

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

Page 1 of \*       **SECURITIES AND EXCHANGE COMMISSION**      File No.\* SR -  - \*   
 WASHINGTON, D.C. 20549      Form 19b-4      Amendment No. (req. for Amendments \*)

Filing by **NASDAQ OMX PHLX LLC.**  
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

<b>Initial *</b>	<b>Amendment *</b>	<b>Withdrawal</b>	<b>Section 19(b)(2) *</b>	<b>Section 19(b)(3)(A) *</b>	<b>Section 19(b)(3)(B) *</b>
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
			<b>Rule</b>		
<b>Pilot</b>	<b>Extension of Time Period for Commission Action *</b>	<b>Date Expires *</b>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="text"/>	<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)	

<b>Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010</b>	<b>Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934</b>
<b>Section 806(e)(1)</b>	<b>Section 806(e)(2)</b>
<input type="checkbox"/>	<input type="checkbox"/>
	<b>Section 3C(b)(2)</b>
	<input type="checkbox"/>

<b>Exhibit 2 Sent As Paper Document</b>	<b>Exhibit 3 Sent As Paper Document</b>
<input type="checkbox"/>	<input type="checkbox"/>

**Description**

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

A proposed rule change to modify certain aspects of the operation of NASDAQ OMX PSX.

**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 \*       Last Name \*   
 Title \*   
 E-mail \*   
 Telephone \*       Fax

**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.

(Title \*)

Date         
 By      

(Name \*)

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.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information \***

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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 \***

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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 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies**

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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, 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**

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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 Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) under 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”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to modify certain aspects of the operation of NASDAQ OMX PSX (“PSX”). The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Directors of Phlx on March 7, 2013. No other action by Phlx is necessary for the filing of the rule change. The proposed change will be implemented as soon as practicable following Commission approval. Questions regarding this rule filing may be directed to John M. Yetter, Vice President and Deputy General Counsel, The NASDAQ OMX Group, at (301) 978-8497.

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

a. Purpose

In 2010, Phlx launched PSX as a new platform for trading NMS stocks,<sup>3</sup> using a novel price/size pro rata model for allocating the execution of incoming orders against

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

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

<sup>3</sup> Defined in SEC Rule 600 under Regulation NMS, 17 CFR 242.600, to mean any security or class of securities (other than an option) for which transaction reports are collected, processed, and made available pursuant to an effective transaction reporting plan.

orders resting on the PSX book.<sup>4</sup> Phlx anticipated that this market model would gain traction as an alternative to a national market structure in which the prevailing price/time model places an emphasis on the speed with which market participants can route and cancel orders as the means to optimize their executions. Unfortunately, the price/size execution model has been only marginally successful in garnering market share, primarily due to the risk of a large execution at a stale price that a market participant would face if unable to adjust the prices of its posted orders quickly. Accordingly, Phlx has decided to adopt a price/time model for PSX. In addition, Phlx is proposing to allow members to register as market makers on PSX, provided they satisfy two-sided quoting and market quality requirements associated with that status. Finally, Phlx is proposing to introduce midpoint peg post-only orders, and price to comply post orders; to adjust the operation of minimum quantity orders and post-only orders; and to eliminate minimum life orders. In all material respects, the rules as adjusted by this proposed rule change will be identical to rules in effect at The NASDAQ Stock Market (“NASDAQ”) and/or NASDAQ OMX BX, Inc. (“BX”). Phlx proposes to implement the change as soon as practicable following Commission approval.

### **Order Processing Algorithm**

The order processing algorithm currently in use at PSX allocates the execution of incoming orders against posted liquidity in following order:

- (1) Price. Better priced orders are executed first.
- (2) Pro-Rata Allocation to Size Among Displayed Orders with a Size of One Round Lot or More. As among equally priced Displayed Orders with a size of at least

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<sup>4</sup> Securities Exchange Act Release No. 62877 (September 9, 2010), 75 FR 56633 (September 16, 2010) (SR-NASDAQ-2010-79).

one round lot, PSX allocates the round lot portions of incoming executable orders pro rata based on the size of the Displayed Orders. Portions of an order that would be executed in a size other than a round lot if they were allocated pro rata are allocated on the basis of a random function that assigns probability of execution based on the size of displayed interest.

(3) Displayed Odd-Lot Orders. As among equally priced Displayed Orders with a size of less than one round lot, PSX allocates incoming orders based on the size of the Displayed Orders, but not in pro rata fashion. If there are two or more such orders of equal size, PSX determines the order of execution on the basis of a random function that assigns each order an equal probability of execution.

(4) Pro-Rata Allocation to Size Among Non-Displayed Interest with a Size of One Round Lot or More. As among equally priced Non-Displayed Orders and the reserve portion of Reserve Orders (collectively, “Non-Displayed Interest”) with a size of at least one round lot, PSX allocates round lot portions of incoming executable orders to Non-Displayed Interest pro rata based on the size of the Non-Displayed Interest. Portions of an order that would be executed in a size other than a round lot if they were allocated pro rata are allocated on the basis of a random function that assigns probability of execution based on the size of Non-Displayed Interest.

(5) Minimum Quantity Orders. As among equally priced Minimum Quantity Orders, PSX allocates incoming executable orders in the ascending order of the size of the minimum quantity conditions assigned to the orders. If there are two or more Minimum Quantity Orders with an equal minimum quantity condition, the System will determine the order of execution on the basis of a random function that assigns each order an equal probability of execution.

(6) Non-Displayed Odd-Lot Orders. As among equally priced Non-Displayed Interest with a size of less than one round lot, PSX allocates incoming orders based on the size of the Non-Displayed Interest, but not in pro rata fashion. If there are two or more such orders of equal size, PSX determines the order of execution on the basis of a random functions that assigns each order an equal probability of execution.

Phlx is amending Rule 3307, and making conforming changes to Rule 3306, to replace this algorithm with a straightforward price/display/time priority algorithm that is substantively identical to corresponding rules in effect at NASDAQ and BX. The modified algorithm is as follows:

(1) Price. Better priced orders are executed first.

(2) Displayed Orders. As among equally priced Displayed Orders, the first to arrive on the book is executed first.

(3) Non-Displayed Orders and the Reserve Portion of Quotes<sup>5</sup> and Reserve Orders. As among equally priced Non-Displayed Orders and the reserve portion of Quotes and Reserve Orders, the first to arrive on the books is executed first.

PSX rules currently provide for an anti-internalization exception to the algorithm, designed to allow a member to prevent its own orders from interacting with each other. Phlx is modifying this exception so that it conforms to a similar exception in effect at NASDAQ and BX. Specifically, the rules of all three exchanges currently provide that a market participant may direct that orders not execute against orders entered under the same market participant identifier (“MPID”), or under the same MPID and with a unique group identification modifier (for example, by grouping all orders entered through a

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<sup>5</sup> As discussed below, PSX will introduce quoting functionality in support of the introduction of market makers.

particular order entry port). In other words, the market participant may limit interaction among all orders under the MPID, or only an identified subset of orders. Under current PSX rules, if two orders that are not permitted to interact with each other are matched through the order execution algorithm, the orders are decremented by share amounts equal to the size of the portion of the incoming order that is designated to interact with a posted order. Thus, if 100 shares of an incoming order to buy 200 shares are designated to execute against a posted order to sell 1,000 shares, and the two orders have been marked not to execute against each other, the incoming order and the posted order will each be decremented by 100 shares. The orders are decremented to reflect that the member, having adopted anti-internalization protection, does not intend to buy shares that it is simultaneously selling. The revisions to the rule retain this logic, but give the member additional choice as to how the conflict should be resolved. First, the member may opt for the same treatment as currently provided by PSX, although the revised rule text reflects the change in order execution algorithm by providing that if the two orders are the same size, they will both be cancelled, while if one is larger, the smaller of the two is cancelled and the larger is decremented and retained. This changed language reflects the fact that in a price/time algorithm, an incoming order will be executed to the maximum extent possible against orders on the book in price/time sequence, whereas under the current algorithm, an incoming order may be allocated across multiple resting orders based on their size. Alternatively, a member may opt to have the oldest of the two orders cancelled in full, regardless of the respective sizes of the orders. The member may make this election across an entire MPID, or may differentiate among order entry ports associated with the MPID.

**Market Making**

Phlx is proposing to adopt rules that are already in effect at NASDAQ and/or BX to allow members to register and act as market makers. Following the effectiveness of the proposed changes, Phlx plans to introduce programs designed to encourage members to register as market makers, with the goal of enhancing the liquidity and market quality of trading on PSX.

Proposed Rule 3212 provides that quotations and quotation sizes may be entered into PSX only by a member registered as a PSX Market Maker or other entity approved by the Exchange to function in a market-making capacity. A PSX Market Maker may become registered in an issue by entering a registration request via an Exchange approved electronic interface with PSX's systems or by contacting PSX Market Operations. Registration shall become effective on the day the registration request is entered. A PSX Market Maker's registration in an issue shall be terminated by the Exchange if the market maker fails to enter quotations in the issue within five (5) business days after the market maker's registration in the issue becomes effective. The rule is intended to provide a flexible means by which members may register as market makers, while ensuring that they make prompt use of such registration.

Proposed amendments to Rule 3217 provide that all PSX Market Makers must be open during regular market hours (9:30 a.m. through 4:00 p.m.). PSX Market Makers are also permitted to operate during pre-market (8:00 a.m. through 9:30 a.m.) and post-market (4:00 p.m. to 5:00 p.m.) hours. PSX Market Makers must comply with rules governing quotations at all times that their quotes are open, unless a rule is inapplicable to pre-market or post-market hours.



Proposed amendments to Rule 3213 impose quoting obligations on PSX Market Makers identical to those in effect at NASDAQ and BX. Under the amended rule, a member registered as a Market Maker is required to engage in a course of dealings for its own account to assist in the maintenance, insofar as reasonably practicable, of fair and orderly markets in accordance with this Rule. In accordance with the requirement, the rule specifically requires a member registered as a Market Maker in a particular security to be willing to buy and sell such security for its own account on a continuous basis during regular market hours and to enter and maintain a two-sided trading interest (“Two-Sided Obligation”) that is identified to the Exchange as the interest meeting the obligation and is displayed in PSX’s quotation montage at all times. Interest eligible to be considered as part of a Market Maker’s Two-Sided Obligation must have a displayed quotation size of at least one normal unit of trading<sup>6</sup> (or a larger multiple thereof); provided, however, that a Market Maker may augment its Two-Sided Obligation size to display limit orders priced at the same price as the Two-Sided Obligation. After an execution against its Two-Sided Obligation, a Market Maker must ensure that additional trading interest exists in PSX to satisfy its Two-Sided Obligation either by immediately entering new interest to comply with this obligation to maintain continuous two-sided quotations or by identifying existing interest on the PSX book that will satisfy this obligation.

For NMS stocks a Market Maker shall adhere to certain pricing obligations established by the rule, which are premised on entering quotation prices that are not more

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<sup>6</sup> Unless otherwise designated, 100 shares.

than a “Designated Percentage”<sup>7</sup> away from the National Best Bid or Best Offer<sup>8</sup> (as applicable), and that must be refreshed if a change in the National Best Bid or Best Offer causes the quotation price to be more than a “Defined Limit”<sup>9</sup> away from the National Best Bid or Best Offer.<sup>10</sup> As described below, the applicable Designated Percentage and Defined Limit depends on the specific security traded and the time of day.

For bid quotations, at the time of entry of bid interest satisfying the Two-Sided Obligation, the price of the bid interest may not be more than the applicable Designated Percentage away from the then current National Best Bid, or if no National Best Bid, not more than the Designated Percentage away from the last reported sale from the responsible single plan securities information processor. In the event that the National Best Bid (or if no National Best Bid, the last reported sale) increases to a level that would cause the bid interest of the Two-Sided Obligation to be more than the Defined Limit

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<sup>7</sup> The “Designated Percentage” is: (i) 8% for securities included in the S&P 500<sup>®</sup> Index, Russell 1000<sup>®</sup> Index, and a pilot list of Exchange Traded Products (“Tier 1 Securities”); (ii) 28% for all NMS stocks that are not Tier 1 Securities with a price equal to or greater than \$1 (“Tier 2 Securities”); (iii) 30% for all NMS stocks that are not Tier 1 Securities with a price less than \$1 (“Tier 3 Securities”), except that between 9:30 a.m. and 9:45 a.m. and between 3:35 p.m. and the close of trading, the Designated Percentage is 20% for Tier 1 Securities, 28% for Tier 2 Securities, and 30% for Tier 3 Securities. The Designated Percentage for rights and warrants is 30%. The pilot list of Exchange Traded Products for Tier 1 Securities is attached as Exhibit 3 to this filing.

<sup>8</sup> Determined by the Exchange in accordance with its procedures for determining Protected Quotations under SEC Rule 600 under Regulation NMS.

<sup>9</sup> The “Defined Limit” is 9.5% for Tier 1 Securities, 29.5% for Tier 2 Securities, and 31.5% for Tier 3 Securities, except that between 9:30 a.m. and 9:45 a.m. and between 3:35 p.m. and the close of trading, the Defined Limit is 21.5% for Tier 1 Securities, 29.5% for Tier 2 Securities, and 31.5% for Tier 3 Securities.

<sup>10</sup> Nothing in the rule precludes a PSX Market Maker from quoting at price levels that are closer to the National Best Bid and Offer than the levels required by the rule.

away from the National Best Bid (or if no National Best Bid, the last reported sale), or if the bid is executed or cancelled, the Market Maker shall enter new bid interest at a price not more than the Designated Percentage away from the then current National Best Bid (or if no National Best Bid, the last reported sale), or identify to the Exchange current resting interest that satisfies the Two-Sided Obligation. Similarly, for offer quotations, at the time of entry of offer interest satisfying the Two-Sided Obligation, the price of the offer interest may not be more than the Designated Percentage away from the then current National Best Offer, or if no National Best Offer, not more than the Designated Percentage away from the last reported sale received from the responsible single plan securities information processor. In the event that the National Best Offer (or if no National Best Offer, the last reported sale) decreases to a level that would cause the offer interest of the Two-Sided Obligation to be more than the Defined Limit away from the National Best Offer (or if no National Best Offer, the last reported sale), or if the offer is executed or cancelled, the Market Maker shall enter new offer interest at a price not more than the Designated Percentage away from the then current National Best Offer (or if no National Best Offer, the last reported sale), or identify to the Exchange current resting interest that satisfies the Two-Sided Obligation.

The pricing obligations established by the Rule apply during regular trading hours (i.e., 9:30 a.m. to 4:00 p.m.); but do not commence during any trading day until after the first regular way transaction on the primary listing market in the security. Moreover, the obligations are suspended during a trading halt, suspension, or pause, and do not recommence until after the first regular way transaction on the primary listing market in the security following such halt, suspension, or pause, as reported by the responsible single plan processor.

The individual MPID assigned to a member to meet its Two-Sided Obligation pursuant to the Rule, or Rule 3223,<sup>11</sup> is referred to as the member's "Primary MPID." Market Makers and ECNs may request the use of additional MPIDs that shall be referred to as "Supplemental MPIDs." A Market Maker may request the use of Supplemental MPIDs for displaying Attributable Quotes/Orders<sup>12</sup> in the PSX Quotation Montage for any security in which it is registered and meets the obligations set forth in subparagraph (1) of this rule. An ECN may request the use of Supplemental MPIDs for displaying Attributable Quotes/Orders in the PSX Quotation Montage for any security in which it meets the obligations set forth in Rule 3223. A Market Maker or ECN that ceases to meet the obligations appurtenant to its Primary MPID in any security shall not be permitted to use a Supplemental MPID for any purpose in that security.<sup>13</sup>

As provided in new Rule 3213(c), if a PSX Market Maker's ability to enter or update quotations is impaired, the market maker must immediately contact PSX Market Operations to request a withdrawal of its quotations. If the market maker elects to remain in PSX when its ability to update quotations is impaired, it must nevertheless execute orders presented for execution against its disseminated quotations.

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<sup>11</sup> An existing rule governing the use of PSX by electronic communications networks ("ECNs") and other forms of alternative trading systems to display orders.

<sup>12</sup> A Quote/Order whose price and size is displayed next to the Market Maker's MPID in the publicly disseminated quotation montage.

<sup>13</sup> Market Makers and ECNs that are permitted the use of Supplemental MPIDs for displaying Attributable Quotes/Orders are subject to the same rules applicable to the members' first quotation, with two exceptions: (a) the continuous two-sided quote requirement and excused withdrawal procedures do not apply to Market Makers' Supplemental MPIDs; and (b) Supplemental MPIDs may not be used by Market Makers to enter stabilizing bids pursuant to Rule 3214.

The procedures for withdrawal of quotations are governed by proposed new Rule 3219. In general, a market maker that wishes to withdraw quotations in a security must contact the Exchange's MarketWatch Department to obtain excused withdrawal status prior to withdrawing its quotations. Withdrawals of quotations shall be granted by MarketWatch only upon satisfying one of the conditions specified in this Rule. An exception to the requirement for prior approval will exist for withdrawal based on a PSX Market Maker's systemic equipment problems, such as defects in software or hardware systems or connectivity problems associated with the circuits connecting PSX systems with the PSX Market Maker's systems. In that case, the market maker must promptly contact Exchange Market Operations and may receive excused withdrawal status for up to five (5) business days (unless extended by Exchange Market Operations).

For other circumstances beyond the market maker's control, a PSX Market Maker that wishes to withdraw quotations must contact the Exchange's MarketWatch Department to obtain excused withdrawal status prior to withdrawing its quotations.<sup>14</sup> Excused withdrawal status based on illness, vacations or physical circumstances beyond the PSX Market Maker's control may be granted for up to five (5) business days, unless extended by MarketWatch. Excused withdrawal status based on investment activity or advice of legal counsel, accompanied by a representation that the condition necessitating the withdrawal of quotations is not permanent in nature, may, upon written request, be granted for not more than sixty (60) days. The withdrawal of quotations because of

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<sup>14</sup> It should be noted that because PSX does not currently, and does not at this time propose to list securities, the applicable rule does not establish different standards for excused withdrawals depending the listing venue of the security in question. Cf. NASDAQ Stock Market Rule 4619 (imposing different standards for excused withdrawal of quotations in NASDAQ-listed securities and securities listed on other exchanges).

pending news, a sudden influx of orders or price changes, or to effect transactions with competitors shall not normally constitute acceptable reasons for granting excused withdrawal status, unless the Exchange has initiated a trading halt for market makers in the security, pursuant to Rule 3100.

Excused withdrawal status may also be granted to a PSX Market Maker that fails to maintain a clearing arrangement with a registered clearing agency or with a member of such an agency and is withdrawn from participation in the trade reporting service of PSX, thereby terminating its registration as a PSX Market Maker; provided, however, that if the Exchange finds that the market maker's failure to maintain a clearing arrangement is voluntary, the withdrawal of quotations will be considered voluntary and unexcused. PSX Market Makers that fail to maintain a clearing relationship will have their PSX system status set to "suspend" and be thereby prevented from entering, or executing against, any quotes/orders in the system.

Proposed Rule 3220 will govern voluntary termination of a PSX Market Maker's registration. A market maker may voluntarily terminate its registration in a security by withdrawing its two-sided quotation from PSX. A PSX Market Maker that voluntarily terminates its registration in a security may not re-register as a market maker for one (1) business day.<sup>15</sup>

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<sup>15</sup> By contrast, under the NASDAQ Stock Market's corresponding rule (NASDAQ Rule 4620), a market maker withdrawing from a NASDAQ-listed security may not re-register in that security for a period of 20 days, but is subject to a one-day exclusion for securities not listed on NASDAQ. Because PSX does not currently, and does not at this time propose to list securities, the proposed one-day exclusion period is comparable to the rule in effect at NASDAQ for securities traded on an unlisted trading privileges basis.

Notwithstanding the above, a PSX Market Maker that accidentally withdraws as a PSX Market Maker may be reinstated immediately if:

- the PSX Market Maker notified the Exchange's MarketWatch Department of the accidental withdrawal as soon as practicable under the circumstances, but within at least one hour of such withdrawal, and immediately thereafter provided written notification of the withdrawal and reinstatement request;
- it is clear that the withdrawal was inadvertent and the market maker was not attempting to avoid its market making obligations; and
- the PSX Market Maker's firm would not exceed the following reinstatement limitations: (i) for firms that simultaneously made markets in less than 250 stocks during the previous calendar year, the firm can receive no more than two (2) reinstatements per year; (ii) for firms that simultaneously made markets in 250 or more but less than 500 stocks during the previous calendar year, the firm can receive no more than three (3) reinstatements per year; and (iii) for firms that simultaneously made markets in 500 or more stocks during the previous calendar year, the firm can receive no more than six (6) reinstatements per year.

Factors that the Exchange will consider in granting a reinstatement under the rule include, but are not limited to: the number of accidental withdrawals by the PSX Market Maker in the past, as compared with PSX Market Makers making markets in a comparable number of stocks; the similarity between the symbol of the stock that the PSX Market Maker intended to withdraw from and the symbol of the stock that the PSX Market Maker actually withdrew from; market conditions at the time of the withdrawal; whether, given the market conditions at the time of the withdrawal, the withdrawal served to

reduce the exposure of the member's position in the security at the time of the withdrawal to market risk; and the timeliness with which the PSX Market Maker notified MarketWatch of the error.

A market maker will not be deemed to have voluntarily terminated its registration in a security by voluntarily withdrawing its two-sided quotation from PSX if the PSX Market Maker's two-sided quotation in the subject security is withdrawn by the Exchange's systems due to issuer corporate action related to a dividend, payment or distribution, or due to a trading halt, and one of the following conditions is satisfied: the PSX Market Maker enters a new two-sided quotation prior to the close of the regular market session on the same day when the Exchange's systems withdrew such a quotation; the PSX Market Maker enters a new two-sided quotation on the day when trading resumes following a trading halt, or, if the resumption of trading occurs when the market is not in regular session, the PSX Market Maker enters a new two-sided quotation prior to the opening of the next regular market session; or upon request from the market maker, MarketWatch authorizes the market maker to enter a new two-sided quotation, provided that MarketWatch receives the market maker's request prior to the close of the regular market session on the next regular trading day after the day on which the market maker became eligible to re-enter a quotation and determines that the market maker was not attempting to avoid its market making obligations by failing to re-enter such a quotation earlier.

Under Rule 3219 and 3220, the Market Operations Review Committee will have jurisdiction over proceedings brought by market makers seeking review of the denial of an excused withdrawal, the conditions imposed upon a market maker's re-entry, and the denial of a reinstatement following an unexcused withdrawal.



With respect to securities that are the subject of offerings governed by SEC Regulation M,<sup>16</sup> the Exchange is also proposing to adopt rules governing the entry of stabilizing bids (Rule 3214), excused withdrawals based on status as a distribution participant or affiliated purchaser within the meaning of Regulation M (Rule 3219(e)), imposition of penalty bids or engaging in syndicate covering transactions (Rule 3224), as well as associated definitions (Rule 3203). Although the Exchange expects the rules to be used rarely, if at all, given the fact that the Exchange does not intend to list securities, the rules may have applicability in limited circumstances where an Exchange member is acting in support of an offering on another exchange or is affiliated with a member of another exchange that is participating in an offering. Accordingly, the Exchange is adopting rules on these topics that are materially identical to corresponding rules on NASDAQ and BX, with the exception of rules pertaining to compliance with SEC Rule 103,<sup>17</sup> which, by its terms, applies exclusively to the NASDAQ Stock Market.

Phlx is also amending Rule 3230, which governs trading in Commodity-Related Securities,<sup>18</sup> to adopt provisions governing the activities of market makers in Commodity-Related Securities. The rule is designed to ensure that trading in a Commodity-Related Security by a market maker is not improperly influenced by information about trading in the underlying commodity from within the market maker's

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<sup>16</sup> SEC Rules 100-105, 17 CFR 242.100 - 242.105.

<sup>17</sup> 17 CFR 242.103.

<sup>18</sup> A "Commodity-Related Security" is a security that is issued by a trust, partnership, commodity pool or similar entity that invests, directly or through another entity, in an combination of commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives, or the value of which is determined by the value of commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives.

firm. Under the rule, which is identical to rules in effect NASDAQ and BX, a member acting as a registered market maker in a Commodity-Related Security must establish adequate information barriers when such market maker engages in inter-departmental communications.<sup>19</sup> For purposes of a Commodity-Related Security only, “inter-departmental communications” include communications to other departments within the same firm or the firm’s affiliates that involve trading in commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives underlying such Commodity-Related Security.

A member acting as a registered market maker in a Commodity-Related Security must file with the Exchange’s Regulation Department in a manner prescribed by such Department and keep current a list identifying all accounts for trading in commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives underlying such Commodity-Related Security, in which the market maker holds an interest, over which it may exercise investment discretion, or in which it shares in the profits and losses. Moreover, a member acting as a registered market maker in a Commodity-Related Security may not act or register as a market maker in any commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives underlying such Commodity-Related Security.

A member acting as a registered market maker in a Commodity-Related Security must make available to the Exchange’s Regulation Department such books, records or

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<sup>19</sup> Members should refer to NASD/NYSE Joint Memo on Chinese Wall Policies and Procedures (NASD Notice to Members 91-45) for guidance on the “‘minimum elements’ of adequate Chinese Wall policy and procedures.”

other information pertaining to transactions by such entity or registered or non-registered employees affiliated with such entity for its or their own accounts for trading commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives underlying such Commodity-Related Security, as may be requested by the Regulation Department. Finally, in connection with trading a Commodity-Related Security or commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives underlying a Commodity-Related Security, the member acting as a market maker in a Commodity-Related Security may not use any material nonpublic information received from any person associated with the member or employee of such person regarding trading by such person or employee in the commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives underlying such Commodity-Related Security.

In furtherance of allowing market making on PSX, Phlx is also amending Rule 3301 to provide for attributable quotes and orders (i.e., trading interest displayed with price and size next to a market maker's MPID); to specify that quotations may include a non-displayed reserve size in order to replenish the displayed portion of a quotation when it is reduced to a size of less than one round lot;<sup>20</sup> to add a definition of PSX Market Maker; and to provide that attributable trading interest will be displayed via PSX data feeds, with attribution to the Participant's MPID, along with non-attributable interest. Phlx is also making conforming changes to the following existing rules by adding references to quotations, quotes/orders, market makers, and/or certain activities or market

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<sup>20</sup> A new timestamp is applied when the order is replenished from reserve size.

makers, as appropriate to reflect the scope of PSX's rules to embrace market making and quoting activity in addition to order entry: Rule 3100 (Trading Halts on PSX); Rule 3201 (Scope); Rule 3213(b) (Firm Orders and Quotations); Rule 3221 (Suspension and Termination of Quotations and Order Entry); Rule 3225 (Obligation to Provide Information); Rule 3226 (Limitation of Liability); Rule 3301(g) (Order Size); Rule 3306 (Entry and Display of Quotes and Orders); and Rule 3310 (Anonymity).

### **Minimum Quantity Orders**

Phlx is proposing minor modifications to the operation of PSX's Minimum Quantity Order, such that it will be fully consistent with the comparable orders of NASDAQ and BX. "Minimum Quantity Orders" are orders that will not execute unless a specified minimum quantity of shares can be obtained. A Minimum Quantity Order provides a means by which a market participant may avoid partial executions of orders at sizes that it considers inadequate to achieve its purposes. For example, a market participant seeking to sell a large position in a trading session with high volatility may use the order type to avoid selling only a small portion of the order at the price it considers acceptable. A Minimum Quantity Order that posts to PSX book will be a Non-Displayed Order, and upon entry must have a size and a minimum quantity condition of at least one round lot. In the event that the shares remaining in the size of the order following a partial execution thereof are less than the minimum quantity specified by the market participant entering the order, the minimum quantity value of the order will be reduced to the number of shares remaining.

Thus, for example, if a market participant entered a Minimum Quantity Order with a size of 1,000 and a minimum quantity of 500, and the order was marketable against a 600 share order on the book, the remaining 400 shares of the Minimum

Quantity Order would post to the book with a minimum quantity restriction of 400 shares. Under current PSX rules, if the size of a Minimum Quantity Order is reduced to less than one round lot due to a partial execution, the minimum quantity condition on the order will be removed. PSX proposes to delete this condition, which was formerly necessary to ensure that the order would not have a higher execution priority under PSX's execution algorithm than other non-displayed odd-lot orders solely by virtue of its minimum quantity condition. In all other respects, the operation of the order will remain unchanged.

### **Midpoint Peg Post-Only Order**

Phlx is adopting as a new order type the Midpoint Peg Post-Only Order.<sup>21</sup> Like a regular Midpoint Peg Order, a Midpoint Peg Post-Only Order is a non-displayed order that is priced at the midpoint between the national best bid and best offer ("NBBO") (as determined using the consolidated tape). However, like a Post-Only Order, the Midpoint Peg Post-Only Order does not remove liquidity from PSX upon entry if it would lock a non-displayed order on PSX. Rather, the Midpoint Peg Post-Only Order will post and lock the pre-existing order, but will remain undisplayed.<sup>22</sup> For example, if the NBBO is \$1.10 bid and \$1.11 offer, and there is a non-displayed Midpoint Peg Order to buy on the book at \$1.105, an incoming Midpoint Peg Post-Only Order to sell will also post to the book at \$1.105 and will not execute. By contrast, a regular Midpoint Peg Order would

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<sup>21</sup> The order on PSX will be identical to the comparable order on NASDAQ. See Securities Exchange Act Release No. 64430 (May 6, 2011), 76 FR 27699 (May 12, 2011) (SR-NASDAQ-2011-059); Securities Exchange Act Release No. 68015 (October 9, 2012), 77 FR 63368 (October 16, 2012) (SR-NASDAQ-2012-111).

<sup>22</sup> SEC Rule 610(d) under Regulation NMS, 17 CFR 242.610(d), restricts displayed quotations that lock protected quotations in NMS Stocks, but does not apply to non-displayed trading interest.

execute against the posted order at \$1.105. If the Midpoint Peg Post-Only Order would cross a pre-existing order, however, the crossing orders will execute.

Midpoint Peg Post-Only Orders that post to the book and lock a pre-existing non-displayed order will execute against an incoming order only if the price of the incoming buy (sell) order is higher (lower) than the price of the pre-existing order. This restriction ensures that the non-displayed Midpoint Peg Post-Only Order will not execute before an order already on the book unless the incoming order against which it executes has price priority over the already posted order. For example, if the NBBO is \$1.10 bid and \$1.11 offer, and there is a non-displayed Midpoint Peg Order to buy on the book at \$1.105, an incoming Midpoint Peg Post-Only Order to sell will also post to the book at \$1.105 and will not execute. If another Midpoint Peg Order to buy is entered, it would also post to the book, rather than executing against the Midpoint Peg Post-Only Order. On the other hand, an order to buy at \$1.11 would execute against the Midpoint Peg Post-Only Order, receiving \$0.005 price improvement. Thus, the order provides a means by which a market participant may offer price improvement in exchange for receiving greater certainty with respect to its trading costs.

If a Midpoint Peg Order and a Midpoint Peg Post-Only Order are locked, and a Midpoint Peg Order is entered on the same side of the market as the Midpoint Peg Post-Only Order, the new order will execute against the original Midpoint Peg Order. Thus, in the above example, if a Midpoint Peg Order to buy at \$1.105 is locked by a Midpoint Peg Post-Only Order to sell at \$1.105, a subsequent Midpoint Peg Order to sell at \$1.105 would execute against the original buy order. This is the case because the market participant entering the Midpoint Peg Post-Only Order has expressed its intention not to execute against posted liquidity, and therefore cedes execution priority to the new order.

A Midpoint Peg Post-Only Order will only be posted to the book at a price of more than \$1. Accordingly, if the midpoint between the NBBO for a particular stock is \$1 or less, all Midpoint Peg Post-Only Orders for that stock will be rejected or cancelled, as applicable. This limitation reflects the fact that the difference between the inside market and the midpoint for stocks at this price level is likely to be extremely small, and therefore the price improvement opportunities associated with the order in such stocks are unlikely to justify making the order available.<sup>23</sup>

Phlx believes that the Midpoint Peg Post-Only Order will serve a valid purpose in the current market environment. Although SEC Rule 610<sup>24</sup> limits access fees, market participants remain focused on their trading costs, and in a pricing environment characterized by fees on one side of a trade being used to fund rebates on the other side,<sup>25</sup> it is entirely understandable that some market participants may wish to structure their trading activity in a manner that is more likely to avoid a fee and earn a rebate. In this respect, the order is conceptually similar to a limit order: just as a limit order allows market participants to control the price that they will pay or receive for a stock, the proposed new order will allow market participants to exercise greater control over the fees associated with order execution. Moreover, the order type will operate in a manner

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<sup>23</sup> NASDAQ's corresponding rule includes language stipulating the treatment of posted Midpoint Peg Post-Only Orders for purposes of calculating the best bid and offer within NASDAQ under rules governing the opening cross (NASDAQ Rule 4752), halt and imbalance cross (NASDAQ Rule 4753), and closing cross (NASDAQ Rule 4754). Because PSX does not have comparable rules, this language is omitted from the proposed rule.

<sup>24</sup> 17 CFR 242.610.

<sup>25</sup> It should be noted that some markets, such as NASDAQ OMX BX, the BATS-Y Exchange, the EDGA Exchange, and CBSX, feature fees for liquidity providers and rebates for liquidity takers, while all other cash equities markets now have a taker fee/maker rebate structure.

calculated to require members posting the order generally to provide price improvement in order to justify the ability to earn a rebate. Thus, as long as a Midpoint Peg Post-Only Order is locking a pre-existing Midpoint Order, the order can execute only if it offers price improvement. By means of price improvement, the market participant effectively shares a portion of its rebate with the counterparty with whom it is matched, thereby reducing its trading costs as well.

### **Post-Only Orders**

Phlx proposes to modify the functionality associated with its existing Post-Only Order on PSX.<sup>26</sup> Currently, if a Post-Only Order would lock or cross an order on PSX at the time of entry, the order is re-priced and displayed by the System to one minimum price increment (i.e., \$0.01 or \$0.0001) below the current low offer (for bids) or above the current best bid (for offers). Thus, if the best bid and best offer on the PSX book were \$10.00 x \$10.05, and a market participant entered a Post-Only Order to buy at \$10.05, the order would be re-priced and displayed at \$10.04. This aspect of the functionality of the order is not changing.<sup>27</sup> Under the proposed change, if a Post-Only

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<sup>26</sup> An identical change was mistakenly filed by Phlx (Securities Exchange Act Release No. 64563 (May 27, 2011), 76 FR 32255 (June 3, 2011) (SR-Phlx-2011-70)) at the same time as the change was made by NASDAQ (Securities Exchange Act Release No. 64552 (May 26, 2011), 76 FR 31998 (June 2, 2011) (SR-NASDAQ-2011-070)), with the error being corrected through a subsequent filing (Securities Exchange Act Release No. 67351 (July 5, 2012), 77 FR 40922 (July 11, 2012) (SR-Phlx-2012-84)). The prior filing to make this change was mistaken because the proposed change was incompatible with PSX's price/size/pro rata algorithm. With PSX's move to a price/time algorithm, the change to the functioning of the Post-Only Order is now possible.

<sup>27</sup> In addition, if the order would lock or cross a protected quotation of another market center, the order will be accepted at the locking price (i.e., the current low offer (for bids) or to the current best bid (for offers)) and displayed by the System to one minimum price increment (i.e., \$0.01 or \$0.0001) below the current low offer (for bids) or above the current best bid (for offers). Thus, if the national best



Order would cross an order on the System, the order will be repriced as described above unless the value of price improvement associated with executing against a resting order equals or exceeds the sum of fees charged for such execution and the value of any rebate that would be provided if the order posted to the book and subsequently provided liquidity, in which case the order will execute. As provided by Rule 3307, price improvement accrues to the party entering the order. Thus, if a sell order is on the book at \$10 and a Post-Only Order to buy at \$10.01 is entered, the order will execute at \$10.

The modified Post-Only Order will serve to allow the market participant entering the order to post its order at its desired price, unless the amount of price improvement makes execution of the order economically advantageous to the entering participant. Thus, the revised order type is designed to provide market participants with better control over their execution costs and to provide them with a means to offer price improvement opportunities to other market participants.

### **Minimum Life Order**

Phlx is proposing to eliminate PSX's Minimum Life Order. The Minimum Life Order is a Displayed Order that may not be cancelled for a period of 100 milliseconds following its receipt. The order type was not used by the vast majority of PSX's market participants, and is not currently offered by any other national securities exchange.

Accordingly, PSX believes that its elimination will not have any material effect on market participants or on the cash equities markets in general.

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bid and offer, as displayed on another market center, was \$10 x \$10.05, an order to buy at \$10.05 or higher would be accepted at the locking price of \$10.05, but would be displayed at \$10.04. Subsequently, an incoming order to sell at \$10.05 or lower would be matched against the Post-Only buy order. In this case, the incoming sell order would receive price improvement.

### **Price to Comply Post Order**

Phlx is proposing to introduce the Price to Comply Post Order on PSX, with terms and conditions identical to those found on NASDAQ and BX. The Price to Comply Post Order provides a straightforward means by which market makers and others may post liquidity at or near the inside marker in compliance with the restrictions on locked and crossed markets and trade-throughs under Rules 610(d) and 611 under Regulation NMS.<sup>28</sup> If, at the time of its entry, a Price to Comply Post Order would lock or cross the Protected Quotation of another trading center or would execute at a price inferior to the Protected Quotation of another trading center, the order will be re-priced and displayed to one minimum price increment (i.e., \$0.01 or \$0.0001, depending on the price of the security being traded) below the current low offer (for bids) or to one penny above the current best bid (for offers). Price to Comply Post Orders are not routable.

b. Statutory Basis

Phlx believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>29</sup> in general, and with Section 6(b)(5) of the Act<sup>30</sup> in particular, in that the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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>28</sup> 17 CFR 242.610(d), 611.

<sup>29</sup> 15 U.S.C. 78f.

<sup>30</sup> 15 U.S.C. 78f(b)(5).

The proposed adoption of price/time execution algorithm will allow PSX to operate in a manner consistent with every other national securities exchange that trades cash equities securities, a market model that the Commission has repeatedly determined to be consistent with the Act.<sup>31</sup> Thus, the change with regard to the execution algorithm will remove impediments to and perfect the mechanism of a free and open market and a national market system by making PSX's functionality more consistent with that of other exchanges. Similarly, the proposed rules regarding maker making, including the obligations of market makers to adhere to specific quoting and pricing obligations, have previously been determined by the Commission to be consistent with the Act.<sup>32</sup> Specifically, in approving rules governing market maker quoting and pricing obligations such as those proposed by Phlx, the Commission found that "the proposed rule should assure that quotations submitted by market makers to an exchange or FINRA's ADF, and displayed to market participants, bear some relationship to the prevailing market price, and thus should promote fair and orderly markets and the protection of investors."<sup>33</sup>

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<sup>31</sup> See, e.g., Securities Exchange Act Release No. 54155 (July 14, 2006), 71 FR 41291 (July 20, 2006) (SR-NASDAQ-2006-001); Securities Exchange Act Release No. 59154 (December 23, 2008), 73 FR 80468 (December 31, 2008) (SR-BSE-2008-48).

<sup>32</sup> See, e.g., Securities Exchange Act Release No. 53128 (January 13, 2006), 71 FR 3550 (January 23, 2006) (File No. 10-131) (approving NASDAQ market maker rules as part of its registration as a national securities exchange); Securities Exchange Act Release No. 59154 (December 23, 2008), 73 FR 80468 (December 31, 2008) (SR-BSE-2008-48); Securities Exchange Act Release No. 63255 (November 5, 2010), 75 FR 69484, 69485 (November 12, 2010) (SR-BATS-201-025, SR-BX-2010-66, SR-CBOE-2010-087, SR-CHX-2010-22, SR-FINRA-2010-049, SR-NASDAQ-2010-115, SR-NSX-2010-12, SR-NYSE-2010-69, SR-NYSEAmex-2010-96, SR-NYSEArca-2010-83) (approving corresponding marketwide rules with respect to market maker quoting and pricing obligations) ("2010 Order").

<sup>33</sup> 2010 Order, 75 FR at 69485.

The proposed changes to order type functionality will remove impediments to and perfect the mechanism of a free and open market and the national market system because they will conform PSX's rules to functionality that is already in use and accepted by market participants at other exchanges. Specifically, with regard to the change to the Minimum Quantity Order, the proposed change will allow the operation of the order to better reflect the intention of the market participants entering the order, since it will allow a minimum quantity condition to continue to attach to an order at a size below one round lot. The change will also make the operation of the order conform to functionality that was implemented on an immediately effective basis on NASDAQ and BX.<sup>34</sup>

Similarly, the proposed Midpoint Peg Post-Only Order is identical to the order that is operative on NASDAQ, and which was introduced and modified through immediately effective filings.<sup>35</sup> As described in the original NASDAQ filing with respect to the order, the Midpoint Peg Post-Only Order is designed to provide market participants with better control over their execution costs and to provide a means to offer price improvement opportunities.

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<sup>34</sup> Securities Exchange Act Release No. 65536 (October 12, 2011), 76 FR 64411 (October 18, 2011) (SR-NASDAQ-2011-140); Securities Exchange Act Release No. 65535 (October 12, 2011), 76 FR 64416 (October 18, 2011) (SR-NASDAQ-2011-069).

<sup>35</sup> See Securities Exchange Act Release No. 64430 (May 6, 2011), 76 FR 27699 (May 12, 2011) (SR-NASDAQ-2011-059); Securities Exchange Act Release No. 68015 (October 9, 2012), 77 FR 63368 (October 16, 2012) (SR-NASDAQ-2012-111).

The modified Post Only Order, which adopts changes filed by NASDAQ and BX on an immediately effective basis,<sup>36</sup> is similarly designed to provide market participants with better control over their execution costs. Specifically, the changes will ensure that a Post Only Order will post to the PSX book only in circumstances where an immediate execution of the order would not be more economically advantageous to the market participant that entered it.

The proposed Price to Comply Post Order is consistent with the Act because it provides market makers and other market participants with a straightforward mechanism to enter an order that reprices to ensure that it does not lock or cross or trade through the Protected Quotation of another market center. The rule has previously been approved for use at NASDAQ and BX.<sup>37</sup>

Finally, Phlx believes that the proposed elimination of the Minimum Life Order is consistent with the Act because the order has not been widely used and has not been adopted at any other exchange. Accordingly, Phlx believes that offering an order of this nature is not a required aspect of the operation of a national securities exchange.

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

Phlx 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, since its introduction with a price/size execution algorithm, PSX has not been a significant competitor in the market for execution of cash equities

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<sup>36</sup> Securities Exchange Act Release No. 64552 (May 26, 2011), 76 FR 31998 (June 2, 2011) (SR-NASDAQ-2011-070); Securities Exchange Act Release No. 64615 (June 7, 2011), 76 FR 34284 (June 13, 2011) (SR-BX-2011-033).

<sup>37</sup> Securities Exchange Act Release No. 54155 (July 14, 2006), 71 FR 41291 (July 20, 2006) (SR-NASDAQ-2006-001); Securities Exchange Act Release No. 59154 (December 23, 2008), 73 FR 80468 (December 31, 2008) (SR-BSE-2008-48).

orders, with a market share generally below 1 percent of total consolidated volume. By means of the changes proposed in this rule filing, Phlx hopes to enhance PSX's competitiveness by offering functionality that is more consistent with that offered by other national securities exchanges. In light of the highly competitive nature of these markets, however, PSX will be successful in attracting additional order flow only if its overall offering of functionality and pricing is successful in convincing market participants to direct order flow to it, rather than the larger number of exchanges and alternative trading systems that compete with it. Accordingly, Phlx does not believe that the changes proposed herein will impose any burden on competition, because they do not provide any means through which PSX may diminish the free choice with regard to order routing decisions that exists in the market. To the extent, however, that the changes make PSX a more attractive trading venue, they have the potential to enhance competition by providing market participants with additional choices when making such decisions.

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)

Phlx requests accelerated effectiveness pursuant to Section 19(b)(2) of the Act.<sup>38</sup>

As detailed in the Purpose and Statutory Basis sections of this proposed rule change, the rule change proposes rules that will be identical to rules already in effect at NASDAQ and BX in all material respects. Moreover, the technology to be employed in

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<sup>38</sup> 15 USC 78s(b)(2).

implementing the rule changes is already in use at NASDAQ and BX and can readily be employed at PSX. Accordingly, Phlx believes that no regulatory purpose would be served by delaying implementation of the proposal beyond the close of the period for public comment on the proposed rule change.

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

As detailed in the Purpose and Statutory Basis sections of this proposed rule change, the proposed rule change is based exclusively on rules in effect at NASDAQ and BX. Specifically, each change is based directly on rules in effect in the Rule 4000 Series of the rulebooks of NASDAQ and BX. There are no material differences between the proposed rules and corresponding rules of the other exchanges.

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

Not applicable.

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

Not applicable.

11. Exhibits

1. Completed notice of proposed rule change for publication in the Federal Register.
3. Pilot List of Exchange-Traded Products Referenced in Proposed Rule 3213
5. Text of the proposed rule change.

**EXHIBIT 1**SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-Phlx-2013-24)

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing of Proposed Rule Change to Modify the Operation of NASDAQ OMX PSX

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 8, 2013, NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of the Substance of the Proposed Rule Change

The Exchange proposes to modify certain aspects of the operation of NASDAQ OMX PSX (“PSX”). The text of the proposed rule change is available at <http://nasdaqomxphlx.cchwallstreet.com/nasdaqomxphlx/phlx/>, at the Exchange’s principal office, and at the Commission’s Public Reference Room.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at

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

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



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

In 2010, Phlx launched PSX as a new platform for trading NMS stocks,<sup>3</sup> using a novel price/size pro rata model for allocating the execution of incoming orders against orders resting on the PSX book.<sup>4</sup> Phlx anticipated that this market model would gain traction as an alternative to a national market structure in which the prevailing price/time model places an emphasis on the speed with which market participants can route and cancel orders as the means to optimize their executions. Unfortunately, the price/size execution model has been only marginally successful in garnering market share, primarily due to the risk of a large execution at a stale price that a market participant would face if unable to adjust the prices of its posted orders quickly. Accordingly, Phlx has decided to adopt a price/time model for PSX. In addition, Phlx is proposing to allow members to register as market makers on PSX, provided they satisfy two-sided quoting and market quality requirements associated with that status. Finally, Phlx is proposing to introduce midpoint peg post-only orders, and price to comply post orders; to adjust the operation of minimum quantity orders and post-only orders; and to eliminate minimum life orders. In all material respects, the rules as adjusted by this proposed rule change

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<sup>3</sup> Defined in SEC Rule 600 under Regulation NMS, 17 CFR 242.600, to mean any security or class of securities (other than an option) for which transaction reports are collected, processed, and made available pursuant to an effective transaction reporting plan.

<sup>4</sup> Securities Exchange Act Release No. 62877 (September 9, 2010), 75 FR 56633 (September 16, 2010) (SR-NASDAQ-2010-79).

will be identical to rules in effect at The NASDAQ Stock Market (“NASDAQ”) and/or NASDAQ OMX BX, Inc. (“BX”). Phlx proposes to implement the change as soon as practicable following Commission approval.

### **Order Processing Algorithm**

The order processing algorithm currently in use at PSX allocates the execution of incoming orders against posted liquidity in following order:

(1) Price. Better priced orders are executed first.

(2) Pro-Rata Allocation to Size Among Displayed Orders with a Size of One Round Lot or More. As among equally priced Displayed Orders with a size of at least one round lot, PSX allocates the round lot portions of incoming executable orders pro rata based on the size of the Displayed Orders. Portions of an order that would be executed in a size other than a round lot if they were allocated pro rata are allocated on the basis of a random function that assigns probability of execution based on the size of displayed interest.

(3) Displayed Odd-Lot Orders. As among equally priced Displayed Orders with a size of less than one round lot, PSX allocates incoming orders based on the size of the Displayed Orders, but not in pro rata fashion. If there are two or more such orders of equal size, PSX determines the order of execution on the basis of a random function that assigns each order an equal probability of execution.

(4) Pro-Rata Allocation to Size Among Non-Displayed Interest with a Size of One Round Lot or More. As among equally priced Non-Displayed Orders and the reserve portion of Reserve Orders (collectively, “Non-Displayed Interest”) with a size of at least one round lot, PSX allocates round lot portions of incoming executable orders to Non-

Displayed Interest pro rata based on the size of the Non-Displayed Interest. Portions of an order that would be executed in a size other than a round lot if they were allocated pro rata are allocated on the basis of a random function that assigns probability of execution based on the size of Non-Displayed Interest.

(5) Minimum Quantity Orders. As among equally priced Minimum Quantity Orders, PSX allocates incoming executable orders in the ascending order of the size of the minimum quantity conditions assigned to the orders. If there are two or more Minimum Quantity Orders with an equal minimum quantity condition, the System will determine the order of execution on the basis of a random function that assigns each order an equal probability of execution.

(6) Non-Displayed Odd-Lot Orders. As among equally priced Non-Displayed Interest with a size of less than one round lot, PSX allocates incoming orders based on the size of the Non-Displayed Interest, but not in pro rata fashion. If there are two or more such orders of equal size, PSX determines the order of execution on the basis of a random functions that assigns each order an equal probability of execution.

Phlx is amending Rule 3307, and making conforming changes to Rule 3306, to replace this algorithm with a straightforward price/display/time priority algorithm that is substantively identical to corresponding rules in effect at NASDAQ and BX. The modified algorithm is as follows:

(1) Price. Better priced orders are executed first.

(2) Displayed Orders. As among equally priced Displayed Orders, the first to arrive on the book is executed first.

(3) Non-Displayed Orders and the Reserve Portion of Quotes<sup>5</sup> and Reserve Orders. As among equally priced Non-Displayed Orders and the reserve portion of Quotes and Reserve Orders, the first to arrive on the books is executed first.

PSX rules currently provide for an anti-internalization exception to the algorithm, designed to allow a member to prevent its own orders from interacting with each other. Phlx is modifying this exception so that it conforms to a similar exception in effect at NASDAQ and BX. Specifically, the rules of all three exchanges currently provide that a market participant may direct that orders not execute against orders entered under the same market participant identifier (“MPID”), or under the same MPID and with a unique group identification modifier (for example, by grouping all orders entered through a particular order entry port). In other words, the market participant may limit interaction among all orders under the MPID, or only an identified subset of orders. Under current PSX rules, if two orders that are not permitted to interact with each other are matched through the order execution algorithm, the orders are decremented by share amounts equal to the size of the portion of the incoming order that is designated to interact with a posted order. Thus, if 100 shares of an incoming order to buy 200 shares are designated to execute against a posted order to sell 1,000 shares, and the two orders have been marked not to execute against each other, the incoming order and the posted order will each be decremented by 100 shares. The orders are decremented to reflect that the member, having adopted anti-internalization protection, does not intend to buy shares that it is simultaneously selling. The revisions to the rule retain this logic, but give the member additional choice as to how the conflict should be resolved. First, the member

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<sup>5</sup> As discussed below, PSX will introduce quoting functionality in support of the introduction of market makers.

may opt for the same treatment as currently provided by PSX, although the revised rule text reflects the change in order execution algorithm by providing that if the two orders are the same size, they will both be cancelled, while if one is larger, the smaller of the two is cancelled and the larger is decremented and retained. This changed language reflects the fact that in a price/time algorithm, an incoming order will be executed to the maximum extent possible against orders on the book in price/time sequence, whereas under the current algorithm, an incoming order may be allocated across multiple resting orders based on their size. Alternatively, a member may opt to have the oldest of the two orders cancelled in full, regardless of the respective sizes of the orders. The member may make this election across an entire MPID, or may differentiate among order entry ports associated with the MPID.

### **Market Making**

Phlx is proposing to adopt rules that are already in effect at NASDAQ and/or BX to allow members to register and act as market makers. Following the effectiveness of the proposed changes, Phlx plans to introduce programs designed to encourage members to register as market makers, with the goal of enhancing the liquidity and market quality of trading on PSX.

Proposed Rule 3212 provides that quotations and quotation sizes may be entered into PSX only by a member registered as a PSX Market Maker or other entity approved by the Exchange to function in a market-making capacity. A PSX Market Maker may become registered in an issue by entering a registration request via an Exchange approved electronic interface with PSX's systems or by contacting PSX Market Operations. Registration shall become effective on the day the registration request is

entered. A PSX Market Maker's registration in an issue shall be terminated by the Exchange if the market maker fails to enter quotations in the issue within five (5) business days after the market maker's registration in the issue becomes effective. The rule is intended to provide a flexible means by which members may register as market makers, while ensuring that they make prompt use of such registration.

Proposed amendments to Rule 3217 provide that all PSX Market Makers must be open during regular market hours (9:30 a.m. through 4:00 p.m.). PSX Market Makers are also permitted to operate during pre-market (8:00 a.m. through 9:30 a.m.) and post-market (4:00 p.m. to 5:00 p.m.) hours. PSX Market Makers must comply with rules governing quotations at all times that their quotes are open, unless a rule is inapplicable to pre-market or post-market hours.

Proposed amendments to Rule 3213 impose quoting obligations on PSX Market Makers identical to those in effect at NASDAQ and BX. Under the amended rule, a member registered as a Market Maker is required to engage in a course of dealings for its own account to assist in the maintenance, insofar as reasonably practicable, of fair and orderly markets in accordance with this Rule. In accordance with the requirement, the rule specifically requires a member registered as a Market Maker in a particular security to be willing to buy and sell such security for its own account on a continuous basis during regular market hours and to enter and maintain a two-sided trading interest ("Two-Sided Obligation") that is identified to the Exchange as the interest meeting the obligation and is displayed in PSX's quotation montage at all times. Interest eligible to be considered as part of a Market Maker's Two-Sided Obligation must have a displayed

quotation size of at least one normal unit of trading<sup>6</sup> (or a larger multiple thereof); provided, however, that a Market Maker may augment its Two-Sided Obligation size to display limit orders priced at the same price as the Two-Sided Obligation. After an execution against its Two-Sided Obligation, a Market Maker must ensure that additional trading interest exists in PSX to satisfy its Two-Sided Obligation either by immediately entering new interest to comply with this obligation to maintain continuous two-sided quotations or by identifying existing interest on the PSX book that will satisfy this obligation.

For NMS stocks a Market Maker shall adhere to certain pricing obligations established by the rule, which are premised on entering quotation prices that are not more than a “Designated Percentage”<sup>7</sup> away from the National Best Bid or Best Offer<sup>8</sup> (as applicable), and that must be refreshed if a change in the National Best Bid or Best Offer causes the quotation price to be more than a “Defined Limit”<sup>9</sup> away from the National

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<sup>6</sup> Unless otherwise designated, 100 shares.

<sup>7</sup> The “Designated Percentage” is: (i) 8% for securities included in the S&P 500<sup>®</sup> Index, Russell 1000<sup>®</sup> Index, and a pilot list of Exchange Traded Products (“Tier 1 Securities”); (ii) 28% for all NMS stocks that are not Tier 1 Securities with a price equal to or greater than \$1 (“Tier 2 Securities”); (iii) 30% for all NMS stocks that are not Tier 1 Securities with a price less than \$1 (“Tier 3 Securities”), except that between 9:30 a.m. and 9:45 a.m. and between 3:35 p.m. and the close of trading, the Designated Percentage is 20% for Tier 1 Securities, 28% for Tier 2 Securities, and 30% for Tier 3 Securities. The Designated Percentage for rights and warrants is 30%. The pilot list of Exchange Traded Products for Tier 1 Securities is attached as Exhibit 3 to this filing.

<sup>8</sup> Determined by the Exchange in accordance with its procedures for determining Protected Quotations under SEC Rule 600 under Regulation NMS.

<sup>9</sup> The “Defined Limit” is 9.5% for Tier 1 Securities, 29.5% for Tier 2 Securities, and 31.5% for Tier 3 Securities, except that between 9:30 a.m. and 9:45 a.m. and between 3:35 p.m. and the close of trading, the Defined Limit is 21.5% for Tier 1 Securities, 29.5% for Tier 2 Securities, and 31.5% for Tier 3 Securities.

Best Bid or Best Offer.<sup>10</sup> As described below, the applicable Designated Percentage and Defined Limit depends on the specific security traded and the time of day.

For bid quotations, at the time of entry of bid interest satisfying the Two-Sided Obligation, the price of the bid interest may not be more than the applicable Designated Percentage away from the then current National Best Bid, or if no National Best Bid, not more than the Designated Percentage away from the last reported sale from the responsible single plan securities information processor. In the event that the National Best Bid (or if no National Best Bid, the last reported sale) increases to a level that would cause the bid interest of the Two-Sided Obligation to be more than the Defined Limit away from the National Best Bid (or if no National Best Bid, the last reported sale), or if the bid is executed or cancelled, the Market Maker shall enter new bid interest at a price not more than the Designated Percentage away from the then current National Best Bid (or if no National Best Bid, the last reported sale), or identify to the Exchange current resting interest that satisfies the Two-Sided Obligation. Similarly, for offer quotations, at the time of entry of offer interest satisfying the Two-Sided Obligation, the price of the offer interest may not be more than the Designated Percentage away from the then current National Best Offer, or if no National Best Offer, not more than the Designated Percentage away from the last reported sale received from the responsible single plan securities information processor. In the event that the National Best Offer (or if no National Best Offer, the last reported sale) decreases to a level that would cause the offer interest of the Two-Sided Obligation to be more than the Defined Limit away from the

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<sup>10</sup> Nothing in the rule precludes a PSX Market Maker from quoting at price levels that are closer to the National Best Bid and Offer than the levels required by the rule.



National Best Offer (or if no National Best Offer, the last reported sale), or if the offer is executed or cancelled, the Market Maker shall enter new offer interest at a price not more than the Designated Percentage away from the then current National Best Offer (or if no National Best Offer, the last reported sale), or identify to the Exchange current resting interest that satisfies the Two-Sided Obligation.

The pricing obligations established by the Rule apply during regular trading hours (i.e., 9:30 a.m. to 4:00 p.m.); but do not commence during any trading day until after the first regular way transaction on the primary listing market in the security. Moreover, the obligations are suspended during a trading halt, suspension, or pause, and do not recommence until after the first regular way transaction on the primary listing market in the security following such halt, suspension, or pause, as reported by the responsible single plan processor.

The individual MPID assigned to a member to meet its Two-Sided Obligation pursuant to the Rule, or Rule 3223,<sup>11</sup> is referred to as the member's "Primary MPID." Market Makers and ECNs may request the use of additional MPIDs that shall be referred to as "Supplemental MPIDs." A Market Maker may request the use of Supplemental MPIDs for displaying Attributable Quotes/Orders<sup>12</sup> in the PSX Quotation Montage for any security in which it is registered and meets the obligations set forth in subparagraph (1) of this rule. An ECN may request the use of Supplemental MPIDs for displaying Attributable Quotes/Orders in the PSX Quotation Montage for any security in which it

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<sup>11</sup> An existing rule governing the use of PSX by electronic communications networks ("ECNs") and other forms of alternative trading systems to display orders.

<sup>12</sup> A Quote/Order whose price and size is displayed next to the Market Maker's MPID in the publicly disseminated quotation montage.

meets the obligations set forth in Rule 3223. A Market Maker or ECN that ceases to meet the obligations appurtenant to its Primary MPID in any security shall not be permitted to use a Supplemental MPID for any purpose in that security.<sup>13</sup>

As provided in new Rule 3213(c), if a PSX Market Maker's ability to enter or update quotations is impaired, the market maker must immediately contact PSX Market Operations to request a withdrawal of its quotations. If the market maker elects to remain in PSX when its ability to update quotations is impaired, it must nevertheless execute orders presented for execution against its disseminated quotations.

The procedures for withdrawal of quotations are governed by proposed new Rule 3219. In general, a market maker that wishes to withdraw quotations in a security must contact the Exchange's MarketWatch Department to obtain excused withdrawal status prior to withdrawing its quotations. Withdrawals of quotations shall be granted by MarketWatch only upon satisfying one of the conditions specified in this Rule. An exception to the requirement for prior approval will exist for withdrawal based on a PSX Market Maker's systemic equipment problems, such as defects in software or hardware systems or connectivity problems associated with the circuits connecting PSX systems with the PSX Market Maker's systems. In that case, the market maker must promptly contact Exchange Market Operations and may receive excused withdrawal status for up to five (5) business days (unless extended by Exchange Market Operations).

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<sup>13</sup> Market Makers and ECNs that are permitted the use of Supplemental MPIDs for displaying Attributable Quotes/Orders are subject to the same rules applicable to the members' first quotation, with two exceptions: (a) the continuous two-sided quote requirement and excused withdrawal procedures do not apply to Market Makers' Supplemental MPIDs; and (b) Supplemental MPIDs may not be used by Market Makers to enter stabilizing bids pursuant to Rule 3214.

For other circumstances beyond the market maker's control, a PSX Market Maker that wishes to withdraw quotations must contact the Exchange's MarketWatch Department to obtain excused withdrawal status prior to withdrawing its quotations.<sup>14</sup> Excused withdrawal status based on illness, vacations or physical circumstances beyond the PSX Market Maker's control may be granted for up to five (5) business days, unless extended by MarketWatch. Excused withdrawal status based on investment activity or advice of legal counsel, accompanied by a representation that the condition necessitating the withdrawal of quotations is not permanent in nature, may, upon written request, be granted for not more than sixty (60) days. The withdrawal of quotations because of pending news, a sudden influx of orders or price changes, or to effect transactions with competitors shall not normally constitute acceptable reasons for granting excused withdrawal status, unless the Exchange has initiated a trading halt for market makers in the security, pursuant to Rule 3100.

Excused withdrawal status may also be granted to a PSX Market Maker that fails to maintain a clearing arrangement with a registered clearing agency or with a member of such an agency and is withdrawn from participation in the trade reporting service of PSX, thereby terminating its registration as a PSX Market Maker; provided, however, that if the Exchange finds that the market maker's failure to maintain a clearing arrangement is voluntary, the withdrawal of quotations will be considered voluntary and unexcused.

PSX Market Makers that fail to maintain a clearing relationship will have their PSX

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<sup>14</sup> It should be noted that because PSX does not currently, and does not at this time propose to list securities, the applicable rule does not establish different standards for excused withdrawals depending the listing venue of the security in question. Cf. NASDAQ Stock Market Rule 4619 (imposing different standards for excused withdrawal of quotations in NASDAQ-listed securities and securities listed on other exchanges).

system status set to “suspend” and be thereby prevented from entering, or executing against, any quotes/orders in the system.

Proposed Rule 3220 will govern voluntary termination of a PSX Market Maker’s registration. A market maker may voluntarily terminate its registration in a security by withdrawing its two-sided quotation from PSX. A PSX Market Maker that voluntarily terminates its registration in a security may not re-register as a market maker for one (1) business day.<sup>15</sup>

Notwithstanding the above, a PSX Market Maker that accidentally withdraws as a PSX Market Maker may be reinstated immediately if:

- the PSX Market Maker notified the Exchange’s MarketWatch Department of the accidental withdrawal as soon as practicable under the circumstances, but within at least one hour of such withdrawal, and immediately thereafter provided written notification of the withdrawal and reinstatement request;
- it is clear that the withdrawal was inadvertent and the market maker was not attempting to avoid its market making obligations; and
- the PSX Market Maker’s firm would not exceed the following reinstatement limitations: (i) for firms that simultaneously made markets in less than 250 stocks during the previous calendar year, the firm can receive no more than two (2) reinstatements per year; (ii) for firms that simultaneously made

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<sup>15</sup> By contrast, under the NASDAQ Stock Market’s corresponding rule (NASDAQ Rule 4620), a market maker withdrawing from a NASDAQ-listed security may not re-register in that security for a period of 20 days, but is subject to a one-day exclusion for securities not listed on NASDAQ. Because PSX does not currently, and does not at this time propose to list securities, the proposed one-day exclusion period is comparable to the rule in effect at NASDAQ for securities traded on an unlisted trading privileges basis.

markets in 250 or more but less than 500 stocks during the previous calendar year, the firm can receive no more than three (3) reinstatements per year; and (iii) for firms that simultaneously made markets in 500 or more stocks during the previous calendar year, the firm can receive no more than six (6) reinstatements per year.

Factors that the Exchange will consider in granting a reinstatement under the rule include, but are not limited to: the number of accidental withdrawals by the PSX Market Maker in the past, as compared with PSX Market Makers making markets in a comparable number of stocks; the similarity between the symbol of the stock that the PSX Market Maker intended to withdraw from and the symbol of the stock that the PSX Market Maker actually withdrew from; market conditions at the time of the withdrawal; whether, given the market conditions at the time of the withdrawal, the withdrawal served to reduce the exposure of the member's position in the security at the time of the withdrawal to market risk; and the timeliness with which the PSX Market Maker notified MarketWatch of the error.

A market maker will not be deemed to have voluntarily terminated its registration in a security by voluntarily withdrawing its two-sided quotation from PSX if the PSX Market Maker's two-sided quotation in the subject security is withdrawn by the Exchange's systems due to issuer corporate action related to a dividend, payment or distribution, or due to a trading halt, and one of the following conditions is satisfied: the PSX Market Maker enters a new two-sided quotation prior to the close of the regular market session on the same day when the Exchange's systems withdrew such a quotation; the PSX Market Maker enters a new two-sided quotation on the day when trading

resumes following a trading halt, or, if the resumption of trading occurs when the market is not in regular session, the PSX Market Maker enters a new two-sided quotation prior to the opening of the next regular market session; or upon request from the market maker, MarketWatch authorizes the market maker to enter a new two-sided quotation, provided that MarketWatch receives the market maker's request prior to the close of the regular market session on the next regular trading day after the day on which the market maker became eligible to re-enter a quotation and determines that the market maker was not attempting to avoid its market making obligations by failing to re-enter such a quotation earlier.

Under Rule 3219 and 3220, the Market Operations Review Committee will have jurisdiction over proceedings brought by market makers seeking review of the denial of an excused withdrawal, the conditions imposed upon a market maker's re-entry, and the denial of a reinstatement following an unexcused withdrawal.

With respect to securities that are the subject of offerings governed by SEC Regulation M,<sup>16</sup> the Exchange is also proposing to adopt rules governing the entry of stabilizing bids (Rule 3214), excused withdrawals based on status as a distribution participant or affiliated purchaser within the meaning of Regulation M (Rule 3219(e)), imposition of penalty bids or engaging in syndicate covering transactions (Rule 3224), as well as associated definitions (Rule 3203). Although the Exchange expects the rules to be used rarely, if at all, given the fact that the Exchange does not intend to list securities, the rules may have applicability in limited circumstances where an Exchange member is acting in support of an offering on another exchange or is affiliated with a member of

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<sup>16</sup> SEC Rules 100-105, 17 CFR 242.100 - 242.105.

another exchange that is participating in an offering. Accordingly, the Exchange is adopting rules on these topics that are materially identical to corresponding rules on NASDAQ and BX, with the exception of rules pertaining to compliance with SEC Rule 103,<sup>17</sup> which, by its terms, applies exclusively to the NASDAQ Stock Market.

Phlx is also amending Rule 3230, which governs trading in Commodity-Related Securities,<sup>18</sup> to adopt provisions governing the activities of market makers in Commodity-Related Securities. The rule is designed to ensure that trading in a Commodity-Related Security by a market maker is not improperly influenced by information about trading in the underlying commodity from within the market maker's firm. Under the rule, which is identical to rules in effect NASDAQ and BX, a member acting as a registered market maker in a Commodity-Related Security must establish adequate information barriers when such market maker engages in inter-departmental communications.<sup>19</sup> For purposes of a Commodity-Related Security only, "inter-departmental communications" include communications to other departments within the same firm or the firm's affiliates that involve trading in commodities, futures contracts,

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<sup>17</sup> 17 CFR 242.103.

<sup>18</sup> A "Commodity-Related Security" is a security that is issued by a trust, partnership, commodity pool or similar entity that invests, directly or through another entity, in an combination of commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives, or the value of which is determined by the value of commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives.

<sup>19</sup> Members should refer to NASD/NYSE Joint Memo on Chinese Wall Policies and Procedures (NASD Notice to Members 91-45) for guidance on the "minimum elements" of adequate Chinese Wall policy and procedures."

options on futures contracts, forward contracts, commodity swaps, or other related derivatives underlying such Commodity-Related Security.

A member acting as a registered market maker in a Commodity-Related Security must file with the Exchange's Regulation Department in a manner prescribed by such Department and keep current a list identifying all accounts for trading in commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives underlying such Commodity-Related Security, in which the market maker holds an interest, over which it may exercise investment discretion, or in which it shares in the profits and losses. Moreover, a member acting as a registered market maker in a Commodity-Related Security may not act or register as a market maker in any commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives underlying such Commodity-Related Security.

A member acting as a registered market maker in a Commodity-Related Security must make available to the Exchange's Regulation Department such books, records or other information pertaining to transactions by such entity or registered or non-registered employees affiliated with such entity for its or their own accounts for trading commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives underlying such Commodity-Related Security, as may be requested by the Regulation Department. Finally, in connection with trading a Commodity-Related Security or commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives underlying a Commodity-Related Security, the member acting as a market maker in a



Commodity-Related Security may not use any material nonpublic information received from any person associated with the member or employee of such person regarding trading by such person or employee in the commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives underlying such Commodity-Related Security.

In furtherance of allowing market making on PSX, Phlx is also amending Rule 3301 to provide for attributable quotes and orders (i.e., trading interest displayed with price and size next to a market maker's MPID); to specify that quotations may include a non-displayed reserve size in order to replenish the displayed portion of a quotation when it is reduced to a size of less than one round lot;<sup>20</sup> to add a definition of PSX Market Maker; and to provide that attributable trading interest will be displayed via PSX data feeds, with attribution to the Participant's MPID, along with non-attributable interest. Phlx is also making conforming changes to the following existing rules by adding references to quotations, quotes/orders, market makers, and/or certain activities or market makers, as appropriate to reflect the scope of PSX's rules to embrace market making and quoting activity in addition to order entry: Rule 3100 (Trading Halts on PSX); Rule 3201 (Scope); Rule 3213(b) (Firm Orders and Quotations); Rule 3221 (Suspension and Termination of Quotations and Order Entry); Rule 3225 (Obligation to Provide Information); Rule 3226 (Limitation of Liability); Rule 3301(g) (Order Size); Rule 3306 (Entry and Display of Quotes and Orders); and Rule 3310 (Anonymity).

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<sup>20</sup> A new timestamp is applied when the order is replenished from reserve size.

### **Minimum Quantity Orders**

Phlx is proposing minor modifications to the operation of PSX's Minimum Quantity Order, such that it will be fully consistent with the comparable orders of NASDAQ and BX. "Minimum Quantity Orders" are orders that will not execute unless a specified minimum quantity of shares can be obtained. A Minimum Quantity Order provides a means by which a market participant may avoid partial executions of orders at sizes that it considers inadequate to achieve its purposes. For example, a market participant seeking to sell a large position in a trading session with high volatility may use the order type to avoid selling only a small portion of the order at the price it considers acceptable. A Minimum Quantity Order that posts to PSX book will be a Non-Displayed Order, and upon entry must have a size and a minimum quantity condition of at least one round lot. In the event that the shares remaining in the size of the order following a partial execution thereof are less than the minimum quantity specified by the market participant entering the order, the minimum quantity value of the order will be reduced to the number of shares remaining.

Thus, for example, if a market participant entered a Minimum Quantity Order with a size of 1,000 and a minimum quantity of 500, and the order was marketable against a 600 share order on the book, the remaining 400 shares of the Minimum Quantity Order would post to the book with a minimum quantity restriction of 400 shares. Under current PSX rules, if the size of a Minimum Quantity Order is reduced to less than one round lot due to a partial execution, the minimum quantity condition on the order will be removed. PSX proposes to delete this condition, which was formerly necessary to ensure that the order would not have a higher execution priority under PSX's

execution algorithm than other non-displayed odd-lot orders solely by virtue of its minimum quantity condition. In all other respects, the operation of the order will remain unchanged.

### **Midpoint Peg Post-Only Order**

Phlx is adopting as a new order type the Midpoint Peg Post-Only Order.<sup>21</sup> Like a regular Midpoint Peg Order, a Midpoint Peg Post-Only Order is a non-displayed order that is priced at the midpoint between the national best bid and best offer (“NBBO”) (as determined using the consolidated tape). However, like a Post-Only Order, the Midpoint Peg Post-Only Order does not remove liquidity from PSX upon entry if it would lock a non-displayed order on PSX. Rather, the Midpoint Peg Post-Only Order will post and lock the pre-existing order, but will remain undisplayed.<sup>22</sup> For example, if the NBBO is \$1.10 bid and \$1.11 offer, and there is a non-displayed Midpoint Peg Order to buy on the book at \$1.105, an incoming Midpoint Peg Post-Only Order to sell will also post to the book at \$1.105 and will not execute. By contrast, a regular Midpoint Peg Order would execute against the posted order at \$1.105. If the Midpoint Peg Post-Only Order would cross a pre-existing order, however, the crossing orders will execute.

Midpoint Peg Post-Only Orders that post to the book and lock a pre-existing non-displayed order will execute against an incoming order only if the price of the incoming buy (sell) order is higher (lower) than the price of the pre-existing order. This restriction

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<sup>21</sup> The order on PSX will be identical to the comparable order on NASDAQ. See Securities Exchange Act Release No. 64430 (May 6, 2011), 76 FR 27699 (May 12, 2011) (SR-NASDAQ-2011-059); Securities Exchange Act Release No. 68015 (October 9, 2012), 77 FR 63368 (October 16, 2012) (SR-NASDAQ-2012-111).

<sup>22</sup> SEC Rule 610(d) under Regulation NMS, 17 CFR 242.610(d), restricts displayed quotations that lock protected quotations in NMS Stocks, but does not apply to non-displayed trading interest.

ensures that the non-displayed Midpoint Peg Post-Only Order will not execute before an order already on the book unless the incoming order against which it executes has price priority over the already posted order. For example, if the NBBO is \$1.10 bid and \$1.11 offer, and there is a non-displayed Midpoint Peg Order to buy on the book at \$1.105, an incoming Midpoint Peg Post-Only Order to sell will also post to the book at \$1.105 and will not execute. If another Midpoint Peg Order to buy is entered, it would also post to the book, rather than executing against the Midpoint Peg Post-Only Order. On the other hand, an order to buy at \$1.11 would execute against the Midpoint Peg Post-Only Order, receiving \$0.005 price improvement. Thus, the order provides a means by which a market participant may offer price improvement in exchange for receiving greater certainty with respect to its trading costs.

If a Midpoint Peg Order and a Midpoint Peg Post-Only Order are locked, and a Midpoint Peg Order is entered on the same side of the market as the Midpoint Peg Post-Only Order, the new order will execute against the original Midpoint Peg Order. Thus, in the above example, if a Midpoint Peg Order to buy at \$1.105 is locked by a Midpoint Peg Post-Only Order to sell at \$1.105, a subsequent Midpoint Peg Order to sell at \$1.105 would execute against the original buy order. This is the case because the market participant entering the Midpoint Peg Post-Only Order has expressed its intention not to execute against posted liquidity, and therefore cedes execution priority to the new order.

A Midpoint Peg Post-Only Order will only be posted to the book at a price of more than \$1. Accordingly, if the midpoint between the NBBO for a particular stock is \$1 or less, all Midpoint Peg Post-Only Orders for that stock will be rejected or cancelled, as applicable. This limitation reflects the fact that the difference between the inside

market and the midpoint for stocks at this price level is likely to be extremely small, and therefore the price improvement opportunities associated with the order in such stocks are unlikely to justify making the order available.<sup>23</sup>

Phlx believes that the Midpoint Peg Post-Only Order will serve a valid purpose in the current market environment. Although SEC Rule 610<sup>24</sup> limits access fees, market participants remain focused on their trading costs, and in a pricing environment characterized by fees on one side of a trade being used to fund rebates on the other side,<sup>25</sup> it is entirely understandable that some market participants may wish to structure their trading activity in a manner that is more likely to avoid a fee and earn a rebate. In this respect, the order is conceptually similar to a limit order: just as a limit order allows market participants to control the price that they will pay or receive for a stock, the proposed new order will allow market participants to exercise greater control over the fees associated with order execution. Moreover, the order type will operate in a manner calculated to require members posting the order generally to provide price improvement in order to justify the ability to earn a rebate. Thus, as long as a Midpoint Peg Post-Only Order is locking a pre-existing Midpoint Order, the order can execute only if it offers price improvement. By means of price improvement, the market participant effectively

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<sup>23</sup> NASDAQ's corresponding rule includes language stipulating the treatment of posted Midpoint Peg Post-Only Orders for purposes of calculating the best bid and offer within NASDAQ under rules governing the opening cross (NASDAQ Rule 4752), halt and imbalance cross (NASDAQ Rule 4753), and closing cross (NASDAQ Rule 4754). Because PSX does not have comparable rules, this language is omitted from the proposed rule.

<sup>24</sup> 17 CFR 242.610.

<sup>25</sup> It should be noted that some markets, such as NASDAQ OMX BX, the BATS-Y Exchange, the EDGA Exchange, and CBSX, feature fees for liquidity providers and rebates for liquidity takers, while all other cash equities markets now have a taker fee/maker rebate structure.

shares a portion of its rebate with the counterparty with whom it is matched, thereby reducing its trading costs as well.

### **Post-Only Orders**

Phlx proposes to modify the functionality associated with its existing Post-Only Order on PSX.<sup>26</sup> Currently, if a Post-Only Order would lock or cross an order on PSX at the time of entry, the order is re-priced and displayed by the System to one minimum price increment (i.e., \$0.01 or \$0.0001) below the current low offer (for bids) or above the current best bid (for offers). Thus, if the best bid and best offer on the PSX book were \$10.00 x \$10.05, and a market participant entered a Post-Only Order to buy at \$10.05, the order would be re-priced and displayed at \$10.04. This aspect of the functionality of the order is not changing.<sup>27</sup> Under the proposed change, if a Post-Only Order would cross an order on the System, the order will be repriced as described above

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<sup>26</sup> An identical change was mistakenly filed by Phlx (Securities Exchange Act Release No. 64563 (May 27, 2011), 76 FR 32255 (June 3, 2011) (SR-Phlx-2011-70)) at the same time as the change was made by NASDAQ (Securities Exchange Act Release No. 64552 (May 26, 2011), 76 FR 31998 (June 2, 2011) (SR-NASDAQ-2011-070)), with the error being corrected through a subsequent filing (Securities Exchange Act Release No. 67351 (July 5, 2012), 77 FR 40922 (July 11, 2012) (SR-Phlx-2012-84)). The prior filing to make this change was mistaken because the proposed change was incompatible with PSX's price/size/pro rata algorithm. With PSX's move to a price/time algorithm, the change to the functioning of the Post-Only Order is now possible.

<sup>27</sup> In addition, if the order would lock or cross a protected quotation of another market center, the order will be accepted at the locking price (i.e., the current low offer (for bids) or to the current best bid (for offers)) and displayed by the System to one minimum price increment (i.e., \$0.01 or \$0.0001) below the current low offer (for bids) or above the current best bid (for offers). Thus, if the national best bid and offer, as displayed on another market center, was \$10 x \$10.05, an order to buy at \$10.05 or higher would be accepted at the locking price of \$10.05, but would be displayed at \$10.04. Subsequently, an incoming order to sell at \$10.05 or lower would be matched against the Post-Only buy order. In this case, the incoming sell order would receive price improvement.

unless the value of price improvement associated with executing against a resting order equals or exceeds the sum of fees charged for such execution and the value of any rebate that would be provided if the order posted to the book and subsequently provided liquidity, in which case the order will execute. As provided by Rule 3307, price improvement accrues to the party entering the order. Thus, if a sell order is on the book at \$10 and a Post-Only Order to buy at \$10.01 is entered, the order will execute at \$10.

The modified Post-Only Order will serve to allow the market participant entering the order to post its order at its desired price, unless the amount of price improvement makes execution of the order economically advantageous to the entering participant. Thus, the revised order type is designed to provide market participants with better control over their execution costs and to provide them with a means to offer price improvement opportunities to other market participants.

### **Minimum Life Order**

Phlx is proposing to eliminate PSX's Minimum Life Order. The Minimum Life Order is a Displayed Order that may not be cancelled for a period of 100 milliseconds following its receipt. The order type was not used by the vast majority of PSX's market participants, and is not currently offered by any other national securities exchange. Accordingly, PSX believes that its elimination will not have any material effect on market participants or on the cash equities markets in general.

### **Price to Comply Post Order**

Phlx is proposing to introduce the Price to Comply Post Order on PSX, with terms and conditions identical to those found on NASDAQ and BX. The Price to Comply Post Order provides a straightforward means by which market makers and others may post

liquidity at or near the inside marker in compliance with the restrictions on locked and crossed markets and trade-throughs under Rules 610(d) and 611 under Regulation NMS.<sup>28</sup> If, at the time of its entry, a Price to Comply Post Order would lock or cross the Protected Quotation of another trading center or would execute at a price inferior to the Protected Quotation of another trading center, the order will be re-priced and displayed to one minimum price increment (i.e., \$0.01 or \$0.0001, depending on the price of the security being traded) below the current low offer (for bids) or to one penny above the current best bid (for offers). Price to Comply Post Orders are not routable.

## 2. Statutory Basis

Phlx believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>29</sup> in general, and with Section 6(b)(5) of the Act<sup>30</sup> in particular, in that the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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.

The proposed adoption of price/time execution algorithm will allow PSX to operate in a manner consistent with every other national securities exchange that trades cash equities securities, a market model that the Commission has repeatedly determined

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<sup>28</sup> 17 CFR 242.610(d), 611.

<sup>29</sup> 15 U.S.C. 78f.

<sup>30</sup> 15 U.S.C. 78f(b)(5).



to be consistent with the Act.<sup>31</sup> Thus, the change with regard to the execution algorithm will remove impediments to and perfect the mechanism of a free and open market and a national market system by making PSX's functionality more consistent with that of other exchanges. Similarly, the proposed rules regarding maker making, including the obligations of market makers to adhere to specific quoting and pricing obligations, have previously been determined by the Commission to be consistent with the Act.<sup>32</sup> Specifically, in approving rules governing market maker quoting and pricing obligations such as those proposed by Phlx, the Commission found that "the proposed rule should assure that quotations submitted by market makers to an exchange or FINRA's ADF, and displayed to market participants, bear some relationship to the prevailing market price, and thus should promote fair and orderly markets and the protection of investors."<sup>33</sup>

The proposed changes to order type functionality will remove impediments to and perfect the mechanism of a free and open market and the national market system because they will conform PSX's rules to functionality that is already in use and accepted by

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<sup>31</sup> See, e.g., Securities Exchange Act Release No. 54155 (July 14, 2006), 71 FR 41291 (July 20, 2006) (SR-NASDAQ-2006-001); Securities Exchange Act Release No. 59154 (December 23, 2008), 73 FR 80468 (December 31, 2008) (SR-BSE-2008-48).

<sup>32</sup> See, e.g., Securities Exchange Act Release No. 53128 (January 13, 2006), 71 FR 3550 (January 23, 2006) (File No. 10-131) (approving NASDAQ market maker rules as part of its registration as a national securities exchange); Securities Exchange Act Release No. 59154 (December 23, 2008), 73 FR 80468 (December 31, 2008) (SR-BSE-2008-48); Securities Exchange Act Release No. 63255 (November 5, 2010), 75 FR 69484, 69485 (November 12, 2010) (SR-BATS-2010-025, SR-BX-2010-66, SR-CBOE-2010-087, SR-CHX-2010-22, SR-FINRA-2010-049, SR-NASDAQ-2010-115, SR-NSX-2010-12, SR-NYSE-2010-69, SR-NYSEAmex-2010-96, SR-NYSEArca-2010-83) (approving corresponding marketwide rules with respect to market maker quoting and pricing obligations) ("2010 Order").

<sup>33</sup> 2010 Order, 75 FR at 69485.

market participants at other exchanges. Specifically, with regard to the change to the Minimum Quantity Order, the proposed change will allow the operation of the order to better reflect the intention of the market participants entering the order, since it will allow a minimum quantity condition to continue to attach to an order at a size below one round lot. The change will also make the operation of the order conform to functionality that was implemented on an immediately effective basis on NASDAQ and BX.<sup>34</sup>

Similarly, the proposed Midpoint Peg Post-Only Order is identical to the order that is operative on NASDAQ, and which was introduced and modified through immediately effective filings.<sup>35</sup> As described in the original NASDAQ filing with respect to the order, the Midpoint Peg Post-Only Order is designed to provide market participants with better control over their execution costs and to provide a means to offer price improvement opportunities.

The modified Post Only Order, which adopts changes filed by NASDAQ and BX on an immediately effective basis,<sup>36</sup> is similarly designed to provide market participants with better control over their execution costs. Specifically, the changes will ensure that a Post Only Order will post to the PSX book only in circumstances where an immediate

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<sup>34</sup> Securities Exchange Act Release No. 65536 (October 12, 2011), 76 FR 64411 (October 18, 2011) (SR-NASDAQ-2011-140); Securities Exchange Act Release No. 65535 (October 12, 2011), 76 FR 64416 (October 18, 2011) (SR-NASDAQ-2011-069).

<sup>35</sup> See Securities Exchange Act Release No. 64430 (May 6, 2011), 76 FR 27699 (May 12, 2011) (SR-NASDAQ-2011-059); Securities Exchange Act Release No. 68015 (October 9, 2012), 77 FR 63368 (October 16, 2012) (SR-NASDAQ-2012-111).

<sup>36</sup> Securities Exchange Act Release No. 64552 (May 26, 2011), 76 FR 31998 (June 2, 2011) (SR-NASDAQ-2011-070); Securities Exchange Act Release No. 64615 (June 7, 2011), 76 FR 34284 (June 13, 2011) (SR-BX-2011-033).

execution of the order would not be more economically advantageous to the market participant that entered it.

The proposed Price to Comply Post Order is consistent with the Act because it provides market makers and other market participants with a straightforward mechanism to enter an order that reprices to ensure that it does not lock or cross or trade through the Protected Quotation of another market center. The rule has previously been approved for use at NASDAQ and BX.<sup>37</sup>

Finally, Phlx believes that the proposed elimination of the Minimum Life Order is consistent with the Act because the order has not been widely used and has not been adopted at any other exchange. Accordingly, Phlx believes that offering an order of this nature is not a required aspect of the operation of a national securities exchange.

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

Phlx 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, since its introduction with a price/size execution algorithm, PSX has not been a significant competitor in the market for execution of cash equities orders, with a market share generally below 1 percent of total consolidated volume. By means of the changes proposed in this rule filing, Phlx hopes to enhance PSX's competitiveness by offering functionality that is more consistent with that offered by other national securities exchanges. In light of the highly competitive nature of these markets, however, PSX will be successful in attracting additional order flow only if its

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<sup>37</sup> Securities Exchange Act Release No. 54155 (July 14, 2006), 71 FR 41291 (July 20, 2006) (SR-NASDAQ-2006-001); Securities Exchange Act Release No. 59154 (December 23, 2008), 73 FR 80468 (December 31, 2008) (SR-BSE-2008-48).

overall offering of functionality and pricing is successful in convincing market participants to direct order flow to it, rather than the larger number of exchanges and alternative trading systems that compete with it. Accordingly, Phlx does not believe that the changes proposed herein will impose any burden on competition, because they do not provide any means through which PSX may diminish the free choice with regard to order routing decisions that exists in the market. To the extent, however, that the changes make PSX a more attractive trading venue, they have the potential to enhance competition by providing market participants with additional choices when making such decisions.

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

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, as amended, is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2013-24 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-2013-24. This file number should be included on the subject line if e-mail is used.

To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal offices of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-Phlx-2013-24, 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>38</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>38</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 3**

<b>Symbol</b>	<b>Name</b>
AAXJ	iShares MSCI All Country Asia ex Japan Index Fund
ACWI	iShares MSCI ACWI Index Fund
ACWX	iShares MSCI ACWI ex US Index Fund
ADRE	BLDRS Emerging Markets 50 ADR Index Fund
AGG	iShares Barclays Aggregate Bond Fund
AGZ	iShares Barclays Agency Bond Fund
AMJ	JPMorgan Alerian MLP Index ETN
BAB	PowerShares Build America Bond Portfolio
BBH	Biotech HOLDRs Trust
BDG	PowerShares DB Base Metals Long ETN
BIK	SPDR S&P BRIC 40 ETF
BIL	SPDR Barclays Capital 1-3 Month T-Bill ETF
BIV	Vanguard Intermediate-Term Bond ETF
BKF	iShares MSCI BRIC Index Fund
BLV	Vanguard Long-Term Bond ETF
BND	Vanguard Total Bond Market ETF
BOS	PowerShares DB Base Metals Short ETN
BRF	Market Vectors Brazil Small-Cap ETF
BSV	Vanguard Short-Term Bond ETF
BWX	SPDR Barclays Capital International Treasury Bond ETF
CEW	WisdomTree Dreyfus Emerging Currency Fund
CFT	iShares Barclays Credit Bond Fund
CIU	iShares Barclays Intermediate Credit Bond Fund
CSJ	iShares Barclays 1-3 Year Credit Bond Fund
CUT	Claymore/Beacon Global Timber Index ETF
CVY	Claymore/Zacks Multi-Asset Income Index ETF
CWB	SPDR Barclays Capital Convertible Securities ETF
CYB	WisdomTree Dreyfus Chinese Yuan Fund
DBA	PowerShares DB Agriculture Fund
DBB	PowerShares DB Base Metals Fund
DBC	PowerShares DB Commodity Index Tracking Fund
DBO	PowerShares DB Oil Fund
DBP	PowerShares DB Precious Metals Fund
DBV	PowerShares DB G10 Currency Harvest Fund
DDG	ProShares Short Oil & Gas
DEM	WisdomTree Emerging Markets Equity Income Fund
DFJ	WisdomTree Japan SmallCap Dividend Fund
DGS	WisdomTree Emerging Markets SmallCap Dividend Fund
DIA	SPDR Dow Jones Industrial Average ETF Trust
DJP	iPath Dow Jones-UBS Commodity Index Total Return ETN/United States
DNO	United States Short Oil Fund
DOG	ProShares Short Dow30
DVY	iShares Dow Jones Select Dividend Index Fund

Symbol	Name
DWM	WisdomTree DEFA Fund
DWX	SPDR S&P International Dividend ETF
ECH	iShares MSCI Chile Investable Market Index Fund
EEB	Claymore/BNY BRIC ETF
EEM	iShares MSCI Emerging Markets Index Fund/United States
EFA	iShares MSCI EAFE Index Fund
EFG	iShares MSCI EAFE Growth Index
EFV	iShares MSCI EAFE Value Index
EFZ	ProShares Short MSCI EAFE
EIS	iShares MSCI Israel Capped Index Fund
EMB	iShares JPMorgan USD Emerging Markets Bond Fund
EPI	WisdomTree India Earnings Fund
EPP	iShares MSCI Pacific ex-Japan Index Fund
EPU	iShares MSCI All Peru Capped Index Fund
EUM	ProShares Short MSCI Emerging Markets
EWA	iShares MSCI Australia Index Fund
EWC	iShares MSCI Canada Index Fund
EWD	iShares MSCI Sweden Index Fund
EWG	iShares MSCI Germany Index Fund
EWH	iShares MSCI Hong Kong Index Fund
EWI	iShares MSCI Italy Index Fund
EWJ	iShares MSCI Japan Index Fund
EWK	iShares MSCI Belgium Investable Market Index Fund
EWL	iShares MSCI Switzerland Index Fund
EWM	iShares MSCI Malaysia Index Fund
EWN	iShares MSCI Netherlands Investable Market Index Fund
EWO	iShares MSCI Austria Investable Market Index Fund
EWP	iShares MSCI Spain Index Fund
EWQ	iShares MSCI France Index Fund
EWS	iShares MSCI Singapore Index Fund
EWT	iShares MSCI Taiwan Index Fund
EWU	iShares MSCI United Kingdom Index Fund
EWV	iShares MSCI Mexico Investable Market Index Fund
EWX	SPDR S&P Emerging Small Cap ETF
EWY	iShares MSCI South Korea Index Fund
EWZ	iShares MSCI Brazil Index Fund
EZA	iShares MSCI South Africa Index Fund
EZU	iShares MSCI EMU Index Fund
FBT	First Trust NYSE Arca Biotechnology Index Fund
FCG	First Trust ISE-Revere Natural Gas Index Fund
FDN	First Trust Dow Jones Internet Index Fund
FNI	First Trust ISE Chindia Index Fund
FXA	CurrencyShares Australian Dollar Trust
FXB	CurrencyShares British Pound Sterling Trust
FXC	CurrencyShares Canadian Dollar Trust



Symbol	Name
FXD	First Trust Consumer Discretionary AlphaDEX Fund
FXE	CurrencyShares Euro Trust
FXF	CurrencyShares Swiss Franc Trust
FXI	iShares FTSE/Xinhua China 25 Index Fund
FXY	CurrencyShares Japanese Yen Trust
FXZ	First Trust Materials AlphaDEX Fund
GAZ	iPath Dow Jones-UBS Natural Gas Subindex Total Return ETN
GCC	GreenHaven Continuous Commodity Index Fund
GDX	Market Vectors - Gold Miners ETF
GDXJ	Market Vectors Junior Gold Miners ETF
GLD	SPDR Gold Trust
GMF	SPDR S&P Emerging Asia Pacific ETF
GML	SPDR S&P Emerging Latin America ETF
GSG	iShares S&P GSCI Commodity Indexed Trust
GSP	iPath GSCI Total Return Index ETN
GUR	SPDR S&P Emerging Europe ETF
GVI	iShares Barclays Intermediate Government/Credit Bond Fund
GVT	Grail American Beacon Large Cap Value ETF
GWX	SPDR S&P International Small Cap ETF
GXC	SPDR S&P China ETF
HAO	Claymore/AlphaShares China Small Cap Index ETF
HYG	iShares iBoxx \$ High Yield Corporate Bond Fund
IAI	iShares Dow Jones US Broker Dealers Index Fund
IAT	iShares Dow Jones US Regional Banks Index Fund
IAU	iShares COMEX Gold Trust
IBB	iShares Nasdaq Biotechnology Index Fund
ICF	iShares Cohen & Steers Realty Majors Index Fund
IDU	iShares Dow Jones US Utilities Sector Index Fund
IDX	Market Vectors - Indonesia Index ETF
IEF	iShares Barclays 7-10 Year Treasury Bond Fund
IEI	iShares Barclays 3-7 Year Treasury Bond Fund
IEO	iShares Dow Jones US Oil & Gas Exploration & Production Index Fund
IEV	iShares S&P Europe 350 Index Fund
IEZ	iShares Dow Jones US Oil Equipment & Services Index Fund
IFGL	iShares FTSE EPRA/NAREIT Developed Real Estate ex-US Index Fund
IGE	iShares S&P North American Natural Resources Sector Index Fund
IGF	iShares S&P Global Infrastructure Index Fund
IGM	iShares S&P North American Technology Sector Index Fund
IGN	iShares S&P North American Technology-Multimedia Networking Index Fund
IGV	iShares S&P North American Technology-Software Index Fund
IGW	iShares S&P North American Technology-Semiconductors Index Fund
IHE	iShares Dow Jones US Pharmaceuticals Index Fund
IHF	iShares Dow Jones US Healthcare Providers Index Fund
IHI	iShares Dow Jones US Medical Devices Index Fund
IJH	iShares S&P MidCap 400 Index Fund

Symbol	Name
IJJ	iShares S&P MidCap 400/BARRA Value Index Fund
IJK	iShares S&P MidCap 400 Growth Index Fund
IJR	iShares S&P SmallCap 600 Index Fund
IJS	iShares S&P SmallCap 600 Value Index Fund
IJT	iShares S&P SmallCap 600/BARRA Growth Index Fund
ILF	iShares S&P Latin America 40 Index Fund
INP	iPath MSCI India Index ETN
IOO	iShares S&P Global 100 Index Fund
IPE	SPDR Barclays Capital TIPS ETF
ITA	iShares Dow Jones US Aerospace & Defense Index Fund
ITB	iShares Dow Jones US Home Construction Index Fund
IVE	iShares S&P 500 Value Index Fund
IVV	iShares S&P 500 Index Fund/US
IVW	iShares S&P 500 Growth Index Fund
IWB	iShares Russell 1000 Index Fund
IWC	iShares Russell Microcap Index Fund
IWD	iShares Russell 1000 Value Index Fund
IWF	iShares Russell 1000 Growth Index Fund
IWL	iShares Russell Top 200 Index Fund
IWM	iShares Russell 2000 Index Fund
IWN	iShares Russell 2000 Value Index Fund
IWO	iShares Russell 2000 Growth Index Fund
IWP	iShares Russell Midcap Growth Index Fund
IWR	iShares Russell Midcap Index Fund
IWS	iShares Russell Midcap Value Index Fund
IWV	iShares Russell 3000 Index Fund
IWW	iShares Russell 3000 Value Index Fund
IWX	iShares Russell Top 200 Value Index Fund
IWY	iShares Russell Top 200 Growth Index Fund
IXC	iShares S&P Global Energy Sector Index Fund
IXG	iShares S&P Global Financial Sector Index Fund
IXJ	iShares S&P Global Healthcare Sector Index Fund
IXN	iShares S&P Global Technology Sector Index Fund
IXP	iShares S&P Global Telecommunications Sector Index Fund
IYC	iShares Dow Jones US Consumer Services Sector Index Fund
IYE	iShares Dow Jones US Energy Sector Index Fund
IYF	iShares Dow Jones US Financial Sector Index Fund
IYG	iShares Dow Jones US Financial Services Index Fund
IYH	iShares Dow Jones US Healthcare Sector Index Fund
IYJ	iShares Dow Jones US Industrial Sector Index Fund
IYK	iShares Dow Jones US Consumer Goods Sector Index Fund
IYM	iShares Dow Jones US Basic Materials Sector Index Fund
IYR	iShares Dow Jones US Real Estate Index Fund
IYT	iShares Dow Jones Transportation Average Index Fund
IYW	iShares Dow Jones US Technology Sector Index Fund

Symbol	Name
IYY	iShares Dow Jones US Index Fund
IYZ	iShares Dow Jones US Telecommunications Sector Index Fund
JJC	iPath Dow Jones-UBS Copper Subindex Total Return ETN
JJG	iPath Dow Jones-UBS Grains Subindex Total Return ETN
JKE	iShares Morningstar Large Growth Index Fund
JKL	iShares Morningstar Small Value Index Fund
JNK	SPDR Barclays Capital High Yield Bond ETF
JXI	iShares S&P Global Utilities Sector Index Fund
KBE	SPDR KBW Bank ETF
KCE	SPDR KBW Capital Markets ETF
KIE	SPDR KBW Insurance ETF
KOL	Market Vectors - Coal ETF
KRE	SPDR KBW Regional Banking ETF
KXI	iShares S&P Global Consumer Staples Sector Index Fund
LQD	iShares iBoxx Investment Grade Corporate Bond Fund
MBB	iShares Barclays MBS Bond Fund
MBG	SPDR Barclays Capital Mortgage Backed Bond ETF
MDY	SPDR S&P MidCap 400 ETF Trust
MINT	PIMCO Enhanced Short Maturity Strategy Fund
MLPI	UBS E-TRACS Alerian MLP Infrastructure ETN
MLPN	Credit Suisse Cushing 30 MLP Index ETN
MOO	Market Vectors - Agribusiness ETF
MUB	iShares S&P National Municipal Bond Fund
MXI	iShares S&P Global Materials Sector Index Fund
MYY	ProShares Short MidCap400
OEF	iShares S&P 100 Index Fund
OIH	Oil Services Holders Trust
OIL	iPath Goldman Sachs Crude Oil Total Return Index ETN
OLO	PowerShares DB Crude Oil Long ETN
ONEQ	Fidelity NASDAQ Composite Index Tracking Stock ETF
PALL	ETFS Palladium Trust
PBW	PowerShares WilderHill Clean Energy Portfolio
PCEF	PowerShares CEF Income Composite Portfolio
PCY	PowerShares Emerging Markets Sovereign Debt Portfolio
PFF	iShares S&P US Preferred Stock Index Fund
PGF	PowerShares Financial Preferred Portfolio
PGJ	PowerShares Golden Dragon Halter USX China Portfolio
PGX	PowerShares Preferred Portfolio
PHB	PowerShares High Yield Corporate Bond Portfolio
PHO	PowerShares Water Resources Portfolio
PHYS	Sprott Physical Gold Trust
PID	PowerShares International Dividend Achievers Portfolio
PIN	PowerShares India Portfolio
PIO	PowerShares Global Water Portfolio
PMA	PowerShares Active Mega Cap Fund

Symbol	Name
PPH	Pharmaceutical HOLDRs Trust
PPLT	ETFS Platinum Trust
PQY	PowerShares Active AlphaQ Fund
PRF	Powershares FTSE RAFI US 1000 Portfolio
PRFZ	PowerShares FTSE RAFI US 1500 Small-Mid Portfolio
PSQ	ProShares Short QQQ
PVI	PowerShares VRDO Tax Free Weekly Portfolio
PWV	PowerShares Dynamic Large Cap Value Portfolio
PXH	PowerShares FTSE RAFI Emerging Markets Portfolio
PZA	PowerShares Insured National Municipal Bond Portfolio
QQQQ	Powershares QQQ
QTEC	First Trust NASDAQ-100 Technology Index Fund
REK	ProShares Short Real Estate
RFG	Rydex S&P Midcap 400 Pure Growth ETF
RJA	ELEMENTS Linked to the Rogers International Commodity Index - Agri Tot Return
RJI	ELEMENTS Linked to the Rogers International Commodity Index - Total Return
RKH	Regional Bank HOLDRs Trust
RPV	Rydex S&P 500 Pure Value ETF
RSP	Rydex S&P Equal Weight ETF
RSX	Market Vectors - Russia ETF
RTH	Retail HOLDRs Trust
RWJ	RevenueShares Small Cap Fund
RWK	RevenueShares Mid Cap Fund
RWL	RevenueShares Large Cap Fund
RWM	ProShares Short Russell2000
RWR	SPDR Dow Jones REIT ETF
RWX	SPDR Dow Jones International Real Estate ETF
RZV	Rydex S&P Smallcap 600 Pure Value ETF
SBB	ProShares Short SmallCap600
SBM	ProShares Short Basic Materials
SCHA	Schwab US Small-Cap ETF
SCHB	Schwab US Broad Market ETF
SCHE	Schwab Emerging Markets Equity ETF
SCHF	Schwab International Equity ETF
SCHX	Schwab US Large-Cap ETF
SCZ	iShares MSCI EAFE Small Cap Index Fund
SDY	SPDR S&P Dividend ETF
SEF	ProShares Short Financials
SGG	iPath Dow Jones-UBS Sugar Subindex Total Return ETN
SGOL	ETFS Gold Trust
SH	ProShares Short S&P500
SHM	SPDR Nuveen Barclays Capital Short Term Municipal Bond ETF
SHV	iShares Barclays Short Treasury Bond Fund
SHY	iShares Barclays 1-3 Year Treasury Bond Fund

Symbol	Name
SIL	Global X Silver Miners ETF
SIVR	ETFS Silver Trust
SLV	iShares Silver Trust
SLX	Market Vectors - Steel Index Fund
SMH	Semiconductor HOLDERS Trust
SPY	SPDR S&P 500 ETF Trust
STPZ	PIMCO 1-5 Year US TIPS Index Fund
SUB	iShares S&P Short Term National AMT-Free Municipal Bond Fund
TAN	Claymore/MAC Global Solar Energy Index ETF
TBF	ProShares Short 20+ Year Treasury
TFI	SPDR Nuveen Barclays Capital Municipal Bond ETF
THD	iShares MSCI Thailand Index Fund
TIP	iShares Barclays TIPS Bond Fund
TLH	iShares Barclays 10-20 Year Treasury Bond Fund
TLT	iShares Barclays 20+ Year Treasury Bond Fund
TUR	iShares MSCI Turkey Index Fund
TUZ	PIMCO 1-3 Year U.S. Treasury Index Fund
UDN	PowerShares DB US Dollar Index Bearish Fund
UGA	United States Gasoline Fund LP
UNG	United States Natural Gas Fund LP
USO	United States Oil Fund LP
UUP	PowerShares DB US Dollar Index Bullish Fund
VAW	Vanguard Materials ETF
VB	Vanguard Small-Cap ETF
VBK	Vanguard Small-Cap Growth ETF
VBR	Vanguard Small-Cap Value ETF
VCIT	Vanguard Intermediate-Term Corporate Bond ETF
VCR	Vanguard Consumer Discretionary ETF
VCSH	Vanguard Short-Term Corporate Bond ETF
VDC	Vanguard Consumer Staples ETF
VDE	Vanguard Energy ETF
VEA	Vanguard Europe Pacific ETF
VEU	Vanguard FTSE All-World ex-US ETF
VFH	Vanguard Financials ETF
VGK	Vanguard European ETF
VGT	Vanguard Information Technology ETF
VHT	Vanguard Health Care ETF
VIG	Vanguard Dividend Appreciation ETF
VIS	Vanguard Industrials ETF
VNM	Market Vectors Vietnam ETF
VNQ	Vanguard REIT ETF
VO	Vanguard Mid-Cap ETF
VOE	Vanguard Mid-Cap Value Index Fund
VOT	Vanguard Mid-Cap Growth Index Fund
VPL	Vanguard Pacific ETF

<b>Symbol</b>	<b>Name</b>
VPU	Vanguard Utilities ETF
VSS	Vanguard FTSE All World ex-US Small-Cap ETF
VT	Vanguard Total World Stock Index Fund ETF
VTI	Vanguard Total Stock Market ETF
VTV	Vanguard Value ETF
VUG	Vanguard Growth ETF
VV	Vanguard Large-Cap ETF
VWO	Vanguard Emerging Markets ETF
VXF	Vanguard Extended Market ETF
VXX	iPATH S&P 500 VIX Short-Term Futures ETN
VXZ	iPATH S&P 500 VIX Mid-Term Futures ETN
VYM	Vanguard High Dividend Yield ETF
WIP	SPDR DB International Government Inflation-Protected Bond ETF
XBI	SPDR S&P Biotech ETF
XES	SPDR S&P Oil & Gas Equipment & Services ETF
XHB	SPDR S&P Homebuilders ETF
XLB	Materials Select Sector SPDR Fund
XLE	Energy Select Sector SPDR Fund
XLF	Financial Select Sector SPDR Fund
XLG	Rydex Russell Top 50 ETF
XLI	Industrial Select Sector SPDR Fund
XLK	Technology Select Sector SPDR Fund
XLP	Consumer Staples Select Sector SPDR Fund
XLU	Utilities Select Sector SPDR Fund
XLV	Health Care Select Sector SPDR Fund
XLY	Consumer Discretionary Select Sector SPDR Fund
XME	SPDR S&P Metals & Mining ETF
XOP	SPDR S&P Oil & Gas Exploration & Production ETF
XPH	SPDR S&P Pharmaceuticals ETF
XRT	SPDR S&P Retail ETF
XSD	SPDR S&P Semiconductor ETF
YXI	ProShares Short FTSE/Xinhua China 25

**EXHIBIT 5**

The text of the proposed rule change is below. Proposed new language is underlined; deletions are bracketed.

**Rule 3000. NASDAQ OMX PSX****Rule 3100. Trading Halts on PSX****(a) Authority to Initiate Trading Halts or Pauses**

In circumstances in which the Exchange deems it necessary to protect investors and the public interest, and pursuant to the procedures set forth in paragraph (c):

(1) The Exchange may halt trading on PSX of a security listed on another national securities exchange: (A) during a trading halt imposed by such exchange to permit the dissemination of material news; or (B) when such exchange imposes a trading halt in that security because of an order imbalance or influx (“operational trading halt”). In the event that the Exchange initiates a trading halt based on another exchange’s operational trading halt, PSX Participants may commence [order] entry of orders and quotations and trading at any time following initiation of the halt, without regard to procedures for resuming trading set forth in paragraph (c);

(2) – (4) No change.

(b) – (c) No change.

**Rule 3200. Requirements for PSX Participants****Rule 3201. Scope**

Unless otherwise specified, the Rules set forth in this 3200 Series apply only to the quoting and trading of System Securities via PSX.

\* \* \* \* \*

**Rule 3203. Definitions**

(a) For purposes of the Rule 3000 Series, unless the context requires otherwise:

(1) “SEC Rule 100,” “SEC Rule 101,” and “SEC Rule 104” means the rules adopted by the Commission under Regulation M, and any amendments thereto.

(2) “Stabilizing bid” means the terms “stabilizing” or to “stabilize” as defined in SEC Rule 100.

(3) “Underwriting Activity Report” is a report provided by the Corporate Financing Department of FINRA in connection with a distribution of securities subject to SEC Rule 101 and includes forms that are submitted by members to comply with their notification obligations under Rules 3214, 3219, and 3223.

(b) For purposes of Rules 3214, 3219, and 3223, the following terms shall have the meanings as defined in SEC Rule 100: “affiliated purchaser,” “distribution,” “distribution participant,” “independent bid,” “net purchases,” “penalty bid,” “reference security,” “restricted period,” “subject security,” and “syndicate covering transaction.”

### **Rule 3210. Registration and Other Requirements**

\* \* \* \* \*

### **Rule 3212. [Reserved] Registration as a Market Maker**

(a) Quotations and quotation sizes may be entered into PSX only by a member registered as a PSX Market Maker or other entity approved by the Exchange to function in a market-making capacity.

(b) A PSX Market Maker may become registered in an issue by entering a registration request via an Exchange approved electronic interface with PSX’s systems or by contacting PSX Market Operations. Registration shall become effective on the day the registration request is entered.

(c) A PSX Market Maker’s registration in an issue shall be terminated by the Exchange if the market maker fails to enter quotations in the issue within five (5) business days after the market maker’s registration in the issue becomes effective.

### **Rule 3213. [Orders and Locked and Crossed Markets] Market Maker Obligations**

A member registered as a Market Maker shall engage in a course of dealings for its own account to assist in the maintenance, insofar as reasonably practicable, of fair and orderly markets in accordance with this Rule.

[(a) The minimum increment for orders of \$1.00 or above in all System Securities shall be \$0.01. The minimum increment for orders in System Securities priced below \$1.00 shall be \$0.0001.]

#### (a) Quotation Requirements and Obligations

(1) Two-Sided Quote Obligation. For each security in which a member is registered as a Market Maker, the member shall be willing to buy and sell such security for its own account on a continuous basis during regular market hours and shall enter and maintain a two-sided trading interest (“Two-Sided Obligation”) that is identified to the Exchange as the interest meeting the obligation and is displayed in PSX’s quotation montage at all times. Interest eligible to be considered as part of a Market Maker’s Two-Sided Obligation shall have a displayed quotation size of at least one normal unit of trading (or a larger multiple thereof); provided, however, that a Market Maker may augment its Two-Sided Obligation size to display limit orders priced at the same price as the Two-Sided Obligation. Unless otherwise designated, a “normal unit of trading” shall be 100 shares. After an execution against its Two-Sided Obligation, a Market Maker must



ensure that additional trading interest exists in PSX to satisfy its Two-Sided Obligation either by immediately entering new interest to comply with this obligation to maintain continuous two-sided quotations or by identifying existing interest on the PSX book that will satisfy this obligation.

(2) Pricing Obligations. For NMS stocks (as defined in Rule 600 under Regulation NMS) a Market Maker shall adhere to the pricing obligations established by this Rule during Regular Trading Hours; provided, however, that such pricing obligations (i) shall not commence during any trading day until after the first regular way transaction on the primary listing market in the security, as reported by the responsible single plan processor, and (ii) shall be suspended during a trading halt, suspension, or pause, and shall not re-commence until after the first regular way transaction on the primary listing market in the security following such halt, suspension, or pause, as reported by the responsible single plan processor.

(A) Bid Quotations. At the time of entry of bid interest satisfying the Two-Sided Obligation, the price of the bid interest shall be not more than the Designated Percentage away from the then current National Best Bid, or if no National Best Bid, not more than the Designated Percentage away from the last reported sale from the responsible single plan processor. In the event that the National Best Bid (or if no National Best Bid, the last reported sale) increases to a level that would cause the bid interest of the Two-Sided Obligation to be more than the Defined Limit away from the National Best Bid (or if no National Best Bid, the last reported sale), or if the bid is executed or cancelled, the Market Maker shall enter new bid interest at a price not more than the Designated Percentage away from the then current National Best Bid (or if no National Best Bid, the last reported sale), or identify to the Exchange current resting interest that satisfies the Two-Sided Obligation.

(B) Offer Quotations. At the time of entry of offer interest satisfying the Two-Sided Obligation, the price of the offer interest shall be not more than the Designated Percentage away from the then current National Best Offer, or if no National Best Offer, not more than the Designated Percentage away from the last reported sale received from the responsible single plan processor. In the event that the National Best Offer (or if no National Best Offer, the last reported sale) decreases to a level that would cause the offer interest of the Two-Sided Obligation to be more than the Defined Limit away from the National Best Offer (or if no National Best Offer, the last reported sale), or if the offer is executed or cancelled, the Market Maker shall enter new offer interest at a price not more than the Designated Percentage away from the then current National Best Offer (or if no National Best Offer, the last reported sale), or identify to the Exchange current resting interest that satisfies the Two-Sided Obligation.

(C) The National Best Bid and Offer shall be determined by the Exchange in accordance with its procedures for determining protected quotations under Rule 600 under Regulation NMS.

(D) For purposes of this Rule, the “Designated Percentage” shall be:

(i) 8% for securities included in the S&P 500<sup>®</sup> Index, Russell 1000<sup>®</sup> Index, and a pilot list of Exchange Traded Products (“Tier 1 Securities”);

(ii) 28% for all NMS stocks that are not Tier 1 Securities with a price equal to or greater than \$1 (“Tier 2 Securities”);

(iii) 30% for all NMS stocks that are not Tier 1 Securities with a price less than \$1 (“Tier 3 Securities”);

except that between 9:30 a.m. and 9:45 a.m. and between 3:35 p.m. and the close of trading, the Designated Percentage shall be 20% for Tier 1 Securities, 28% for Tier 2 Securities, and 30% for Tier 3 Securities. The Designated Percentage for rights and warrants shall be 30%.

(E) For purposes of this Rule, the “Defined Limit” shall be 9.5% for Tier 1 Securities, 29.5% for Tier 2 Securities, and 31.5% for Tier 3 Securities, except that between 9:30 a.m. and 9:45 a.m. and between 3:35 p.m. and the close of trading, the Defined Limit shall be 21.5% for Tier 1 Securities, 29.5% for Tier 2 Securities, and 31.5% for Tier 3 Securities.

(F) Nothing in this Rule shall preclude a Market Maker from quoting at price levels that are closer to the National Best Bid and Offer than the levels required by this Rule.

(G) The minimum quotation increment for quotations of \$1.00 or above in all System Securities shall be \$0.01. The minimum quotation increment in the System for quotations below \$1.00 in System Securities shall be \$0.0001.

(H) The individual Market Participant Identifier (“MPID”) assigned to a member to meet its Two-Sided Obligation pursuant to subparagraph (a)(1) of this Rule, or Rule 3223, shall be referred to as the member’s “Primary MPID.” Market Makers and ECNs may request the use of additional MPIDs that shall be referred to as “Supplemental MPIDs.” A Market Maker may request the use of Supplemental MPIDs for displaying Attributable Quotes/Orders in the PSX quotation montage for any security in which it is registered and meets the obligations set forth in subparagraph (1) of this rule. An ECN may request the use of Supplemental MPIDs for displaying Attributable Quotes/Orders in the PSX quotation montage for any security in which it meets the obligations set forth in Rule 3223. A Market Maker or ECN that ceases to meet the obligations appurtenant to its Primary MPID in any security shall not be permitted to use a Supplemental MPID for any purpose in that security.

(I) Market Makers and ECNs that are permitted the use of Supplemental MPIDs for displaying Attributable Quotes/Orders pursuant to subparagraph (2) of this rule are subject to the same rules applicable to the members’ first quotation, with two exceptions: (a) the continuous two-sided quote requirement and excused withdrawal procedures described in subparagraph (1) above do not apply to Market Makers’ Supplemental MPIDs; and (b) Supplemental MPIDs may not be used by Market Makers to enter stabilizing bids pursuant to Rule 3214.

(b) Firm Orders and Quotations. All quotations and orders to buy and sell entered into the System by PSX Participants are firm and automatically executable for their displayed and non-displayed size in the System.

(c) Impaired Ability to Enter or Update Quotations

In the event that a PSX Market Maker's ability to enter or update quotations is impaired, the market maker shall immediately contact PSX Market Operations to request the withdrawal of its quotations.

In the event that a PSX Market Maker's ability to enter or update quotations is impaired and the market maker elects to remain in PSX, the PSX Market Maker shall execute an offer to buy or sell received from another member at its quotations as disseminated through PSX.

[(c)] (d) Locked and Crossed Markets.

(1) No change.

(2) Inter-market Locked and Crossed Markets. The provisions of this subsection [(c)] (d)(2) apply to the trading of securities governed by Regulation NMS.

(A) – (D) No change.

### **Rule 3214. Stabilizing Bids**

#### **(a) PSX Market Maker Obligation/Identifier**

A PSX Market Maker that intends to stabilize the price of a security that is a subject or reference security under SEC Rule 101 shall submit a request to the Exchange's MarketWatch Department for the entry of a one-sided bid that is identified on the Exchange as a stabilizing bid in compliance with the standards set forth in this Rule and SEC Rules 101 and 104.

#### **(b) Eligibility**

Only one PSX Market Maker in a security may enter a stabilizing bid.

#### **(c) Limitations on Stabilizing Bids**

(1) A stabilizing bid shall not be entered in PSX unless at least one other PSX Market Maker in addition to the market maker entering the stabilizing bid is registered as a PSX Market Maker in the security and entering quotations that are considered an independent bid under SEC Rule 104.

(2) A stabilizing bid must be available for all freely tradable outstanding securities of the same class being offered.

#### **(d) Submission of Request to the Exchange**

(1) A PSX Market Maker that wishes to enter a stabilizing bid shall submit a request to the Exchange's MarketWatch Department for entry in PSX of a one-sided bid identified as a stabilizing bid. The PSX Market Maker shall confirm its request in writing no later than the close of business the day the stabilizing bid is entered by submitting an Underwriting Activity Report

to the Exchange's MarketWatch Department that includes the information required by subparagraph (d)(2).

(2) In lieu of submitting the Underwriting Activity Report as set forth in subparagraph (d)(1), the market maker may provide written confirmation to MarketWatch that shall include:

(A) the identity of the security and its symbol;

(B) the contemplated effective date of the offering and the date when the offering will be priced;

(C) the date and time that an identifier should be included on the Exchange; and

(D) a copy of the cover page of the preliminary or final prospectus or similar offering document, unless the Exchange determines otherwise.

\* \* \* \* \*

### **Rule 3217. Normal Business Hours**

The System operates from 8:00 a.m. to 5:00 p.m. Eastern Time on each business day, unless modified by the Exchange. A PSX Market Maker shall be open for business as of 9:30 a.m. Eastern Time and shall close no earlier than 4:00 p.m. Eastern Time. A PSX Market Maker may voluntarily open for business prior to 9:30 a.m. and remain open for business later than 4:00 p.m. Eastern Time. PSX Market Makers whose quotes are open prior to 9:30 a.m. Eastern Time or after 4:00 p.m. Eastern Time shall be obligated to comply, while their quotes are open, with all PSX Rules that are not by their express terms, or by an official interpretation of the Exchange, inapplicable to any part of the 8:00 a.m. to 9:30 a.m. or 4:00 p.m. to 5:00 p.m. Eastern Time period.

\* \* \* \* \*

### **Rule 3219. [Reserved] Withdrawal of Quotations**

(a) Except as provided in paragraph (b) of this Rule, a market maker that wishes to withdraw quotations in a security shall contact the Exchange's MarketWatch Department to obtain excused withdrawal status prior to withdrawing its quotations. Withdrawals of quotations shall be granted by MarketWatch only upon satisfying one of the conditions specified in this Rule.

(b) A PSX Market Maker that wishes to obtain excused withdrawal status based on a market maker's systemic equipment problems, such as defects in a PSX Market Maker's software or hardware systems or connectivity problems associated with the circuits connecting PSX systems with the PSX Market Maker's systems, shall contact Exchange Market Operations. Exchange Market Operations may grant excused withdrawal status based on systemic equipment problems for up to five (5) business days, unless extended by Exchange Market Operations.

(c) A PSX Market Maker that wishes to withdraw quotations shall contact the Exchange's MarketWatch Department to obtain excused withdrawal status prior to withdrawing its quotations. Excused withdrawal status based on illness, vacations or physical circumstances beyond the PSX Market Maker's control may be granted for up to five (5) business days, unless extended by MarketWatch. Excused withdrawal status based on investment activity or advice of legal counsel, accompanied by a representation that the condition necessitating the withdrawal of quotations is not permanent in nature, may, upon written request, be granted for not more than sixty (60) days. The withdrawal of quotations because of pending news, a sudden influx of orders or price changes, or to effect transactions with competitors shall not normally constitute acceptable reasons for granting excused withdrawal status, unless the Exchange has initiated a trading halt for market makers in the security, pursuant to Rule 3100.

(d) Excused withdrawal status may be granted to a PSX Market Maker that fails to maintain a clearing arrangement with a registered clearing agency or with a member of such an agency and is withdrawn from participation in the trade reporting service of PSX, thereby terminating its registration as a PSX Market Maker; provided, however, that if the Exchange finds that the PSX Market Maker's failure to maintain a clearing arrangement is voluntary, the withdrawal of quotations will be considered voluntary and unexcused pursuant to Rule 3220 and the Rule 3300 Series governing PSX. PSX Market Makers that fail to maintain a clearing relationship will have their PSX system status set to "suspend" and be thereby prevented from entering, or executing against, any quotes/orders in the system.

(e) Excused withdrawal status may be granted to a PSX Market Maker that is a distribution participant (or, in the case of excused withdrawal status, an affiliated purchaser) in order to comply with SEC Rule 101 or 104 under the Act on the following conditions:

(1) A member acting as a manager (or in a similar capacity) of a distribution of a security that is a subject security or reference security under SEC Rule 101 and any member that is a distribution participant or an affiliated purchaser in such a distribution that does not have a manager shall provide written notice to the Exchange's MarketWatch Department and the Market Regulation Department of FINRA no later than the business day prior to the first entire trading session of the one-day or five-day restricted period under SEC Rule 101, unless later notification is necessary under the specific circumstances.

(A) The notice required by subparagraph (e)(1) of this Rule shall be provided by submitting a completed Underwriting Activity Report that includes a request on behalf of each PSX Market Maker that is a distribution participant or an affiliated purchaser to withdraw the PSX Market Maker's quotations and includes the contemplated date and time of the commencement of the restricted period.

(B) The managing underwriter shall advise each PSX Market Maker that it has been identified as a distribution participant or an affiliated purchaser to MarketWatch and that its quotations will be automatically withdrawn, unless a market maker that is a distribution participant (or an affiliated purchaser of a distribution participant) notifies MarketWatch as required by subparagraph (e)(2), below.

(2) A PSX Market Maker that has been identified to MarketWatch as a distribution participant (or an affiliated purchaser of a distribution participant) shall promptly notify MarketWatch and the manager of its intention not to participate in the prospective distribution in order to avoid having its quotations withdrawn.

(3) If a PSX Market Maker that is a distribution participant withdraws its quotations in order to comply with any provision of SEC Regulation M and promptly notifies MarketWatch of its action, the withdrawal shall be deemed an excused withdrawal. Nothing in this subparagraph shall prohibit the Exchange from taking such action as is necessary under the circumstances against a member and its associated persons for failure to contact MarketWatch to obtain an excused withdrawal as required by subparagraphs (a) and (e) of this Rule.

(4) A member acting as a manager (or in a similar capacity of a distribution subject to subparagraph (e)(1)) of this Rule shall submit a request to MarketWatch and the Market Regulation Department of FINRA to rescind the excused withdrawal status of distribution participants and affiliated purchasers, which request shall include the date and time of the pricing of the offering, the offering price, and the time the offering terminated, and, if not in writing, shall be confirmed in writing no later than the close of business the day the offering terminates. The request by this subparagraph may be submitted on the Underwriting Activity Report.

(f) The Market Operations Review Committee shall have jurisdiction over proceedings brought by PSX Market Makers seeking review of the denial of an excused withdrawal pursuant to this Rule 4619, or the conditions imposed on their reentry.

#### **Rule 3220. [Reserved] Voluntary Termination of Registration**

(a) A market maker may voluntarily terminate its registration in a security by withdrawing its two-sided quotation from PSX. A PSX Market Maker that voluntarily terminates its registration in a security may not re-register as a market maker for one (1) business day. Withdrawal from participation as a PSX Market Maker shall constitute termination of registration as a market maker in that security for purposes of this Rule; provided, however, that a PSX Market Maker that fails to maintain a clearing arrangement with a registered clearing agency or with a member of such an agency and is withdrawn from participation in the PSX and thereby terminates its registration as a PSX Market Maker may register as a market maker at any time after a clearing arrangement has been reestablished unless the Exchange finds that the PSX Market Maker's failure to maintain a clearing arrangement is voluntary, in which case the withdrawal of quotations will be considered voluntary and unexcused.

(b) Notwithstanding the above, a PSX Market Maker that accidentally withdraws as a PSX Market Maker may be reinstated if:

(1) the PSX Market Maker notified the Exchange's MarketWatch Department of the accidental withdrawal as soon as practicable under the circumstances, but within at least one hour of such withdrawal, and immediately thereafter provided written notification of the withdrawal and reinstatement request;

(2) it is clear that the withdrawal was inadvertent and the market maker was not attempting to avoid its market making obligations; and

(3) the PSX Market Maker's firm would not exceed the following reinstatement limitations:

(A) for firms that simultaneously made markets in less than 250 stocks during the previous calendar year, the firm can receive no more than two (2) reinstatements per year;

(B) for firms that simultaneously made markets in 250 or more but less than 500 stocks during the previous calendar year, the firm can receive no more than three (3) reinstatements per year; and

(C) for firms that simultaneously made markets in 500 or more stocks during the previous calendar year, the firm can receive no more than six (6) reinstatements per year.

(c) Factors that the Exchange will consider in granting a reinstatement under paragraph (b) of this rule include, but are not limited to:

(1) the number of accidental withdrawals by the PSX Market Maker in the past, as compared with PSX Market Makers making markets in a comparable number of stocks;

(2) the similarity between the symbol of the stock that the PSX Market Maker intended to withdraw from and the symbol of the stock that the PSX Market Maker actually withdrew from;

(3) market conditions at the time of the withdrawal;

(4) whether, given the market conditions at the time of the withdrawal, the withdrawal served to reduce the exposure of the member's position in the security at the time of the withdrawal to market risk; and

(5) the timeliness with which the PSX Market Maker notified MarketWatch of the error.

(d) For purposes of paragraph (a) of this Rule, a market maker shall not be deemed to have voluntarily terminated its registration in a security by voluntarily withdrawing its two-sided quotation from PSX if the PSX Market Maker's two-sided quotation in the subject security is withdrawn by the Exchange's systems due to issuer corporate action related to a dividend, payment or distribution, or due to a trading halt, and one of the following conditions is satisfied:

(1) the PSX Market Maker enters a new two-sided quotation prior to the close of the regular market session on the same day when the Exchange's systems withdrew such a quotation;

(2) the PSX Market Maker enters a new two-sided quotation on the day when trading resumes following a trading halt, or, if the resumption of trading occurs when the market is not in regular session, the PSX Market Maker enters a new two-sided quotation prior to the opening of the next regular market session; or

(3) upon request from the market maker, MarketWatch authorizes the market maker to enter a new two-sided quotation, provided that MarketWatch receives the market maker's request prior to the close of the regular market session on the next regular trading day after the day on which the market maker became eligible to re-enter a quotation pursuant to subparagraph (d)(1) or (d)(2) hereof and determines that the market maker was not attempting to avoid its market making obligations by failing to re-enter such a quotation earlier.

(e) The Market Operations Review Committee shall have jurisdiction over proceedings brought by market makers seeking review of their denial of a reinstatement pursuant to paragraphs (b) or (d) of this Rule.

### **Rule 3221. Suspension and Termination of Quotations and Order Entry**

The Exchange may, pursuant to the procedures set forth in Disciplinary Rules of the Exchange (Rules 960.1 through 960.12), suspend, condition, limit, prohibit or terminate the authority of an PSX Participant to enter quotations or orders in one or more authorized securities for violations of applicable requirements or prohibitions.

\* \* \* \* \*

### **Rule 3224. [Reserved] Penalty Bids and Syndicate Covering Transactions**

(a) A PSX Market Maker acting as a manager (or in a similar capacity) of a distribution of a security that is a subject or reference security under SEC Rule 101 shall provide written notice to the Corporate Financing Department of FINRA of its intention to impose a penalty bid on syndicate members or to conduct syndicate covering transactions pursuant to SEC Rule 104 prior to imposing the penalty bid or engaging in the first syndicate covering transaction. A PSX Market Maker that intends to impose a penalty bid on syndicate members may request that its quotation be identified as a penalty bid on the Exchange pursuant to paragraph (c) below.

(b) The notice required by paragraph (a) shall include:

(1) the identity of the security and its symbol;

(2) the date the member is intending to impose the penalty bid and/or conduct syndicate covering transactions.

(c) Notwithstanding paragraph (a), a PSX Market Maker may request that its quotation be identified as a penalty bid on the Exchange by providing notice to the Exchange's MarketWatch Department, which notice shall include the date and time that the penalty bid identifier should be entered on the Exchange and, if not in writing, shall be confirmed in writing no later than the close of business the day the penalty bid identifier is entered on the Exchange.

(d) The written notice required by this Rule may be submitted on the Underwriting Activity Report.



**Rule 3225. Obligation to Provide Information**

(a) An Exchange member organization operating in or participating in PSX shall provide information orally, in writing, or electronically (if such information is, or is required to be, maintained in electronic form) to Exchange staff when staff makes an oral, written, or electronically communicated request for information relating to a specific Exchange Rule, SEC rule, or provision of a joint industry plan (e.g., UTP, CTA, and CQA) (as promulgated and amended from time-to-time) that the Exchange is responsible for administering or to other duties and/or obligations imposed on the Exchange; this shall include, but not be limited to, information relating to:

(A) a locked or crossed market; or

(B) trading activity, rumors, or information that a member or member organization may possess that may assist in determining whether there is a basis to initiate a trading halt, pursuant to Rule 3100; or

(C) a clearly erroneous transaction, pursuant to Rule 3312; or

(D) a request for an excused withdrawal or reinstatement, pursuant to Rules 3219 or 3220; or

(E) trade-throughs; or

(F) a request to submit a stabilizing bid, pursuant to Rule 3214, or a request to have a quotation identified as a penalty bid, pursuant to Rule 3224; or

[(E)] (G) information relating to an equipment failure.

(b) No change.

**Rule 3226. Limitation of Liability**

(a) Except as provided for in paragraph (b) below, the Exchange and its affiliates shall not be liable for any losses, damages, or other claims arising out of PSX or its use. Any losses, damages, or other claims, related to a failure of PSX to deliver, transmit, execute, compare, submit for clearance and settlement, adjust, retain priority for, or otherwise correctly process an order, quote/order, message, or other data entered into, or created by, PSX shall be absorbed by the member organization, or the member organization sponsoring the customer, that entered the order, quote/order, message, or other data into PSX.

(b) The Exchange, subject to the express limits set forth below, may compensate users of PSX for losses directly resulting from the System's actual failure to correctly process an order, quote/order, message, or other data, provided PSX has acknowledged receipt of the order, quote/order, message, or data.

(1) – (3) No change.

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### **Rule 3230. Trading in Commodity-Related Securities**

(a) – (c) No change.

(d) Information Barriers. A member acting as a registered market maker in a Commodity-Related Security is obligated to establish adequate information barriers when such market maker engages in inter-departmental communications. Members should refer to NASD/NYSE Joint Memo on Chinese Wall Policies and Procedures (NASD Notice to Members 91-45) for guidance on the “‘minimum elements’ of adequate Chinese Wall policy and procedures.” For purposes of a Commodity-Related Security only, “inter-departmental communications” shall include communications to other departments within the same firm or the firm’s affiliates that involve trading in commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives underlying such Commodity-Related Security.

(e) Market Maker Accounts. A member acting as a registered market maker in a Commodity-Related Security must file with the Exchange’s Regulation Department in a manner prescribed by such Department and keep current a list identifying all accounts for trading in commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives underlying such Commodity-Related Security, in which the market maker holds an interest, over which it may exercise investment discretion, or in which it shares in the profits and losses. No market maker shall trade in, or exercise investment discretion with respect to, such underlying commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives, in an account in which a market maker, directly or indirectly, controls trading activities, or has an interest in the profits or losses thereof, that has not been reported as required by this Rule. A member acting as a registered market maker in a Commodity-Related Security shall not act or register as a market maker in any commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives underlying such Commodity-Related Security.

(f) The member acting as a registered market maker in a Commodity-Related Security shall make available to the Exchange’s Regulation Department such books, records or other information pertaining to transactions by such entity or registered or non-registered employees affiliated with such entity for its or their own accounts for trading commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives underlying such Commodity-Related Security, as may be requested by the Regulation Department.

(g) In connection with trading a Commodity-Related Security or commodities, futures contracts, options on futures contracts, forward contracts, commodity swaps, or other related derivatives underlying a Commodity-Related Security, the member acting as a market maker in a Commodity-Related Security shall not use any material nonpublic information received from any person associated with the member or employee of such person regarding trading by such person or employee in the commodities, futures contracts, options on futures contracts, forward

contracts, commodity swaps, or other related derivatives underlying such Commodity-Related Security.

[(d)] (h) The Exchange requires that members and member organizations provide all purchasers of a newly issued Commodity-Related Security a prospectus for such Commodity-Related Security.

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### **Rule 3300. Execution Services**

### **Rule 3301. Definitions**

The following definitions apply to the Rule 3200 and 3300 Series for the trading of securities on PSX.

(a) The term “PSX,” or “System” shall mean the automated system for order execution and trade reporting owned and operated by the Exchange. The Exchange will operate PSX as an automated trading center for purposes of rule 600(b)(4) of Regulation NMS. PSX comprises:

(1) – (2)

(3) a data feed(s) that can be used to display with[out] attribution to PSX Participants’ MPIDs all Quotes and Displayed [displayed] Orders on both the bid and offer side of the market for all price levels then within the PSX Market.

(b) No change.

(c) The term “PSX Participant” or “Participant” shall mean an entity that fulfills the obligations contained in Rule 3211 regarding participation in the System, and shall include:

(1) “Equities ECNs,” which are member organizations that meet all of the requirements of Rule 3223, and that participate in the System with respect to one or more System Securities; [and]

(2) “PSX Market Makers” or “Market Makers”, members that are registered as PSX Market Makers for purposes of participation in the System on a fully automated basis with respect to one or more System securities; and

[(2)] (3) “Order Entry Firms,” which are member organizations that are registered for the purposes of entering orders in System Securities into the System. This term shall also include any Electronic Communications Network or Alternative Trading System that fails to meet all of the requirements of Rule 3223.

(d) [Reserved.] With respect to System-provided quotation functionality:

(1) The term “Quote” shall mean a single bid or offer quotation submitted to the System and designated for display (price and size) next to the Participant’s MPID by a Participant that is eligible to submit such quotations.

(2) The term “Reserve Size” shall mean the System-provided functionality that permits a Participant to display in its Displayed Quote part of the full size of a proprietary or agency order, with the remainder held in reserve on an undisplayed basis. Both the displayed and non-displayed portions are available for potential execution against incoming orders. If the Displayed Quote is reduced to less than a normal unit of trading, the System will replenish the display portion from reserve up to at least a single round-lot amount. A new timestamp is created for the replenished portion of the order each time it is replenished from reserve, while the reserve portion retains the time-stamp of its original entry.

(e) The term “Order” shall mean a single order or multiple orders at the same price submitted to the System by a Participant that is eligible to submit such orders and shall include:

(1) “Attributable Orders,” which are orders that are designated for display (price and size) next to the Participant’s MPID;

[~~(1)~~] (2) “Displayed Orders,” which are orders that are entered by a Participant that are designated for display (price and size) on an anonymous basis in the order display service of the System; and

[~~(2)~~] (3) “Non-Displayed Orders,” which are limit orders that are not displayed in the System, but nevertheless remain available for potential execution against all incoming orders until executed in full or cancelled.

(f) The term “Order Type” shall mean the unique processing prescribed for designated orders that are eligible for entry into the System, and shall include:

(1) – (4) No change.

(5) “Minimum Quantity Orders” are orders that will not execute unless a specified minimum quantity of shares can be obtained. A Minimum Quantity Order that posts to the Exchange book will be a Non-Displayed Order, and upon entry must have a size and a minimum quantity condition of at least one round lot. In the event that the shares remaining in the size of the order following a partial execution thereof are less than the minimum quantity specified by the market participant entering the order, the minimum quantity value of the order will be reduced to the number of shares remaining. [If the size of a Minimum Quantity Order is reduced to less than one round lot due to a partial execution, the minimum quantity condition on the order will be removed.]

(6) No change.

(7) [Reserved.] “Midpoint Peg Post-Only Orders” are orders that are priced in the same manner as Midpoint Peg Orders. Upon entry, a Midpoint Peg Post-Only Order will always post to the book unless it is a buy (sell) order that is priced higher than (lower than) a resting sell (buy) order, in which case it will execute at the price of the resting order. Midpoint Peg Post-Only Orders must always have a price of more than \$1 per share. A Midpoint Peg Post-Only Order that would be assigned a price of \$1 or less per share will be rejected or cancelled, as applicable. Midpoint Peg Post-Only Orders are eligible for entry and execution during regular market hours only, and any Midpoint Peg Post-Only Orders resting on the book at 4:00 pm will be cancelled.

While a Midpoint Peg Post-Only Order that posts to the book is locking a preexisting non-displayed order, the Midpoint Peg Post-Only Order will execute against an incoming order only if the price of the incoming buy (sell) order is higher (lower) than the price of the pre-existing order.

(8) No change.

(9) “Price to Comply Post Order” are orders that, if, at the time of entry, a Price to Comply Post Order would create a violation of Rule 610(d) of Regulation NMS under the Act by locking or crossing the protected quotation of an external market or would cause a violation of Rule 611 of Regulation NMS under the Act, the order will be re-priced and displayed by the System to one minimum price increment (i.e., \$0.01 or \$0.0001) below the current low offer (for bids) or to one penny above the current best bid (for offers). Price to Comply Post Orders will not be routed outside of the System.

[(9)] (10) “Unpriced Orders” are any order types permitted by the System to buy or sell shares of a security at the national best bid (best offer) (“NBBO”) at the time when the order reaches the System. Any portion of an Unpriced Order that would execute on the System at a price more than \$0.25 or 5 percent worse than the NBBO at the time when the order reaches the System, whichever is greater, will be cancelled.

[(10)] (11) “Post-Only Orders” are evaluated at the time of entry with respect to locking or crossing other orders as follows: (i) if a Post-Only Order would lock or cross an order on the System, the order will be re-priced and displayed by the System to one minimum price increment (i.e., \$0.01 or \$0.0001) below the current low offer (for bids) or above the current best bid (for offers) unless the value of price improvement associated with executing against a resting order equals or exceeds the sum of fees charged for such execution and the value of any rebate that would be provided if the order posted to the book and subsequently provided liquidity, in which case the order will execute; and (ii) if a Post-Only Order would not lock or cross an order on the System but would lock or cross the national best bid or offer as reflected in the protected quotation of another market center, the order will be priced to the current best offer (for bids) or to the current best bid (for offers) and displayed by the System to one minimum price increment (i.e., \$0.01 or \$0.0001) below the current low offer (for bids) or above the current best bid (for offers).

[(11) “Minimum Life Orders” are orders that may not be cancelled by the entering participant for a period of 100 milliseconds following receipt by the Exchange. All Minimum Life Orders must be designated as Displayed Orders.]

(g) The term “Order Size” shall mean the number of shares up to 999,999 shares associated with a Quote or an Order and shall include:

(1) – (3) No change.

(h) – (i) No change.

\* \* \* \* \*

### **Rule 3305. Order Entry Parameters**

(a) System Orders

(1) General— Only orders for NMS stocks may be entered and executed through PSX. PSX is the only venue on the Exchange for the entry and execution of orders in NMS stocks. A System order is an order that is entered into the System for display and/or execution as appropriate. Such orders are executable against marketable contra-side orders in the System.

(A) No change.

(B) A System order may also be designated with one or more of the following designations: a Discretionary Order, a Limit Order, a Reserve Order, a Pegged Order, a Displayed Order, a Non-Displayed Order, a Minimum Quantity Order, an Intermarket Sweep Order, a Price to Comply Order, a Price to Comply Post Order, a Post-Only Order, or a [Minimum Life Order] Midpoint Peg Post-Only Order.

(C) No change.

(2) – (3) No change.

(b) No change.

### **Rule 3306. Entry and Display of Quotes and Orders**

(a) Entry of Orders—Participants can enter orders into the System, subject to the following requirements and conditions:

(1) No change.

(2) The System shall time-stamp an order, [but the timestamp will not be used for purposes of determining the priority of the order in the System’s order processing algorithm] which shall determine the time ranking of the order for purposes of processing the order.

(3) No change.

(b) [Reserved] Entry or Quotes—PSX Market Makers, Order Entry Firms, and Equities ECNs can enter Quotes into the system from 8:00 a.m. to 5:00 p.m. Eastern Time. When open, Quotes will be processed as System Hours Day Orders (SDAY). Entry of Quotes will be subject to the requirements and conditions set forth in section (a) above.

(c) Display of Quotes and Orders—The System will display quotes and orders submitted to the System as follows:

(1) System Book Feed—Quotes and [o]Orders resident in the System available for execution will be displayed via the System Book Feed.

(2) Best Priced Order Display—For each System Security, the aggregate size of all Quotes and Orders at the best price to buy and sell resident in the System will be transmitted for display to the appropriate network processor, unless the aggregate size is less than one round lot in which case the aggregate size will be displayed in the System Book Feed but not be transmitted to a network processor.

(3) Exceptions—The following exceptions shall apply to the display parameters set forth in paragraphs (1) and (2) above:

(A) – (B) No change.

(C) Non-Displayed Orders—Non-Displayed Orders are not displayed in the System, and have lower priority within the System than an equally priced Displayed Order, regardless of [size] time stamp, and shall be executed pursuant to Rule 3307.

(4) No change.

### **Rule 3307. Book Processing**

[(a)] System orders shall be executed through the PSX Book Process set forth below:

[(1)] (a) Execution Algorithm - Price/[Display/Pro-Rata Allocation to Size]Time—The System shall execute equally priced or better priced trading interest within the System in price/time priority in the following order:

(1) Displayed Orders; and

(2) Non-Displayed Orders and the reserve portion of Quotes and Reserve Orders, in price/time priority among such interest.

(3) Exception: Anti-Internalization - Market participants may direct that quotes/orders entered into the System not execute against quotes/orders entered under the same MPID, or under the

same MPID and with a unique group identification modifier that represents a group of quotes/orders from the same MPID. In such a case, a market participant may elect, at the MPID or order entry port, from the following options;

(A) if the interacting quotes/orders from the same MPID (or order entry port) are equivalent in size, both orders will be cancelled back to their entering parties. If the interacting quotes/orders from the same MPID (or order entry port) are not equivalent in size, share amounts equal to the size of the smaller of the two quotes/orders will be cancelled back to their originating parties with the remainder of the larger quote/order being retained by the System for potential execution; or

(B) regardless of the size of the interacting quotes/orders, cancelling the oldest of them in full.

[(A) Price—Better priced trading interest will be executed ahead of inferior-priced trading interest;]

[(B) Display—Displayed Orders at a particular price with a size of at least one round lot will be executed ahead of Non-Displayed Orders, the reserve portion of Reserve Orders, and odd-lot orders at the same price;]

[(C) Pro-Rata Allocation to Size Among Displayed Orders with a Size of One Round Lot or More—As among equally priced Displayed Orders with a size of at least one round lot, the System will allocate round lot portions of incoming executable orders to displayed trading interest within the System pro rata based on the size of the Displayed Orders. Portions of an order that would be executed in a size other than a round lot if they were allocated on a pro rata basis will be allocated for execution against available displayed trading interest on the basis of a random function that assigns probability of execution based on the size of displayed interest.]

[Example:

Displayed orders to buy at 10 reside on the PSX book with sizes of 6,000 (Participant A) and 4,000 (Participant B).

Incoming order to sell 1,100 at 10 comes into the System.

The System allocates 600 shares of the incoming order to Participant A and 400 shares of the incoming order to Participant B.

The remaining 100 shares of the incoming order are allocated on the basis of a random function that assigns a 60% probability of executing the 100 shares to Participant A and a 40% probability to Participant B.]

[(D) Displayed Odd-Lot Orders—As among equally priced Displayed Orders with a size of less than one round lot, the System will allocate incoming orders based on the size of the Displayed Orders, but not in pro rata fashion. Thus, a larger odd-lot order would be filled before a smaller odd-lot order. If there are two or more odd lot orders of equal size, the System will determine the



order of execution on the basis of a random function that assigns each order an equal probability of execution.]

[(E) Pro-Rata Allocation to Size Among Non-Displayed Interest with a Size of One Round Lot or More—As among equally priced Non-Displayed Orders and the reserve portion of Reserve Orders (collectively, “Non-Displayed Interest”) with a size of at least one round lot, the System will allocate round lot portions of incoming executable orders to Non-Displayed Interest within the System pro rata based on the size of Non-Displayed Interest. Portions of an order that would be executed in a size other than a round lot if they were allocated on a pro rata basis will be allocated for execution against available Non-Displayed Interest on the basis of a random function that assigns probability of execution based on the size of Non-Displayed Interest.]

[(F) Minimum Quantity Orders—As among equally priced Minimum Quantity Orders, the System will allocate incoming executable orders to Minimum Quantity Orders within the System in the ascending order of the size of the minimum quantity conditions assigned to the orders. Thus, an order with a minimum quantity condition of 300 shares will be filled before an order with a minimum quantity condition of 400 shares. If there are two or more Minimum Quantity Orders with an equal minimum quantity condition, the System will determine the order of execution on the basis of a random function that assigns each order an equal probability of execution.]

[(G) Non-Displayed Odd-Lot Orders—As among equally priced Non-Displayed Interest with a size of less than one round lot, the System will allocate incoming orders based on the size of the Non-Displayed Interest, but not in pro rata fashion. Thus, a larger odd-lot order would be filled before a smaller odd-lot order. If there are two or more odd lot orders of equal size, the System will determine the order of execution on the basis of a random function that assigns each order an equal probability of execution.]

[(2)] (b) Decrementation—Upon execution, an order shall be reduced by an amount equal to the size of that execution.

[(3)] (c) Price Improvement—Any potential price improvement resulting from an execution in the System shall accrue to the taker of liquidity.

Example:

Buy order resides on book at 10.

Incoming order to sell priced at 9 comes into the System

Order executes at 10 (seller get \$1 price improvement)

[(4) Exception: Anti-Internalization - Market participants may direct that orders entered into the System not execute against orders entered under the same MPID, or under the same MPID and with a unique group identification modifier that represents a group of orders from the same MPID. In such a case, share amounts equal to the size of the portion of an incoming order that is

designated by the order execution algorithm to interact with an order already in the System with the same MPID, or under the same MPID and with a unique group identification modifier that represents a group of orders from the same MPID, will be decremented from each order.]

\* \* \* \* \*

**Rule 3310. Anonymity**

(a) No change.

(b) The Exchange shall reveal a Participant's identity in the following circumstances:

(1) – (3) No change.

(4) Unless otherwise instructed by a member organization, the Exchange will reveal to a member organization, no later than the end of the day on the date an anonymous trade was executed, when the member organization's quote or order has been decremented by another quote or order submitted by that same member organization.