OMB APPROVAL
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2013 - * 095
Amendment No. (req. for Amendments *)

Filing by NASDAQ Stock Market

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

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

Pilot	Extension of Time Period for Commission Action *	Date Expires *
☐	☐	

Rule

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

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

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

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

Section 3C(b)(2) ☐

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

Description

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

A proposal to amend Chapter V, Section 6, Obvious Errors, of the Rules of the NASDAQ Options Market regarding catastrophic errors.

Contact Information

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

First Name * Edith Last Name * Hallahan
Title * Principal Associate General Counsel
E-mail * edith.hallahan@nasdaqomx.com
Telephone * (215) 496-5179 Fax (215) 496-6729

Signature

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

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

Date 07/19/2013
By Edward S. Knight
(Name *)

(Title *)
Executive Vice President and General Counsel

Edward S Knight,

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

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

1. Text of the Proposed Rule Change

(a) Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] The NASDAQ Stock Market LLC ("NASDAQ" or "Exchange") proposes to amend Chapter V, Section 6, Obvious Errors, of the Rules of the NASDAQ Options Market ("NOM"). Specifically, NASDAQ proposes to amend Section 6(f)(iii) to permit the nullification of trades involving catastrophic errors in certain situations specified below.

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

NASDAQ Stock Market Rules

* * * * *

Options Rules

* * * * *

Chapter V Regulation of Trading on NOM

* * * * *

Sec. 6 Obvious <u>and Catastrophic</u> Errors

(a) – (e) No change.

(f) *Catastrophic Errors*

(i) – (ii) No change.

(iii) *Adjust or Bust.* A Nasdaq Official will determine whether there was a Catastrophic Error as defined above. If it is determined that a Catastrophic Error has occurred, whether

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

2 17 CFR 240.19b-4.

or not each party to the transaction is an Options Participant, MarketWatch shall adjust the execution price of the transaction, unless both parties agree to adjust the transaction to a different price, to the theoretical price (i) plus the adjustment value provided below for erroneous buy transactions, and (ii) minus the adjustment value provided for erroneous sell transactions, pursuant to the following chart; provided that the adjusted price would not exceed the limit price of a Public Customer's limit order, in which case the Public Customer would have 20 minutes from notification of the proposed adjusted price to accept it or else the trade will be nullified:

Theoretical Price	**Minimum Amount**
Below $2	$1
$2 to $5	$2
Above $5 to $10	$3
Above $10 to $50	$5
Above $50 to $100	$7
Above $100	$10

Upon taking final action, MarketWatch shall promptly notify both parties to the trade electronically or via telephone.

(g) No change.

* * * * *

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

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

Questions and comments on the proposed rule change may be directed to Edith Hallahan, Principal Associate General Counsel, The NASDAQ OMX Group, Inc., at 215-496-5179.

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

a. Purpose

The purpose of the proposal is to help market participants better manage their risk by addressing the situation where, under current rules, a trade can be adjusted to a price outside of a Public Customer's limit. Specifically, the Exchange proposes to amend Chapter V, Section 6(f) to enable a Public Customer who is the contra-side to a trade that is deemed to be a catastrophic error to have the trade nullified in instances where the adjusted price would violate the Public Customer's limit price. Only if the Public Customer, or his agent, affirms the customer's willingness to accept the adjusted price through the customer's limit price within 20 minutes of notification of the catastrophic error ruling would the trade be adjusted; otherwise it would be nullified. Today, all catastrophic error trades are adjusted, not nullified, on all of the options exchanges, except on NASDAQ OMX PHLX LLC ("PHLX"), on whose provision this proposal is modeled.[3]

Background

Currently, Chapter V, Section 6 governs obvious and catastrophic errors. Obvious errors are calculated under the rule by determining a theoretical price and determining, based on objective standards, whether the trade should be nullified or adjusted. The rule also contains a process for requesting an obvious error review. Certain more substantial errors may fall under the category of a catastrophic error, for which a longer time period is permitted to request a review and for which trades can only be adjusted (not nullified). Trades are adjusted pursuant to an adjustment table that, in

[3] See PHLX Rule 1092(f)(ii). Securities Exchange Act Release No. 69304 (April 4, 2013), 78 FR 21482 (April 10, 2013) (SR-Phlx-2013-05).

effect, assesses an adjustment penalty. By adjusting trades above or below the theoretical price plus or minus a certain amount, the rule assesses a ‘‘penalty’’ in that the adjustment price is not as favorable as the amount the party making the error would have received had it not made the error.

Proposal

At this time, the Exchange proposes to change the catastrophic error process to permit certain trades to be nullified. The definition and calculation of a catastrophic error would not change.[4] Once a catastrophic error is determined by a NASDAQ Official, then if both parties to the trade are not a Public Customer,[5] the trade would be adjusted under the current rule. If one of the parties is a Public Customer, then the adjusted price would be compared to the limit price of the order. If the adjusted price would violate the limit price (in other words, be higher than the limit price if it is a buy order and lower than the limit price if it is a sell order), then the Public Customer would be offered an opportunity to nullify the trade. If the Public Customer (or the Public Customer’s broker-dealer agent) does not respond within 20 minutes, the trade would be nullified.

These changes should ensure that a Public Customer is not forced into a situation where the original limit price is violated and thereby the Public Customer is forced to spend additional dollars for a trade at a price the Public Customer had no interest in trading and may not be able to afford.

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4 Nor is the definition or process for obvious errors changing. However, the Exchange proposes to add reference to “catastrophic” errors to the title of the provision to better reflect its content and match that of other options exchanges.

5 Chapter I, Section 1(a)(49) defines a Public Customer as person that is not a broker or dealer in securities. Professional Customers are Public Customers, for purposes of Chapter V, Section 6. See Chapter I, Section 1(a)(48).

<u>EXAMPLE 1</u> – Resting Public Customer forced to adjust through his limit price and would prefer nullification

Day 1
8:00:00 am (pre-market) – Public Customer A enters order on NOM to buy 10 GOOG May 750 puts for $25 (cost of $25,000, Public Customer has $50,000 in his trading account).

10:00:00 am
GOOG trading at $750
May 750 puts $29.00-$31.00 (100x100) on all exchanges

10:04:00 am
GOOG drops to $690
May 750 puts $25-$100 (10x10) NOM
May 750 puts $20-$125 (10x10) CBOE
May 750 puts $10-$200 (100x100) on all other exchanges

10:04:01 am
Public Customer B enters order to sell 10 May 750 puts for $25 (credit of $25,000)

10:04:01 am
10 May 750 puts execute at $25 ($35 under parity)[6] with Public Customer A buying and Public Customer B selling.

10:04:02 am (1 second later)
GOOG trading $690
May 750 puts $75-$78 (100x100) NOM
May 750 puts $75-$80 (10x10) CBOE
May 750 puts $70-$80 (100x100) All other exchanges

No obvious error is filed within 20 minute notification time required by rule. If this had been an obvious error review, the trade would have been nullified in accordance with Chapter V, Section 6 because one of the parties to the trade was not an Options Participant.

4:00:00 pm (the close)
GOOG trading $710
May 750 puts $60-$63 (100x100) NOM
May 750 puts $55-$70 (10x10) CBOE
May 750 puts $50-$70 (100x100) All other exchanges

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6 Parity is the intrinsic value of an option when it is in-the-money. With respect to puts, it is calculated by subtracting the price of the underlying from the strike price of the put. With respect to calls, it is calculated by subtracting the strike price from the price of the underlying.

Day 2
- 8:00:00 am (pre-market)
Public Customer B, submits S10 GOOG May 750 puts at $25 under Catastrophic Review.
Trade meets the criteria of Catastrophic Error and is adjusted to $68 ($75 (the 10:04:02 am price) less $7 adjustment penalty).

9:30:00 am (the opening)
GOOG trading $725
May 750 puts open $48.00-$51.00 (100x100) on all exchanges

Under current rule:
Without a choice, Public Customer A is forced to spend $68 (for a total cost of $68,000, with only $25,000 in his account)
Puts are now trading $48, so Public Customer A shows a loss of $20,000 ($68 less $48x10 contracts x 100 multiplier)

Under proposed rule:
Public Customer A would be able to choose to have the B10 GOOG May 750 puts nullified avoiding both a loss, and an expenditure of capital exceeding the amount in his account. Public Customer B would be relieved of the obligation to sell the puts at 25 because the trade would be nullified.

EXAMPLE 2 – Resting Public Customer trades, sells out his position, and chooses to keep the adjusted trade and avoid nullification

Day 1
8:00:00 am (pre-market) – Public Customer A enters order on NOM to Buy 10 BAC April 7.00 calls for $.01 (cost of $10 total). (Customer has $3,000 in his account).

10:00:00 am
BAC trading $11
April 7 calls $4.50-$4.70 (100x100) on all exchanges

10:04:00 am
BAC Trading $11
April 7 calls $.01-$4.70 (10x10) NOM
April 7 calls $4.50-$4.70 (10x10) CBOE
April 7 calls $4.50-$4.70 (10x10)) All other exchanges

10:04:01 am
Public Customer B enters order to sell 10 April 7 calls at $.01 on NOM with an ISO indicator (which allows trade through)

10:04:01 am

10 April 7 calls execute at $.01 on NOM Public Customer A buying and Public Customer B selling.

10:04:02 am (1 second later)
BAC is $11
April 7 calls $4.50-$4.70 (10x10) NOM
April 7 calls $4.50-$4.70 (10x10) CBOE
April 7 calls $4.50-$4.70 (10x10) All other exchanges

No obvious error is filed within 20 minute notification time required by rule. If this had been an obvious error review, the trade would have qualified as an obvious error and been nullified or adjusted.

11:00:00 am
BAC trading $9.60
April 7 calls $3.00-$3.25 (10x10) NOM
April 7 calls $.3.00-$3.25 (10x10) CBOE
April 7 calls $3.00-$3.25 (10x10) All other exchanges
Public Customer A sells 10 April 7 calls at $3.00 (a total credit of $3,000 for a $2,990 profit)

3:00:00pm
BAC trading $12.80
April 7 calls $5.80-$6.00 (10x10) NOM
April 7 calls $5.80-$6.00 (10x10) CBOE
April 7 calls $5.80-$6.00 (10x10) All other exchanges
Public **Customer A has now no position and would be at risk of a loss if nullified.**

3:20:00pm
Public Customer B submits S10 BAC April 7 calls at $.01 under Catastrophic Error Review.
Trade meets the criteria of Catastrophic Error and is adjusted to $2.50 ($4.50 (the 10:04:02 am price) less $2 adjustment penalty).

Impact:
Under current Rule: Public Customer A would be adjusted to $2.50 ($4.50 (the 10:04:02 am price) less $2 adjustment penalty).

Under Proposed rule:
Illustrating the need for a choice, Public Customer A chooses within 20 minutes to accept an adjustment to $2.50 instead of a nullification, locking in a gain of $500 instead of $2.990 (B 10 at $2.50 vs. S10 at $3.00).

If not given a choice, Public Customer A would be naked short 10 calls at $3.00 that are now offered at $6.00 (a $3,000 loss).

These examples illustrate the need for Public Customer to have a choice in order to manage his risk. By applying a notification time limit of 20 minutes, it lessens the likelihood that the customer will try to let the direction of the market for that option dictate his decision for a long period of time, thus exposing the contra side to more risk. This 20 minute time period is akin to the notification period currently used in the rule respecting obvious errors (as opposed to catastrophic errors).[7]

For a market maker or a broker-dealer, the penalty that is part of the price adjustment process is usually enough to offset the additional dollars spent, and they can often trade out of the position with little risk and a potential profit. For a customer who is not immersed in the day-to-day trading of the markets, this risk may be unacceptable. A customer is also less likely to be watching trading activity in a particular option throughout the day and less likely to be closely focused on the execution reports the customer receives after a trade is executed. Accordingly, the Exchange believes that it is fair and reasonable, and consistent with statutory standards, to change the procedure for catastrophic errors for Public Customers and not for other participants.

The Exchange believes that the proposal is a fair way to address the issue of a customer's limit price, yet still balance the competing interests of certainty that trades stand versus dealing with true errors. Earlier this year, PHLX amended its Rule 1092(f) to adopt the same catastrophic error process as proposed herein. In approving that proposal, the Commission stated "…the Exchange has weighed the benefits of certainty to non-broker-dealer customers that their limit price will not be violated against the costs

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7 See Chapter V, Section 6(e)(i). If a party believes that it participated in a transaction that was the result of an Obvious Error, it must notify MarketWatch via written or electronic complaint within 20 minutes of the execution.

of increased uncertainty to market makers and broker-dealers that their trades may be nullified instead of adjusted depending on whether the other party to the transaction is or is not a customer. The proposed rule change strikes a similar balance on this issue to the approach taken in the Exchange's Obvious Error Rule, whereby transactions in which an Obvious Error occurred with at least one party as a non-specialist are nullified unless both parties agree to adjust the price of the transaction within 30 minutes of being notified of the Obvious Error."[8]

The Exchange is proposing to amend Chapter V, Section 6 to eliminate the risk associated with Public Customers receiving an adjustment to a trade that is outside of the limit price of their order, when there is a catastrophic error ruling respecting their trade. The new provision would continue to entail specific and objective procedures. Furthermore, the new provision more fairly balances the potential windfall to one market participant against the potential reconsideration of a trading decision under the guise of an error.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[9] in general, and furthers the objectives of Section 6(b)(5) of the Act[10] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by helping Exchange members

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8 See supra note 3.

9 15 U.S.C. 78f(b).

10 15 U.S.C. 78f(b)(5).

better manage the risk associated with potential erroneous trades. Specifically, the Exchange believes that the proposal is consistent with these principles because it provides a fair process for Public Customers to address catastrophic errors involving a limit order. In particular, the proposal permits nullification in certain situations. Further, it gives customers a choice. For two reasons, the Exchange does not believe that the proposal is unfairly discriminatory, even though it offers some participants (Public Customers) a choice as to whether a trade is nullified or adjusted, while other participants will continue to have all of their catastrophic errors adjusted. First, with respect to obvious errors (as opposed to catastrophic errors), the rule currently differentiates among Participants and whether a trade is adjusted or busted depends on whether an Options Participant is involved.[11] Second, options rules often treat customers in a special way,[12] recognizing that customers are not necessarily immersed in the day-to-day trading of the markets, less likely to be watching trading activity in a particular option throughout the day and may have limited funds in their trading accounts. Accordingly, differentiating among Participant types by permitting customers to have a choice as to whether to nullify a trade involving a catastrophic error is not unfairly discriminatory, because it is reasonable and fair to provide non-professional customers with additional options to protect themselves against the consequences of obvious errors.

The Exchange acknowledges that the proposal contains some uncertainty regarding whether a trade will be adjusted or nullified, depending on whether one of the

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[11] See Chapter V, Section 6(e)(i).

[12] For example, many options exchange priority rules treat customer orders differently and some options exchanges only accept certain types of orders from customers. Most options exchanges charge different fees for customers.

parties is a Public Customer, because a person would not know, when entering into the trade, whether the other party is or is not a Public Customer. The Exchange believes that the proposal nevertheless promotes just and equitable principles of trade and protects investors and the public interest, because it eliminates a more serious uncertainty in the rule's operation today, which is *price* uncertainty. Today, a customer's order can be adjusted to a significantly different price, as the examples above illustrate, which is more impactful than the possibility of nullification. Furthermore, there is uncertainty in the current obvious error portion of Chapter V, Section 6 (as well as the rules of other options exchanges), which Participants have dealt with for a number of years. Specifically, Chapter V, Section 6(e)(i) and (ii) provide: where each party to the transaction is an Options Participant, the execution price of the transaction will be adjusted to the prices provided in subparagraphs (A) and (B) below unless both parties agree to adjust the transaction to a different price or agree to bust the trade within ten (10) minutes of being notified by MarketWatch of the Obvious Error; where at least one party to the Obvious Error is not an Options Participant, the trade will be nullified unless both parties agree to an adjustment price for the transaction within 30 minutes of being notified by MarketWatch of the Obvious Error.

Therefore, a Participant who prefers adjustments over nullification cannot guarantee that outcome, because, if he trades with a non-Participant, a resulting obvious error would only be adjusted if such non-Participant agreed to an adjustment. This uncertainty has been embedded in the rule and accepted by market participants. The Exchange believes that this proposal, despite the uncertainty based on whether a Public Customer is involved in a trade, is nevertheless consistent with the Act, because the ability to nullify a Public Customer's trade involving a catastrophic error should prevent the price uncertainty that mandatory adjustment under the current rule creates, which should promote just and equitable principles of trade and protect investors and the public interest.

The proposal sets forth an objective process based on specific and objective criteria and subject to specific and objective procedures. In addition, the Exchange has again weighed carefully the need to assure that one market participant is not permitted to receive a windfall at the expense of another market participant that made a catastrophic error, against the need to assure that market participants are not simply being given an opportunity to reconsider poor trading decisions. Accordingly, the Exchange has determined that introducing a nullification procedure for catastrophic errors is appropriate and consistent with the Act.

Consistent with Section 6(b)(8),[13] the Exchange also believes that the proposal does not impose a burden on competition not necessary or appropriate in furtherance of the purposes of the Act, as described further below.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. Currently, most options exchanges have similar, although not identical, rules regarding catastrophic errors. To the extent that this proposal would result in NOM's rule being different, market participants may choose to route orders to NOM, helping NOM compete against other options exchanges for order flow based on its customer

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[13] 15 U.S.C. 78f(b)(5).

service by having a process more responsive to current market needs. Of course, other options exchanges may choose to adopt similar rules. The proposal does not impose a burden on intra-market competition not necessary or appropriate in furtherance of the purposes of the Act, because, even though it treats different market participants differently, the Obvious Errors rule has always been structured that way and adding the ability for Public Customers to choose whether a catastrophic error trade is nullified does not materially alter the risks faced by other market participants in managing the consequences of obvious errors. Overall, the proposal is intended to help market participants better manage the risk associated with potential erroneous options trades and does not impose a burden on competition.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

The Exchange does not consent to an extension of the time period for Commission action.

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

Pursuant to Section 19(b)(3)(A) of the Act[14] and Rule 19b-4(f)(6)[15] thereunder, NASDAQ has designated this proposal as one that effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative

14 15 U.S.C. 78s(b)(3)(A).

15 17 CFR 240.19b-4(f)(6).

for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. NASDAQ believes that the proposal is non-controversial, because it is the same as PHLX's rule and does not raise any novel regulatory issues.[16]

Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. NASDAQ has satisfied this requirement. Furthermore, a proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act[17] normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)[18] permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest.

At any time within 60 days of the filing of 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.

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

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16 See supra note 3.

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

18 17 CFR 240.19b-4(f)(6).

The proposal is substantially similar to PHLX Rule 1092(f)(ii). Although most options exchange obvious error rules are similar, they are not identical and PHLX's catastrophic error provision differs from NOM's in that NOM applies an adjustment table when adjusting trades. NASDAQ does not believe that this difference impacts the ability to copy PHLX's provision regarding catastrophic errors.

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

Not applicable.

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

Not applicable.

11. Exhibits

1. Notice of proposed rule for publication in the Federal Register.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-NASDAQ-2013-095)

July 19, 2013

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Chapter V, Section 6, Obvious Errors, of the Rules of the NASDAQ Options Market ("NOM")

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 July 19, 2013, The NASDAQ Stock Market LLC ("Nasdaq" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend Chapter V, Section 6, Obvious Errors, of the Rules of the NASDAQ Options Market ("NOM").

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

* * * * *

NASDAQ Stock Market Rules

* * * * *

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

2 17 CFR 240.19b-4.

Options Rules

* * * * *

Chapter V Regulation of Trading on NOM

* * * * *

Sec. 6 Obvious and Catastrophic Errors

(a) – (e) No change.

(f) *Catastrophic Errors*

(i) – (ii) No change.

(iii) *Adjust or Bust.* A Nasdaq Official will determine whether there was a Catastrophic Error as defined above. If it is determined that a Catastrophic Error has occurred, whether or not each party to the transaction is an Options Participant, MarketWatch shall adjust the execution price of the transaction, unless both parties agree to adjust the transaction to a different price, to the theoretical price (i) plus the adjustment value provided below for erroneous buy transactions, and (ii) minus the adjustment value provided for erroneous sell transactions, pursuant to the following chart; provided that the adjusted price would not exceed the limit price of a Public Customer's limit order, in which case the Public Customer would have 20 minutes from notification of the proposed adjusted price to accept it or else the trade will be nullified:

Theoretical Price	**Minimum Amount**
Below $2	$1
$2 to $5	$2
Above $5 to $10	$3
Above $10 to $50	$5

Above $50 to $100	$7
Above $100	$10

Upon taking final action, MarketWatch shall promptly notify both parties to the trade electronically or via telephone.

(g) No change.

* * * * *

(b) Not applicable.

(c) Not applicable.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of the proposal is to help market participants better manage their risk by addressing the situation where, under current rules, a trade can be adjusted to a price outside of a Public Customer’s limit. Specifically, the Exchange proposes to amend Chapter V, Section 6(f) to enable a Public Customer who is the contra-side to a trade that is deemed to be a catastrophic error to have the trade nullified in instances where the adjusted price would violate the Public Customer’s limit price. Only if the Public

Customer, or his agent, affirms the customer's willingness to accept the adjusted price through the customer's limit price within 20 minutes of notification of the catastrophic error ruling would the trade be adjusted; otherwise it would be nullified. Today, all catastrophic error trades are adjusted, not nullified, on all of the options exchanges, except on NASDAQ OMX PHLX LLC ("PHLX"), on whose provision this proposal is modeled.[3]

Background

Currently, Chapter V, Section 6 governs obvious and catastrophic errors. Obvious errors are calculated under the rule by determining a theoretical price and determining, based on objective standards, whether the trade should be nullified or adjusted. The rule also contains a process for requesting an obvious error review. Certain more substantial errors may fall under the category of a catastrophic error, for which a longer time period is permitted to request a review and for which trades can only be adjusted (not nullified). Trades are adjusted pursuant to an adjustment table that, in effect, assesses an adjustment penalty. By adjusting trades above or below the theoretical price plus or minus a certain amount, the rule assesses a ''penalty'' in that the adjustment price is not as favorable as the amount the party making the error would have received had it not made the error.

Proposal

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[3] See PHLX Rule 1092(f)(ii). Securities Exchange Act Release No. 69304 (April 4, 2013), 78 FR 21482 (April 10, 2013) (SR-Phlx-2013-05).

At this time, the Exchange proposes to change the catastrophic error process to permit certain trades to be nullified. The definition and calculation of a catastrophic error would not change.[4] Once a catastrophic error is determined by a NASDAQ Official, then if both parties to the trade are not a Public Customer,[5] the trade would be adjusted under the current rule. If one of the parties is a Public Customer, then the adjusted price would be compared to the limit price of the order. If the adjusted price would violate the limit price (in other words, be higher than the limit price if it is a buy order and lower than the limit price if it is a sell order), then the Public Customer would be offered an opportunity to nullify the trade. If the Public Customer (or the Public Customer's broker-dealer agent) does not respond within 20 minutes, the trade would be nullified.

These changes should ensure that a Public Customer is not forced into a situation where the original limit price is violated and thereby the Public Customer is forced to spend additional dollars for a trade at a price the Public Customer had no interest in trading and may not be able to afford.

EXAMPLE 1 – Resting Public Customer forced to adjust through his limit price and would prefer nullification

Day 1
8:00:00 am (pre-market) – Public Customer A enters order on NOM to buy 10 GOOG May 750 puts for $25 (cost of $25,000, Public Customer has $50,000 in his trading account).

10:00:00 am
GOOG trading at $750

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4 Nor is the definition or process for obvious errors changing. However, the Exchange proposes to add reference to "catastrophic" errors to the title of the provision to better reflect its content and match that of other options exchanges.

5 Chapter I, Section 1(a)(49) defines a Public Customer as person that is not a broker or dealer in securities. Professional Customers are Public Customers, for purposes of Chapter V, Section 6. See Chapter I, Section 1(a)(48).

May 750 puts $29.00-$31.00 (100x100) on all exchanges

10:04:00 am
GOOG drops to $690
May 750 puts $25-$100 (10x10) NOM
May 750 puts $20-$125 (10x10) CBOE
May 750 puts $10-$200 (100x100) on all other exchanges

10:04:01 am
Public Customer B enters order to sell 10 May 750 puts for $25 (credit of $25,000)

10:04:01 am
10 May 750 puts execute at $25 ($35 under parity)[6] with Public Customer A buying and Public Customer B selling.

10:04:02 am (1 second later)
GOOG trading $690
May 750 puts $75-$78 (100x100) NOM
May 750 puts $75-$80 (10x10) CBOE
May 750 puts $70-$80 (100x100) All other exchanges

No obvious error is filed within 20 minute notification time required by rule. If this had been an obvious error review, the trade would have been nullified in accordance with Chapter V, Section 6 because one of the parties to the trade was not an Options Participant.

4:00:00 pm (the close)
GOOG trading $710
May 750 puts $60-$63 (100x100) NOM
May 750 puts $55-$70 (10x10) CBOE
May 750 puts $50-$70 (100x100) All other exchanges

Day 2
- 8:00:00 am (pre-market)
Public Customer B, submits S10 GOOG May 750 puts at $25 under Catastrophic Review.
Trade meets the criteria of Catastrophic Error and is adjusted to $68 ($75 (the 10:04:02 am price) less $7 adjustment penalty).

9:30:00 am (the opening)
GOOG trading $725

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[6] Parity is the intrinsic value of an option when it is in-the-money. With respect to puts, it is calculated by subtracting the price of the underlying from the strike price of the put. With respect to calls, it is calculated by subtracting the strike price from the price of the underlying.

May 750 puts open $48.00-$51.00 (100x100) on all exchanges

Under current rule:
Without a choice, Public Customer A is forced to spend $68 (for a total cost of $68,000, with only $25,000 in his account)
Puts are now trading $48, so Public Customer A shows a loss of $20,000 ($68 less $48x10 contracts x 100 multiplier)

Under proposed rule:
Public Customer A would be able to choose to have the B10 GOOG May 750 puts nullified avoiding both a loss, and an expenditure of capital exceeding the amount in his account. Public Customer B would be relieved of the obligation to sell the puts at 25 because the trade would be nullified.

<u>EXAMPLE 2</u> – Resting Public Customer trades, sells out his position, and chooses to keep the adjusted trade and avoid nullification

Day 1
8:00:00 am (pre-market) – Public Customer A enters order on NOM to Buy 10 BAC April 7.00 calls for $.01 (cost of $10 total). (Customer has $3,000 in his account).

10:00:00 am
BAC trading $11
April 7 calls $4.50-$4.70 (100x100) on all exchanges

10:04:00 am
BAC Trading $11
April 7 calls $.01-$4.70 (10x10) NOM
April 7 calls $4.50-$4.70 (10x10) CBOE
April 7 calls $4.50-$4.70 (10x10)) All other exchanges

10:04:01 am
Public Customer B enters order to sell 10 April 7 calls at $.01 on NOM with an ISO indicator (which allows trade through)

10:04:01 am
10 April 7 calls execute at $.01 on NOM Public Customer A buying and Public Customer B selling.

10:04:02 am (1 second later)
BAC is $11
April 7 calls $4.50-$4.70 (10x10) NOM
April 7 calls $4.50-$4.70 (10x10) CBOE
April 7 calls $4.50-$4.70 (10x10) All other exchanges

No obvious error is filed within 20 minute notification time required by rule. If this had been an obvious error review, the trade would have qualified as an obvious error and been nullified or adjusted.

11:00:00 am
BAC trading $9.60
April 7 calls $3.00-$3.25 (10x10) NOM
April 7 calls $.3.00-$3.25 (10x10) CBOE
April 7 calls $3.00-$3.25 (10x10) All other exchanges
Public Customer A sells 10 April 7 calls at $3.00 (a total credit of $3,000 for a $2,990 profit)

3:00:00pm
BAC trading $12.80
April 7 calls $5.80-$6.00 (10x10) NOM
April 7 calls $5.80-$6.00 (10x10) CBOE
April 7 calls $5.80-$6.00 (10x10) All other exchanges
Public **Customer A has now no position and would be at risk of a loss if nullified.**

3:20:00pm
Public Customer B submits S10 BAC April 7 calls at $.01 under Catastrophic Error Review.
Trade meets the criteria of Catastrophic Error and is adjusted to $2.50 ($4.50 (the 10:04:02 am price) less $2 adjustment penalty).

Impact:
Under current Rule: Public Customer A would be adjusted to $2.50 ($4.50 (the 10:04:02 am price) less $2 adjustment penalty).

Under Proposed rule:
Illustrating the need for a choice, Public Customer A chooses within 20 minutes to accept an adjustment to $2.50 instead of a nullification, locking in a gain of $500 instead of $2.990 (B 10 at $2.50 vs. S10 at $3.00).

If not given a choice, Public Customer A would be naked short 10 calls at $3.00 that are now offered at $6.00 (a $3,000 loss).

These examples illustrate the need for Public Customer to have a choice in order to manage his risk. By applying a notification time limit of 20 minutes, it lessens the likelihood that the customer will try to let the direction of the market for that option dictate his decision for a long period of time, thus exposing the contra side to more risk.

This 20 minute time period is akin to the notification period currently used in the rule respecting obvious errors (as opposed to catastrophic errors).[7]

For a market maker or a broker-dealer, the penalty that is part of the price adjustment process is usually enough to offset the additional dollars spent, and they can often trade out of the position with little risk and a potential profit. For a customer who is not immersed in the day-to-day trading of the markets, this risk may be unacceptable. A customer is also less likely to be watching trading activity in a particular option throughout the day and less likely to be closely focused on the execution reports the customer receives after a trade is executed. Accordingly, the Exchange believes that it is fair and reasonable, and consistent with statutory standards, to change the procedure for catastrophic errors for Public Customers and not for other participants.

The Exchange believes that the proposal is a fair way to address the issue of a customer's limit price, yet still balance the competing interests of certainty that trades stand versus dealing with true errors. Earlier this year, PHLX amended its Rule 1092(f) to adopt the same catastrophic error process as proposed herein. In approving that proposal, the Commission stated "…the Exchange has weighed the benefits of certainty to non-broker-dealer customers that their limit price will not be violated against the costs of increased uncertainty to market makers and broker-dealers that their trades may be nullified instead of adjusted depending on whether the other party to the transaction is or is not a customer. The proposed rule change strikes a similar balance on this issue to the approach taken in the Exchange's Obvious Error Rule, whereby transactions in which an

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7 See Chapter V, Section 6(e)(i). If a party believes that it participated in a transaction that was the result of an Obvious Error, it must notify MarketWatch via written or electronic complaint within 20 minutes of the execution.

Obvious Error occurred with at least one party as a non-specialist are nullified unless both parties agree to adjust the price of the transaction within 30 minutes of being notified of the Obvious Error."[8]

The Exchange is proposing to amend Chapter V, Section 6 to eliminate the risk associated with Public Customers receiving an adjustment to a trade that is outside of the limit price of their order, when there is a catastrophic error ruling respecting their trade. The new provision would continue to entail specific and objective procedures. Furthermore, the new provision more fairly balances the potential windfall to one market participant against the potential reconsideration of a trading decision under the guise of an error.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act[9] in general, and furthers the objectives of Section 6(b)(5) of the Act[10] in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by helping Exchange members better manage the risk associated with potential erroneous trades. Specifically, the Exchange believes that the proposal is consistent with these principles because it provides a fair process for Public Customers to address catastrophic errors involving a limit order. In particular, the proposal permits nullification in certain situations. Further, it gives

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[8] See supra note 3.

[9] 15 U.S.C. 78f(b).

[10] 15 U.S.C. 78f(b)(5).

customers a choice. For two reasons, the Exchange does not believe that the proposal is unfairly discriminatory, even though it offers some participants (Public Customers) a choice as to whether a trade is nullified or adjusted, while other participants will continue to have all of their catastrophic errors adjusted. First, with respect to obvious errors (as opposed to catastrophic errors), the rule currently differentiates among Participants and whether a trade is adjusted or busted depends on whether an Options Participant is involved.[11] Second, options rules often treat customers in a special way,[12] recognizing that customers are not necessarily immersed in the day-to-day trading of the markets, less likely to be watching trading activity in a particular option throughout the day and may have limited funds in their trading accounts. Accordingly, differentiating among Participant types by permitting customers to have a choice as to whether to nullify a trade involving a catastrophic error is not unfairly discriminatory, because it is reasonable and fair to provide non-professional customers with additional options to protect themselves against the consequences of obvious errors.

The Exchange acknowledges that the proposal contains some uncertainty regarding whether a trade will be adjusted or nullified, depending on whether one of the parties is a Public Customer, because a person would not know, when entering into the trade, whether the other party is or is not a Public Customer. The Exchange believes that the proposal nevertheless promotes just and equitable principles of trade and protects investors and the public interest, because it eliminates a more serious uncertainty in the

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[11] See Chapter V, Section 6(e)(i).

[12] For example, many options exchange priority rules treat customer orders differently and some options exchanges only accept certain types of orders from customers. Most options exchanges charge different fees for customers.

rule's operation today, which is *price* uncertainty. Today, a customer's order can be adjusted to a significantly different price, as the examples above illustrate, which is more impactful than the possibility of nullification. Furthermore, there is uncertainty in the current obvious error portion of Chapter V, Section 6 (as well as the rules of other options exchanges), which Participants have dealt with for a number of years. Specifically, Chapter V, Section 6(e)(i) and (ii) provide: where each party to the transaction is an Options Participant, the execution price of the transaction will be adjusted to the prices provided in subparagraphs (A) and (B) below unless both parties agree to adjust the transaction to a different price or agree to bust the trade within ten (10) minutes of being notified by MarketWatch of the Obvious Error; where at least one party to the Obvious Error is not an Options Participant, the trade will be nullified unless both parties agree to an adjustment price for the transaction within 30 minutes of being notified by MarketWatch of the Obvious Error.

Therefore, a Participant who prefers adjustments over nullification cannot guarantee that outcome, because, if he trades with a non-Participant, a resulting obvious error would only be adjusted if such non-Participant agreed to an adjustment. This uncertainty has been embedded in the rule and accepted by market participants. The Exchange believes that this proposal, despite the uncertainty based on whether a Public Customer is involved in a trade, is nevertheless consistent with the Act, because the ability to nullify a Public Customer's trade involving a catastrophic error should prevent the price uncertainty that mandatory adjustment under the current rule creates, which should promote just and equitable principles of trade and protect investors and the public interest.

The proposal sets forth an objective process based on specific and objective criteria and subject to specific and objective procedures. In addition, the Exchange has again weighed carefully the need to assure that one market participant is not permitted to receive a windfall at the expense of another market participant that made a catastrophic error, against the need to assure that market participants are not simply being given an opportunity to reconsider poor trading decisions. Accordingly, the Exchange has determined that introducing a nullification procedure for catastrophic errors is appropriate and consistent with the Act.

Consistent with Section 6(b)(8),[13] the Exchange also believes that the proposal does not impose a burden on competition not necessary or appropriate in furtherance of the purposes of the Act, as described further below.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. Currently, most options exchanges have similar, although not identical, rules regarding catastrophic errors. To the extent that this proposal would result in NOM's rule being different, market participants may choose to route orders to NOM, helping NOM compete against other options exchanges for order flow based on its customer service by having a process more responsive to current market needs. Of course, other options exchanges may choose to adopt similar rules. The proposal does not impose a burden on intra-market competition not necessary or appropriate in furtherance of the purposes of the Act, because, even though it treats different market participants

[13] 15 U.S.C. 78f(b)(5).

differently, the Obvious Errors rule has always been structured that way and adding the ability for Public Customers to choose whether a catastrophic error trade is nullified does not materially alter the risks faced by other market participants in managing the consequences of obvious errors. Overall, the proposal is intended to help market participants better manage the risk associated with potential erroneous options trades and does not impose a burden on competition.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act[14] and subparagraph (f)(6) of Rule 19b-4 thereunder.[15]

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

14 15 U.S.C. 78s(b)(3)(a)(ii).

15 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.

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 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. Please include File Number SR-NASDAQ-2013-095 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-NASDAQ-2013-095. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (http://www.sec.gov/rules/sro.shtml).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-NASDAQ-2013-095 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.[16]

Kevin M O'Neill
Deputy Secretary

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16 17 CFR 200.30-3(a)(12).