory situation common to all options exchanges. To the extent that market participants disagree with the particular approach taken by the Exchange herein, market participants can easily and readily direct order flow to competing venues. The Exchange believes this proposal for how to treat options openings and orders will not impose a burden on competition and will help provide certainty during periods of extraordinary volatility in an NMS stock.

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

Written comments were neither solicited nor received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act[20] and subparagraph (f)(6) of Rule 19b-4 thereunder.[21] Phlx believes that the proposal is non-controversial, because it addresses how opening and orders will be handled in a clear way, which is important to the protection of investors and the public interest, particularly during periods of extreme market volatility.

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20 15 U.S.C. 78s(b)(3)(a)(ii).

21 17 CFR 240.19b-4(f)(6).

Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. Phlx has satisfied this requirement. Furthermore, a proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act[22] normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)[23] permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest.

At any time within 60 days of the filing of such proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. The Exchange has provided the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change.

IV. Solicitation of Comments

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

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[22] 17 CFR 240.19b-4(f)(6).

[23] 17 CFR 240.19b-4(f)(6).

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2013-20 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-2013-20. 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-2013-20 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.[24]

Kevin M O'Neill
Deputy Secretary

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[24] 17 CFR 200.30-3(a)(12).