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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72546; File No. SR-Phlx-2014-40)

July 7, 2014

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Eliminate the Midpoint Peg Post-Only Order and Modify the Minimum Quantity Order on NASDAQ OMX PSX

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on June 23, 2014, 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 Substance of the Proposed Rule Change

The Exchange proposes to eliminate the Midpoint Peg Post-Only Order and to modify the functioning of the Minimum Quantity Order on 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 the places specified in

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

Phlx is proposing two modifications to order types on PSX. First, Phlx is proposing to eliminate the Midpoint Peg Post-Only Order. Like a regular Midpoint Pegged 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"). 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 posts and locks the pre-existing order, but remains undisplayed. If a Midpoint Peg Post-Only Order would cross a pre-existing order, however, the crossing orders will execute. A Midpoint Peg Post-Only Order that posts to the book and locks a pre-existing non-displayed order executes 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. If a Midpoint Pegged Order and a Midpoint Peg Post-Only Order are locked, and a Midpoint Pegged Order is entered on the same side of the market as the Midpoint Peg Post-Only Order, the new order executes against the original Midpoint Pegged Order, 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.

In a pricing environment characterized by fees on one side of a trade being used to fund rebates on the other side, the Midpoint Peg Post-Only Order and similar orders were introduced on PSX and various other markets to allow market participants to structure their trading activity in a manner that is more likely to avoid a fee and earn a rebate. In exchange, the party entering

the order also generally provides price improvement to its counterparty. In order to simplify order processing and evaluate the effect of the order type on overall market quality, however, PSX is proposing to eliminate the Midpoint Peg Post-Only Order, while retaining the Midpoint Pegged Order as a means by which market participants may offer hidden liquidity with price improvement at the midpoint between the NBBO.³

Phlx is also proposing to modify the functioning of PSX's Minimum Quantity Order. A Minimum Quantity Order is an order that will not execute unless a specified minimum quantity of shares can be obtained. Minimum Quantity Orders are not displayed, 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 is reduced to the number of shares remaining. Phlx is proposing to modify this final condition, so that if the shares remaining in the size of the order are less than one round lot, the minimum quantity condition will be removed from the order. The change will simplify processing of Minimum Quantity Orders by ensuring that once a partially executed order is reduced in size to less than one round lot (generally 100 shares), no restrictions prevent execution of the remainder of the order. The change is also consistent with the existing requirement that a Minimum Quantity Order must be entered with a size and a minimum quantity restriction of at least one round lot. Phlx believes that the change will improve the efficiency of order processing on PSX by limiting the extent to which small Minimum Quantity Orders remain on the PSX book.

³ In addition to eliminating the order description from Rule 3301, Phlx is also making conforming changes to Rule 3305 and the NASDAQ OMX PHLX LLC Pricing Schedule.

Phlx proposes to implement the rule change on or shortly after a date that is thirty days after the date of this proposed rule change, and will notify members of the date of implementation through a widely disseminated notice.

2. Statutory Basis

Phlx believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,⁴ in general, and with Section 6(b)(5) of the Act,⁵ 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.

Although the availability of the Midpoint Peg Post-Only Order is consistent with the Act because the order type was designed to provide market participants with better control over their execution costs and to provide a means to offer price improvement opportunities, Phlx believes that the elimination of the order type, together with the continued availability of the Midpoint Pegged Order are likewise consistent with the Act. Specifically, the proposal would allow market participants that seek to provide liquidity at the midpoint between the NBBO to use the Midpoint Pegged Order to do so. Accordingly, the change is designed to facilitate 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, by reducing

⁴ 15 U.S.C. 78f.

⁵ 15 U.S.C. 78f(b)(5).

the complexity of order-type interaction on PSX while still allowing for liquidity provision with price improvement at the midpoint.

The proposed change to Minimum Quantity Orders is consistent with the Act because it will promote the complete execution of partially executed Minimum Quantity Orders once the order is reduced in size to less than one round lot. The change will thereby remove impediments to a free and open market by promoting order interaction and reducing the complexity of PSX's order processing.

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. The change to eliminate the Midpoint Peg Post-Only Order will provide a means by which PSX may distinguish itself from trading venues that offer orders similar to the Midpoint Peg Post-Only Order. Accordingly, the change has the potential to promote competition by allowing PSX to differentiate itself from other trading venues. Similarly, the proposed change to the Midpoint Peg Post-Only Order and Minimum Quantity Orders has the potential to promote competition by enhancing the efficiency of PSX's processing of orders. In both instances, the changes would not affect the ability of market participants to avail themselves of alternative order-type processing at other trading venues, and therefore would not impose any burden on competition.

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

Written comments were neither solicited nor received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act⁶ and subparagraph (f)(6) of Rule 19b-4 thereunder.⁷

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or 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

⁶ 15 U.S.C. 78s(b)(3)(a)(ii) [sic].

⁷ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2014-40 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-Phlx-2014-40. 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 website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal offices of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File Number SR-Phlx-2014-40, 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.⁸

Kevin M. O'Neill
Deputy Secretary

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⁸ 17 CFR 200.30-3(a)(12).