

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

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

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

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

A proposal to establish a Lead Market Maker program on its NASDAQ OMX PSX market and to make related changes to its schedule of fees and rebates for execution of quotes and orders on 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”)¹ and Rule 19b-4 thereunder,² NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”) is filing with the Securities and Exchange Commission (“Commission”) a proposal to establish a Lead Market Maker (“LMM”) program on its NASDAQ OMX PSX (“PSX”) market and to make related changes to its schedule of fees and rebates for execution of quotes and orders on PSX.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and 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. Phlx proposes to implement the proposed rule change 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, (301) 978-8497.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

a. Purpose

The Commission recently approved modifications to the rules governing the operation of Phlx's PSX trading platform in order to replace its price/size/pro rata allocation model with a price/time model, and to permit member organizations to register as market makers in securities traded on PSX.³ Phlx is now proposing to adopt a program for designating Lead Market Makers in particular securities, and adopting associated pricing changes. The overall purpose of these changes is to use financial incentives to encourage member organizations to become LMMs on PSX and adhere to rigorous standards of market quality.⁴ In doing so, the Exchange hopes to increase the attractiveness of PSX as a trading venue and benefit all of its market participants by increasing the extent to which liquidity is available on PSX at or near the national best bid and national best offer ("NBBO").

An NMS stock that has been selected by the Exchange as a security for which it wishes to designate a Lead Market Maker will be known as a "Qualified Security." Initially, the Exchange expects that Qualified Securities will be limited to trust-issued

³ Securities Exchange Act Release No. 69452 (April 25, 2013), 78 FR 25512 (May 1, 2013) (SR-Phlx-2013-24).

⁴ In its "Recommendations Regarding Regulatory Responses to the Market Events of May 6, 2010" (February 18, 2011) (available at http://www.cftc.gov/ucm/groups/public/@aboutcftc/documents/file/jacreport_021811.pdf), the Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues recommend that the Commission "consider encouraging, through incentives or regulation, persons who regularly implement market maker strategies to maintain best buy and sell quotations which are 'reasonably related to the market,'" noting that such "measures could certainly include differential pricing." Phlx believes that this proposed rule change is responsive to this recommendation.

receipts, portfolio depository receipts, managed fund shares, and other forms of exchange-traded products (“ETPs”). Phlx has the discretion, however, to designate any NMS stock eligible for trading on PSX as a Qualified Security for which an LMM may be designated. The Exchange will select Qualified Securities based on factors that include, but may not be limited to, historical trading patterns and the interest expressed by member organizations in making a market in particular securities. Depending on its trading volume in a particular month, a Qualified Security may be categorized as an “LMM Category 1 Security” (a Qualified Security with an average daily volume on all exchanges and trade reporting facilities during the prior three months of at least 50 million shares per day); an “LMM Category 2 Security” (a Qualified Security with an average daily volume on all exchanges and trade reporting facilities during the prior three months of at least 5 million but less than 50 million shares per day); an “LMM Category 3 Security” (a Qualified Security with an average daily volume on all exchanges and trade reporting facilities during the prior three months of at least 1 million but less than 5 million shares per day); or an “LMM Category 4 Security” (a Qualified Security with an average daily volume on all exchanges and trade reporting facilities during the prior three months of less than 1 million shares per day).

For liquidity-providing displayed quotes/orders entered by a member organization in a Qualified Security for which it has been designated as the Lead Market Maker, the Exchange proposes to pay the following rebates: \$0.0032 per share executed for an LMM Category 1 Security, \$0.0038 per share executed for an LMM Category 2 Security,

\$0.0042 per share executed for an LMM Category 3 Security, and \$0.0048 per share executed for an LMM Category 4 Security.⁵

In order to qualify for the foregoing pricing for a given Qualified Security, an LMM must, through the MPID in which is registered as a PSX Market Maker, adhere to the following performance standards with respect to that Qualified Security:

- The LMM must at all times during regular market hours⁶ maintain a displayed quote/order on each side of the market that is within at least 5% of the NBBO and that has a size of at least 500 shares;
- The LMM must maintain a displayed bid quotation and/or displayed offer quotation of at least 100 shares at the national best bid and/or the national best offer at least 25% of the time during regular market hours.
- For a period of six months following initial designation as an LMM for a “Group” of Qualified Securities,⁷ the LMM must adhere to such additional commitments with respect to size and/or percentage time at the national best bid and/or national best offer as to which the LMM agreed when it was selected as an LMM, measured as an average across all Qualified Securities in the Group. The selection process, and the process for an LMM to make additional market quality commitments, is discussed below.

In addition, an LMM will not qualify for the pricing for LMMs for any Qualified Security unless the LMM, through the MPID in which it is registered as a PSX Market Maker (i)

⁵ The Exchange notes that these rebates are being added to the PSX fee schedule only with respect to transactions in securities listed on exchanges other than NYSE. This is the case because at this time, the Exchange expects to designate LMMs only for ETPs, and NYSE does not list a significant number of ETPs at this time. Thus, if the Exchange proposed to designate an LMM for a NYSE-listed security, it would amend the fee schedule at that time to add the applicable pricing.

⁶ 9:30 a.m. through 4:00 p.m., Eastern Time, or such shorter period as may be designated by the Exchange on a day when PSX closes early (e.g., the day after Thanksgiving).

⁷ A “Group” means one or more Qualified Securities designated from time to time by the Exchange for purposes of being assigned to an LMM. As discussed below, an LMM may be assigned to a Group of Qualified Securities through a competitive bidding process.

provides an average daily volume of 5 million or more shares of liquidity in all securities during the month and (ii) adheres to the foregoing performance standards with respect to at least 90% of the Qualified Securities for which it is the LMM. Any period of time for which an LMM has received an excused withdrawal under Rule 3219 will not be considered in determining an LMM's compliance with performance requirements.⁸

In order to designate an LMM for a particular Qualified Security, the Exchange will engage in the following process:

(1) Qualified Securities will be assigned to a "Group," defined as one or more Qualified Securities designated from time to time by the Exchange for purposes of being assigned to an LMM. As with the determination that a particular security will be a Qualified Security, the assignment of Qualified Securities to a Group will be based on factors that include, but may not be limited to, historical trading patterns and the interest expressed by member organizations in making a market in particular securities.

(2) Following the selection of a Group by the Exchange, the Exchange shall publicly announce an auction for that Group. Under such an auction, member organizations that are registered PSX Market Makers may submit a bid to become the LMM for all of the Qualified Securities in such Group. Bids must be submitted within the time frame specified by the Exchange, which time frame shall not be less than five business days from the date on which the auction is announced. Each bidder must agree

⁸ PSX Rule 3219 provides that a member organization may be temporarily excused from market making obligations based a range of factors, such as equipment or connectivity problems, illness, vacation, non-voluntary suspension of a member organization's clearing arrangement, or advice of legal counsel.

to adhere to the minimum performance standards described above, and may, in addition, offer to adhere to heightened standards as follows:

- Percentage of time at which the LMM's bid quotation and/or offer quotation is at the national best bid and/or national best offer during regular market hours, in increments of 5% of the trading day above the base percentage of 25% of the trading day; and
- Size of bid quotation at the national best bid and offer quotation at the national best offer, in increments of 100 shares on each side above the base size of 100 shares on each side.

The LMM for a group of Qualified Securities will be designated on the basis of submitted bids, as follows:

- The bidder with the highest commitment to percentage of time at the national best bid and/or national best offer will be designated as the LMM. In the event of a tie, the bidder with the highest commitment to size at the national best bid and national best offer will be designated as the LMM. In the event of a tie with respect to both criteria, the bidder with the highest total volume on PSX during the prior twelve calendar months will be designated.

The designation will be effective on the first day of the month following the completion of the bidding process. If the Exchange is unable to allocate one or more Qualified Securities based on a bidding process because no member organization submits bids for it, the Exchange will assign the Qualified Security to the first registered market maker that expresses in interest in becoming the LMM. To allow member organizations to become aware of opportunities to become an LMM, the Exchange will publish on its website a list of Qualified Securities that have not been assigned an LMM.

After serving as an LMM for a particular group of Qualified Securities for a period of six months, an LMM may withdraw from serving as LMM for any or all such Qualified Securities, by providing the Exchange three months' notice (or such shorter notice period as to which the Exchange may consent). In the event of an LMM

withdrawal, the affected Qualified Securities will be reassigned through the auction process described above. In addition, the Exchange may determine that a particular security will cease to be a Qualified Security, but shall provide at least three months' advance notice of such a determination.

In the event an LMM fails to meet the performance standards detailed above with respect to a particular Qualified Security during a particular month, the Exchange will notify the LMM of such deficiency.⁹ If the LMM fails to meet these performance standards with respect to the same Qualified Security during a second consecutive month, the Exchange may reassign such Qualified Security to another LMM by conducting an auction in the manner described above.¹⁰

If a registered market maker for a Qualified Security that is not the LMM for such Qualified Security wishes to become the LMM for such Qualified Security, it may initiate a challenge by notifying the Exchange of its intention to initiate a challenge.¹¹ If this occurs, the incumbent LMM will be notified of the challenge, and the performance of the incumbent LMM and the challenger will be evaluated over the course of the following two calendar months with respect to both percentage of time and size at the NBBO. More than one member organization may challenge an LMM at one time.

⁹ In addition, as noted above, the LMM will not receive LMM rebates with respect to that Qualified Security.

¹⁰ Thus, although an LMM is required to meet market quality requirements with respect to only 90% of the Qualified Securities to which it is assigned in order to receive the rebates associated with being a LMM in any security, it may lose its LMM designation with respect to Qualified Securities for which it does not meet these requirements.

¹¹ However, no challenge may be initiated for the first six months after a Qualified Security has been assigned to a particular LMM.

If, during the two-month period of the challenge, a challenger (i) satisfies the requirements for LMM pricing (i.e., it has an average daily volume of 5 million or more shares of liquidity in all securities during the month and satisfies the performance standards for the Qualified Security, as described above) and (ii) exceeds the incumbent LMM's time at the NBBO by a daily average of at least 5%, or equals or exceeds the LMM's time at the NBBO by a daily average of less than 5% but exceeds the LMM's size at the NBBO by a daily average of at least 100 shares, the Qualified Security will be reassigned to the challenger on the first day of the following month. If there is more than one challenger and both satisfy the foregoing requirements, the Qualified Security will be assigned to the challenger with the highest time at the NBBO (or the highest size at the NBBO in the event of a tie). Moreover, during the challenge months, the challenger will be eligible to receive credits with respect to providing liquidity through displayed orders in the Qualified Security that is the subject of the challenge at the rates paid to an LMM, provided that it satisfied all volume requirements and performance standards.

If a challenger does not exceed the incumbent LMM with respect to average time at the NBBO and average size at the NBBO over the course of the two challenge months, the Qualified Security will be retained by the incumbent LMM. If the challenger did, however, exceed the average time at the NBBO and average size at the NBBO of the incumbent LMM during the month immediately prior to the challenge months, and the challenger satisfied all volume requirements and performance standards associated with being an LMM for the Qualified Security, the challenger will receive, for the months of the challenge, the following credits with respect to providing liquidity through displayed orders in the Qualified Security that is the subject of the challenge: \$0.0031 per share

executed with respect to an LMM Category 1 Security; \$0.0034 per share executed with respect to an LMM Category 2 Security; \$0.0036 per share executed with respect to an LMM Category 3 Security; and \$0.0039 per share executed with respect to an LMM Category 4 Security.

If a challenger does not exceed the incumbent LMM with respect to average time at the NBBO and average size at the NBBO over the course of the two challenge months, and did not exceed the average time at the NBBO and average size at the NBBO of the incumbent LMM during the month immediately prior to the challenge months, the Qualified Security will be retained by the incumbent LMM, the challenger will receive the credits otherwise applicable to its provision of liquidity, and the challenger may not attempt to challenge with respect to that Qualified Security again for a period of six months.¹²

b. Statutory Basis

Phlx believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,¹³ in general, and with Sections 6(b)(4) and 6(b)(5) of the Act,¹⁴ 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

¹² In addition to the foregoing changes, Phlx is also proposing to move the location of the following sentence – “For purposes of determining average daily volume hereunder, any day that the market is not open for the entire trading day will be excluded from such calculation” – from the end of paragraph (a) of the section governing fees for order execution and routing to the beginning. Phlx is also changing the reference to “Order” in the heading of such section to “Quote/Order”.

¹³ 15 U.S.C. 78f.

¹⁴ 15 U.S.C. 78f(b)(4) and (5).

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; and also in that the proposal provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system which Phlx operates or controls, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The primary purpose of the process for designating LMMs and the associated pricing incentives proposed in this rule change is to use higher liquidity provider rebates to encourage market participants to make markets in Qualified Securities and support their trading by adhering to performance standards that are designed to markedly increase the extent to which PSX is quoting at or near the NBBO, as well as the size of its quote. The Exchange believes that a program designed to increase the depth of liquidity available at or near the inside market will remove impediments to and perfect the mechanism of a free and open market and a national market system, and protect investors and the public interest, because increasing such displayed liquidity increases opportunities for investors to have their orders executed at the best available prices, rather than having portions of their orders executed at inferior prices, and also enhances the price discovery process. Accordingly, the Exchange believes that the program has the potential to improve the prices at which investors' orders are executed and to dampen price volatility. Thus, the Exchange believes that the proposed rule change is responsive to the recommendation of the Joint CFTC-SEC Advisory Committee on Emerging

Regulatory Issues that the Commission “consider encouraging, through incentives or regulation, persons who regularly implement market maker strategies to maintain best buy and sell quotations which are ‘reasonably related to the market,’” noting that such “measures could certainly include differential pricing.”¹⁵

The Exchange further believes that the proposed process of selecting LMMs will promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system, and protect investors and the public interest because it relies on the objective criteria of a market maker’s commitment to time and size at the inside market, rather than a subjective or random process. Accordingly, the process will eliminate the potential for bias in the selection process and provide a mechanism by which bidders with the highest commitment to promotion of the Exchange’s market quality may be selected. The Exchange further believes that the proposed framework for an auction, under which bidders are provided at least five business days to submit a bid following the announcement of an auction, will ensure that adequate time is provided to interested market makers to determine the extent of commitment they are prepared to make. Similarly, the process by which a market maker may challenge an incumbent LMM if it believes that it can exceed the incumbent with respect to time and/or size at the inside ensures that the designation of LMMs is not static, but rather may shift to the market maker that is best able to support the trading of a particular Qualified Security. The Exchange believes that this process also has the potential to incentivize incumbent LMMs to increase their commitment to price and size

¹⁵ “Recommendations Regarding Regulatory Responses to the Market Events of May 6, 2010” (February 18, 2011) (available at http://www.cftc.gov/ucm/groups/public/@aboutcftc/documents/file/jacreport_021811.pdf).

at the inside in order to prevent successful challenges. Finally, the Exchange believes that its ability to reassign Qualified Securities if an LMM is not achieving the performance standards to which it has committed will contribute to the ability of the program to fulfill its market quality goals by ensuring that a Qualified Security does not remain indefinitely assigned to an LMM that is not achieving the goals of the program.

The Exchange believes that use of pricing as a means of encouraging commitments from LMMs is reasonable, not unfairly discriminatory, and reflective of an equitable allocation of fees because the higher rebates payable to LMMs are available only to the extent that such market participants satisfy the market quality requirements of participation in the program. Specifically:

- Phlx believes that the proposed rebates of \$0.0032, \$0.0038, \$0.0042, and \$0.0048 per share executed to be paid with respect to displayed orders of LMMs that provide liquidity are reasonable because they are specifically designed to incentivize member organizations to engage in quoting activity that will benefit all market participants by increasing the extent of liquidity provided at the inside market in Qualified Securities. Moreover, the size of the proposed rebates is inversely correlated with the trading volume of the Qualified Security. This approach is reasonable because higher rebates will be paid with respect to historically less liquid Qualified Securities so as to increase the liquidity available to support trading in these securities. This approach is also reasonable because the aggregate amount of rebates paid with respect to a lower volume Qualified Security will be low as long as the trading volume of the security remains low. As the volume increases, the rebate rate will decrease, thereby insuring that the

aggregate rebate paid to an LMM in a given month for a single Qualified Security will not be excessively high.

- Phlx further believes that the proposed rebates payable to LMMs are equitable and not unreasonably discriminatory. Although only one market maker at a time may serve as an LMM for a given Qualified Security, the selection process for LMMs is open to all member organizations and is designed to encourage member organizations that wish to become LMMs to compete to provide more liquidity at or near the NBBO, thereby increasing the benefits of the program to all other market participants. Similarly, the opportunity for member organizations to challenge an incumbent LMM by competing to exceed its performance, and the ability of the Exchange to reassign Qualified Securities if an LMM is not consistently achieving performance standards, provide further assurance that the program is not unreasonably discriminatory and is consistent with an equitable allocation of fees. Finally, Phlx believes that the rebates are equitable and not unreasonably discriminatory because they are available only if, and to the extent that, the selected LMM actually achieves the performance standards required by the program.
- The proposed rebates payable to a challenger with respect to the liquidity it provides during the two months of a challenge period are reasonable because they correspond to the rebates payable to the incumbent LMM with respect to similar quoting activity. Thus, if a challenger is successful in its challenge, it is eligible to receive rebates at the same level as the incumbent for the period of the challenge, reflecting the fact that it exceeded the incumbent with respect to

performance standards and therefore will receive LMM rebates going forward. If the challenger is unsuccessful but nevertheless contributed significantly to market quality during the challenge period, it is reasonable for it to receive rebates that are higher than rebates payable to other market participants but nevertheless lower than the LMM rebates. Moreover, the Exchange believes that this aspect of the proposal is consistent with an equitable allocation of fees and not unreasonably discriminatory because it encourages challengers to attempt to exceed the market quality performance of incumbents, thereby benefitting all market participants that trade the Qualified Security in question, and because the higher rebates paid to the challenger are consistent with its performance at a level above or near the level of the incumbent.

- The proposal to pay LMM rebates only with respect to securities listed on exchanges other than NYSE is reasonable because at this time, Phlx does not propose to designate NYSE-listed securities as Qualified Securities under the program. This is the case because the program is initially designed to enhance PSX's competitiveness as a venue for trading ETPs, and NYSE does not list significant quantities of ETPs at this time. Phlx further believes that this aspect of the proposal is consistent with an equitable allocation of fees and not unfairly discriminatory because it is not unusual for exchange transaction fees to encourage market participants to trade securities listed on particular markets, or particular identified securities.¹⁶

¹⁶ See e.g., <http://usequities.nyx.com/markets/nyse-arca-equities/trading-fees> (paying higher liquidity provider rebates for securities listed on exchanges other than NYSE); Securities Exchange Act Release No. 68021 (October 9, 2012), 77

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.¹⁷ Phlx notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. In such an environment, Phlx must continually adjust its fees to remain competitive with other exchanges and with alternative trading systems that have been exempted from compliance with the statutory standards applicable to exchanges. Because competitors are free to modify their own fees in response, and because market participants may readily adjust their order routing practices, Phlx believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited. In this instance, Phlx is introducing a new pricing programs to accompany changes to PSX's market structure. These changes were necessitated by the failure of PSX's former price/size execution algorithm to garner significant market share, and therefore reflect an effort to increase PSX's competitiveness. If the changes are unattractive to market participants, it is likely that PSX will fail to increase its share of executions. Conversely, because the proposed changes introduce new pricing incentive programs and reflect overall reductions in fees, if they are successful in attracting additional order flow, they will reduce costs to market participants and possibly

FR 63406 (October 16, 2012) (SR-NYSE-2012-50) (special pricing for identified ticker symbols); Securities Exchange Act Release No. 67986 (October 4, 2012), 77 FR 61803 (October 11, 2012) (SR-NYSEArca-2012-104) (same).

¹⁷ 15 U.S.C. 78f(b)(8).

encourage competitive responses from other trading venues. Accordingly, Phlx believes that the proposed changes will promote greater competition, but will not impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets.

Phlx further believes that the process for selection of LMMs does not burden competition. Although only one market maker may serve as the LMM for a particular Qualified Security at a given time, LMMs will be assigned on the basis of a competitive bidding process that relies on objective criteria. The process for challenging incumbent LMMs and reassigning Qualified Securities for which an LMM is not achieving the program's requirements will provide further opportunities for competition among market makers to receive designations under the program. Moreover, depending on the outcome of the bidding process, assignments of Qualified Securities may spread across a range of market makers, so as to allow the financial benefits of the program to be dispersed among those market makers that are willing and able to achieve the goals of the program. Thus, the Exchange believes that the program will enhance competition among market makers.

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)

Not applicable.

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

The proposed rule change is not directly based on the rules of another self-regulatory organization or the Commission. Phlx notes that its proposed program for Lead Market Makers is conceptually similar to a program in existence at NYSEArca, as described in NYSEArca Rule 7.24 and the NYSEArca fee schedule.¹⁸

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.

5. Text of the proposed rule change.

¹⁸ https://usequities.nyx.com/sites/usequities.nyx.com/files/nyse_arca_marketplace_fees_5_1_13.pdf.

EXHIBIT 1SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-Phlx-2013-52)

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing of Proposed Rule Change to Establish a Lead Market Maker Program on the NASDAQ OMX PSX Market and to Make Related Changes to the Schedule Fees and Rebates for Execution of Quotes and Orders

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 May 7, 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 establish a Lead Market Maker (“LMM”) program on its NASDAQ OMX PSX (“PSX”) market and to make related changes to its schedule of fees and rebates for execution of quotes and orders on PSX. Phlx proposes to implement the proposed rule change as soon as practicable following Commission approval. 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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 Commission recently approved modifications to the rules governing the operation of Phlx's PSX trading platform in order to replace its price/size/pro rata allocation model with a price/time model, and to permit member organizations to register as market makers in securities traded on PSX.³ Phlx is now proposing to adopt a program for designating Lead Market Makers in particular securities, and adopting associated pricing changes. The overall purpose of these changes is to use financial incentives to encourage member organizations to become LMMs on PSX and adhere to rigorous standards of market quality.⁴ In doing so, the Exchange hopes to increase the

³ Securities Exchange Act Release No. 69452 (April 25, 2013), 78 FR 25512 (May 1, 2013) (SR-Phlx-2013-24).

⁴ In its "Recommendations Regarding Regulatory Responses to the Market Events of May 6, 2010" (February 18, 2011) (available at http://www.cftc.gov/ucm/groups/public/@aboutcftc/documents/file/jacreport_021811.pdf), the Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues recommend that the Commission "consider encouraging, through incentives or regulation, persons who regularly implement market maker strategies to maintain best buy and sell quotations which are 'reasonably related to the market,'" noting that such "measures could certainly include differential pricing." Phlx believes that this proposed rule change is responsive to this recommendation.

attractiveness of PSX as a trading venue and benefit all of its market participants by increasing the extent to which liquidity is available on PSX at or near the national best bid and national best offer (“NBBO”).

An NMS stock that has been selected by the Exchange as a security for which it wishes to designate a Lead Market Maker will be known as a “Qualified Security.” Initially, the Exchange expects that Qualified Securities will be limited to trust-issued receipts, portfolio depository receipts, managed fund shares, and other forms of exchange-traded products (“ETPs”). Phlx has the discretion, however, to designate any NMS stock eligible for trading on PSX as a Qualified Security for which an LMM may be designated. The Exchange will select Qualified Securities based on factors that include, but may not be limited to, historical trading patterns and the interest expressed by member organizations in making a market in particular securities. Depending on its trading volume in a particular month, a Qualified Security may be categorized as an “LMM Category 1 Security” (a Qualified Security with an average daily volume on all exchanges and trade reporting facilities during the prior three months of at least 50 million shares per day); an “LMM Category 2 Security” (a Qualified Security with an average daily volume on all exchanges and trade reporting facilities during the prior three months of at least 5 million but less than 50 million shares per day); an “LMM Category 3 Security” (a Qualified Security with an average daily volume on all exchanges and trade reporting facilities during the prior three months of at least 1 million but less than 5 million shares per day); or an “LMM Category 4 Security” (a Qualified Security with an average daily volume on all exchanges and trade reporting facilities during the prior three months of less than 1 million shares per day).

For liquidity-providing displayed quotes/orders entered by a member organization in a Qualified Security for which it has been designated as the Lead Market Maker, the Exchange proposes to pay the following rebates: \$0.0032 per share executed for an LMM Category 1 Security, \$0.0038 per share executed for an LMM Category 2 Security, \$0.0042 per share executed for an LMM Category 3 Security, and \$0.0048 per share executed for an LMM Category 4 Security.⁵

In order to qualify for the foregoing pricing for a given Qualified Security, an LMM must, through the MPID in which is registered as a PSX Market Maker, adhere to the following performance standards with respect to that Qualified Security:

- The LMM must at all times during regular market hours⁶ maintain a displayed quote/order on each side of the market that is within at least 5% of the NBBO and that has a size of at least 500 shares;
- The LMM must maintain a displayed bid quotation and/or displayed offer quotation of at least 100 shares at the national best bid and/or the national best offer at least 25% of the time during regular market hours.
- For a period of six months following initial designation as an LMM for a “Group” of Qualified Securities,⁷ the LMM must adhere to such additional commitments with respect to size and/or percentage time at the national best bid and/or national

⁵ The Exchange notes that these rebates are being added to the PSX fee schedule only with respect to transactions in securities listed on exchanges other than NYSE. This is the case because at this time, the Exchange expects to designate LMMs only for ETPs, and NYSE does not list a significant number of ETPs at this time. Thus, if the Exchange proposed to designate an LMM for a NYSE-listed security, it would amend the fee schedule at that time to add the applicable pricing.

⁶ 9:30 a.m. through 4:00 p.m., Eastern Time, or such shorter period as may be designated by the Exchange on a day when PSX closes early (e.g., the day after Thanksgiving).

⁷ A “Group” means one or more Qualified Securities designated from time to time by the Exchange for purposes of being assigned to an LMM. As discussed below, an LMM may be assigned to a Group of Qualified Securities through a competitive bidding process.

best offer as to which the LMM agreed when it was selected as an LMM, measured as an average across all Qualified Securities in the Group. The selection process, and the process for an LMM to make additional market quality commitments, is discussed below.

In addition, an LMM will not qualify for the pricing for LMMs for any Qualified Security unless the LMM, through the MPID in which it is registered as a PSX Market Maker (i) provides an average daily volume of 5 million or more shares of liquidity in all securities during the month and (ii) adheres to the foregoing performance standards with respect to at least 90% of the Qualified Securities for which it is the LMM. Any period of time for which an LMM has received an excused withdrawal under Rule 3219 will not be considered in determining an LMM's compliance with performance requirements.⁸

In order to designate an LMM for a particular Qualified Security, the Exchange will engage in the following process:

(1) Qualified Securities will be assigned to a "Group," defined as one or more Qualified Securities designated from time to time by the Exchange for purposes of being assigned to an LMM. As with the determination that a particular security will be a Qualified Security, the assignment of Qualified Securities to a Group will be based on factors that include, but may not be limited to, historical trading patterns and the interest expressed by member organizations in making a market in particular securities.

(2) Following the selection of a Group by the Exchange, the Exchange shall publicly announce an auction for that Group. Under such an auction, member organizations that are registered PSX Market Makers may submit a bid to become the

⁸ PSX Rule 3219 provides that a member organization may be temporarily excused from market making obligations based a range of factors, such as equipment or connectivity problems, illness, vacation, non-voluntary suspension of a member organization's clearing arrangement, or advice of legal counsel.

LMM for all of the Qualified Securities in such Group. Bids must be submitted within the time frame specified by the Exchange, which time frame shall not be less than five business days from the date on which the auction is announced. Each bidder must agree to adhere to the minimum performance standards described above, and may, in addition, offer to adhere to heightened standards as follows:

- Percentage of time at which the LMM's bid quotation and/or offer quotation is at the national best bid and/or national best offer during regular market hours, in increments of 5% of the trading day above the base percentage of 25% of the trading day; and
- Size of bid quotation at the national best bid and offer quotation at the national best offer, in increments of 100 shares on each side above the base size of 100 shares on each side.

The LMM for a group of Qualified Securities will be designated on the basis of submitted bids, as follows:

- The bidder with the highest commitment to percentage of time at the national best bid and/or national best offer will be designated as the LMM. In the event of a tie, the bidder with the highest commitment to size at the national best bid and national best offer will be designated as the LMM. In the event of a tie with respect to both criteria, the bidder with the highest total volume on PSX during the prior twelve calendar months will be designated.

The designation will be effective on the first day of the month following the completion of the bidding process. If the Exchange is unable to allocate one or more Qualified Securities based on a bidding process because no member organization submits bids for it, the Exchange will assign the Qualified Security to the first registered market maker that expresses in interest in becoming the LMM. To allow member organizations to become aware of opportunities to become an LMM, the Exchange will publish on its website a list of Qualified Securities that have not been assigned an LMM.

After serving as an LMM for a particular group of Qualified Securities for a period of six months, an LMM may withdraw from serving as LMM for any or all such Qualified Securities, by providing the Exchange three months' notice (or such shorter notice period as to which the Exchange may consent). In the event of an LMM withdrawal, the affected Qualified Securities will be reassigned through the auction process described above. In addition, the Exchange may determine that a particular security will cease to be a Qualified Security, but shall provide at least three months' advance notice of such a determination.

In the event an LMM fails to meet the performance standards detailed above with respect to a particular Qualified Security during a particular month, the Exchange will notify the LMM of such deficiency.⁹ If the LMM fails to meet these performance standards with respect to the same Qualified Security during a second consecutive month, the Exchange may reassign such Qualified Security to another LMM by conducting an auction in the manner described above.¹⁰

If a registered market maker for a Qualified Security that is not the LMM for such Qualified Security wishes to become the LMM for such Qualified Security, it may initiate a challenge by notifying the Exchange of its intention to initiate a challenge.¹¹ If this

⁹ In addition, as noted above, the LMM will not receive LMM rebates with respect to that Qualified Security.

¹⁰ Thus, although an LMM is required to meet market quality requirements with respect to only 90% of the Qualified Securities to which it is assigned in order to receive the rebates associated with being a LMM in any security, it may lose its LMM designation with respect to Qualified Securities for which it does not meet these requirements.

¹¹ However, no challenge may be initiated for the first six months after a Qualified Security has been assigned to a particular LMM.

occurs, the incumbent LMM will be notified of the challenge, and the performance of the incumbent LMM and the challenger will be evaluated over the course of the following two calendar months with respect to both percentage of time and size at the NBBO.

More than one member organization may challenge an LMM at one time.

If, during the two-month period of the challenge, a challenger (i) satisfies the requirements for LMM pricing (i.e., it has an average daily volume of 5 million or more shares of liquidity in all securities during the month and satisfies the performance standards for the Qualified Security, as described above) and (ii) exceeds the incumbent LMM's time at the NBBO by a daily average of at least 5%, or equals or exceeds the LMM's time at the NBBO by a daily average of less than 5% but exceeds the LMM's size at the NBBO by a daily average of at least 100 shares, the Qualified Security will be reassigned to the challenger on the first day of the following month. If there is more than one challenger and both satisfy the foregoing requirements, the Qualified Security will be assigned to the challenger with the highest time at the NBBO (or the highest size at the NBBO in the event of a tie). Moreover, during the challenge months, the challenger will be eligible to receive credits with respect to providing liquidity through displayed orders in the Qualified Security that is the subject of the challenge at the rates paid to an LMM, provided that it satisfied all volume requirements and performance standards.

If a challenger does not exceed the incumbent LMM with respect to average time at the NBBO and average size at the NBBO over the course of the two challenge months, the Qualified Security will be retained by the incumbent LMM. If the challenger did, however, exceed the average time at the NBBO and average size at the NBBO of the incumbent LMM during the month immediately prior to the challenge months, and the

challenger satisfied all volume requirements and performance standards associated with being an LMM for the Qualified Security, the challenger will receive, for the months of the challenge, the following credits with respect to providing liquidity through displayed orders in the Qualified Security that is the subject of the challenge: \$0.0031 per share executed with respect to an LMM Category 1 Security; \$0.0034 per share executed with respect to an LMM Category 2 Security; \$0.0036 per share executed with respect to an LMM Category 3 Security; and \$0.0039 per share executed with respect to an LMM Category 4 Security.

If a challenger does not exceed the incumbent LMM with respect to average time at the NBBO and average size at the NBBO over the course of the two challenge months, and did not exceed the average time at the NBBO and average size at the NBBO of the incumbent LMM during the month immediately prior to the challenge months, the Qualified Security will be retained by the incumbent LMM, the challenger will receive the credits otherwise applicable to its provision of liquidity, and the challenger may not attempt to challenge with respect to that Qualified Security again for a period of six months.¹²

¹² In addition to the foregoing changes, Phlx is also proposing to move the location of the following sentence – “For purposes of determining average daily volume hereunder, any day that the market is not open for the entire trading day will be excluded from such calculation” – from the end of paragraph (a) of the section governing fees for order execution and routing to the beginning. Phlx is also changing the reference to “Order” in the heading of such section to “Quote/Order”.

2. Statutory Basis

Phlx believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,¹³ in general, and with Sections 6(b)(4) and 6(b)(5) of the Act,¹⁴ 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; and also in that the proposal provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility or system which Phlx operates or controls, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The primary purpose of the process for designating LMMs and the associated pricing incentives proposed in this rule change is to use higher liquidity provider rebates to encourage market participants to make markets in Qualified Securities and support their trading by adhering to performance standards that are designed to markedly increase the extent to which PSX is quoting at or near the NBBO, as well as the size of its quote. The Exchange believes that a program designed to increase the depth of liquidity available at or near the inside market will remove impediments to and perfect the mechanism of a free and open market and a national market system, and protect investors

¹³ 15 U.S.C. 78f.

¹⁴ 15 U.S.C. 78f(b)(4) and (5).

and the public interest, because increasing such displayed liquidity increases opportunities for investors to have their orders executed at the best available prices, rather than having portions of their orders executed at inferior prices, and also enhances the price discovery process. Accordingly, the Exchange believes that the program has the potential to improve the prices at which investors' orders are executed and to dampen price volatility. Thus, the Exchange believes that the proposed rule change is responsive to the recommendation of the Joint CFTC-SEC Advisory Committee on Emerging Regulatory Issues that the Commission "consider encouraging, through incentives or regulation, persons who regularly implement market maker strategies to maintain best buy and sell quotations which are 'reasonably related to the market,'" noting that such "measures could certainly include differential pricing."¹⁵

The Exchange further believes that the proposed process of selecting LMMs will promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system, and protect investors and the public interest because it relies on the objective criteria of a market maker's commitment to time and size at the inside market, rather than a subjective or random process. Accordingly, the process will eliminate the potential for bias in the selection process and provide a mechanism by which bidders with the highest commitment to promotion of the Exchange's market quality may be selected. The Exchange further believes that the proposed framework for an auction, under which bidders are provided at least five business days to submit a bid following the announcement of an auction, will

¹⁵ "Recommendations Regarding Regulatory Responses to the Market Events of May 6, 2010" (February 18, 2011) (available at http://www.cftc.gov/ucm/groups/public/@aboutcftc/documents/file/jacreport_021811.pdf).

ensure that adequate time is provided to interested market makers to determine the extent of commitment they are prepared to make. Similarly, the process by which a market maker may challenge an incumbent LMM if it believes that it can exceed the incumbent with respect to time and/or size at the inside ensures that the designation of LMMs is not static, but rather may shift to the market maker that is best able to support the trading of a particular Qualified Security. The Exchange believes that this process also has the potential to incentivize incumbent LMMs to increase their commitment to price and size at the inside in order to prevent successful challenges. Finally, the Exchange believes that its ability to reassign Qualified Securities if an LMM is not achieving the performance standards to which it has committed will contribute to the ability of the program to fulfill its market quality goals by ensuring that a Qualified Security does not remain indefinitely assigned to an LMM that is not achieving the goals of the program.

The Exchange believes that use of pricing as a means of encouraging commitments from LMMs is reasonable, not unfairly discriminatory, and reflective of an equitable allocation of fees because the higher rebates payable to LMMs are available only to the extent that such market participants satisfy the market quality requirements of participation in the program. Specifically:

- Phlx believes that the proposed rebates of \$0.0032, \$0.0038, \$0.0042, and \$0.0048 per share executed to be paid with respect to displayed orders of LMMs that provide liquidity are reasonable because they are specifically designed to incentivize member organizations to engage in quoting activity that will benefit all market participants by increasing the extent of liquidity provided at the inside market in Qualified Securities. Moreover, the size of the proposed rebates is

inversely correlated with the trading volume of the Qualified Security. This approach is reasonable because higher rebates will be paid with respect to historically less liquid Qualified Securities so as to increase the liquidity available to support trading in these securities. This approach is also reasonable because the aggregate amount of rebates paid with respect to a lower volume Qualified Security will be low as long as the trading volume of the security remains low. As the volume increases, the rebate rate will decrease, thereby insuring that the aggregate rebate paid to an LMM in a given month for a single Qualified Security will not be excessively high.

- Phlx further believes that the proposed rebates payable to LMMs are equitable and not unreasonably discriminatory. Although only one market maker at a time may serve as an LMM for a given Qualified Security, the selection process for LMMs is open to all member organizations and is designed to encourage member organizations that wish to become LMMs to compete to provide more liquidity at or near the NBBO, thereby increasing the benefits of the program to all other market participants. Similarly, the opportunity for member organizations to challenge an incumbent LMM by competing to exceed its performance, and the ability of the Exchange to reassign Qualified Securities if an LMM is not consistently achieving performance standards, provide further assurance that the program is not unreasonably discriminatory and is consistent with an equitable allocation of fees. Finally, Phlx believes that the rebates are equitable and not unreasonably discriminatory because they are available only if, and to the extent

that, the selected LMM actually achieves the performance standards required by the program.

- The proposed rebates payable to a challenger with respect to the liquidity it provides during the two months of a challenge period are reasonable because they correspond to the rebates payable to the incumbent LMM with respect to similar quoting activity. Thus, if a challenger is successful in its challenge, it is eligible to receive rebates at the same level as the incumbent for the period of the challenge, reflecting the fact that it exceeded the incumbent with respect to performance standards and therefore will receive LMM rebates going forward. If the challenger is unsuccessful but nevertheless contributed significantly to market quality during the challenge period, it is reasonable for it to receive rebates that are higher than rebates payable to other market participants but nevertheless lower than the LMM rebates. Moreover, the Exchange believes that this aspect of the proposal is consistent with an equitable allocation of fees and not unreasonably discriminatory because it encourages challengers to attempt to exceed the market quality performance of incumbents, thereby benefitting all market participants that trade the Qualified Security in question, and because the higher rebates paid to the challenger are consistent with its performance at a level above or near the level of the incumbent.

The proposal to pay LMM rebates only with respect to securities listed on exchanges other than NYSE is reasonable because at this time, Phlx does not propose to designate NYSE-listed securities as Qualified Securities under the program. This is the case because the program is initially designed to enhance PSX's competitiveness as a

venue for trading ETPs, and NYSE does not list significant quantities of ETPs at this time. Phlx further believes that this aspect of the proposal is consistent with an equitable allocation of fees and not unfairly discriminatory because it is not unusual for exchange transaction fees to encourage market participants to trade securities listed on particular markets, or particular identified securities.¹⁶

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.¹⁷ Phlx notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. In such an environment, Phlx must continually adjust its fees to remain competitive with other exchanges and with alternative trading systems that have been exempted from compliance with the statutory standards applicable to exchanges.

Because competitors are free to modify their own fees in response, and because market participants may readily adjust their order routing practices, Phlx believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited. In this instance, Phlx is introducing a new pricing programs to accompany changes to PSX's market structure. These changes were necessitated by the failure of

¹⁶ See e.g., <http://usequities.nyx.com/markets/nyse-arca-equities/trading-fees> (paying higher liquidity provider rebates for securities listed on exchanges other than NYSE); Securities Exchange Act Release No. 68021 (October 9, 2012), 77 FR 63406 (October 16, 2012) (SR-NYSE-2012-50) (special pricing for identified ticker symbols); Securities Exchange Act Release No. 67986 (October 4, 2012), 77 FR 61803 (October 11, 2012) (SR-NYSEArca-2012-104) (same).

¹⁷ 15 U.S.C. 78f(b)(8).

PSX's former price/size execution algorithm to garner significant market share, and therefore reflect an effort to increase PSX's competitiveness. If the changes are unattractive to market participants, it is likely that PSX will fail to increase its share of executions. Conversely, because the proposed changes introduce new pricing incentive programs and reflect overall reductions in fees, if they are successful in attracting additional order flow, they will reduce costs to market participants and possibly encourage competitive responses from other trading venues. Accordingly, Phlx believes that the proposed changes will promote greater competition, but will not impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets.

Phlx further believes that the process for selection of LMMs does not burden competition. Although only one market maker may serve as the LMM for a particular Qualified Security at a given time, LMMs will be assigned on the basis of a competitive bidding process that relies on objective criteria. The process for challenging incumbent LMMs and reassigning Qualified Securities for which an LMM is not achieving the program's requirements will provide further opportunities for competition among market makers to receive designations under the program. Moreover, depending on the outcome of the bidding process, assignments of Qualified Securities may spread across a range of market makers, so as to allow the financial benefits of the program to be dispersed among those market makers that are willing and able to achieve the goals of the program. Thus, the Exchange believes that the program will enhance competition among market makers.

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. Please include File Number SR-Phlx-2013-52 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-2013-52. 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-2013-52, 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.¹⁸

Kevin M. O'Neill
Deputy Secretary

¹⁸ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

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

NASDAQ OMX PHLX LLC¹ PRICING SCHEDULE

ALL BILLING DISPUTES MUST BE SUBMITTED TO THE EXCHANGE IN WRITING AND MUST BE ACCOMPANIED BY SUPPORTING DOCUMENTATION. ALL DISPUTES MUST BE SUBMITTED NO LATER THAN SIXTY (60) DAYS AFTER RECEIPT OF A BILLING INVOICE, EXCEPT FOR DISPUTES CONCERNING NASDAQ OMX PSX FEES, PROPRIETARY DATA FEED FEES AND CO-LOCATION SERVICES FEES. AS OF JANUARY 3, 2011, THE EXCHANGE WILL CALCULATE FEES ON A TRADE DATE BASIS.

¹ PHLX[®] is a registered trademark of The NASDAQ OMX Group, Inc.

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VIII. NASDAQ OMX PSX FEES

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Quote/Order Execution and Routing

(a) The following charges and credits shall apply to the use of the order execution and routing services of the NASDAQ OMX PSX System by member organizations for all securities that it trades priced at \$1 or more per share[:]. For purposes of determining average daily volume hereunder, any day that the market is not open for the entire trading day will be excluded from such calculation.

(1) Fees for Execution of Quotes/Orders in Nasdaq-Listed Securities

Charge to member organization entering order that executes in NASDAQ OMX PSX:	\$0.00275 per share executed for orders entered through a NASDAQ OMX PSX market participant identifier ("MPID") through which the member organization provides an average daily volume of 10,000 or more shares of liquidity during the month
	\$0.0028 per share executed for an order that is designated as eligible for routing
	\$0.0030 per share executed for other orders

Credit to member organization providing liquidity through the NASDAQ OMX PSX System:

Displayed Quote/Order: \$0.0032 per share executed for a Quote/Order in an LMM Category 1 Security entered by its Lead Market Maker

\$0.0038 per share executed for a Quote/Order in an LMM Category 2 Security entered by its Lead Market Maker

\$0.0042 per share executed for a Quote/Order in an LMM Category 3 Security entered by its Lead Market Maker

\$0.0048 per share executed for a Quote/Order in an LMM Category 4 Security entered by its Lead Market Maker

\$0.0028 per share executed for Quotes/Orders entered by a member organization that provides an average daily volume of 2 million or more shares of liquidity during the month

\$0.0026 per share executed for Quotes/Orders entered through a NASDAQ OMX PSX MPID through which the member organization provides an average daily volume of 100,000 or more shares of liquidity during the month

\$0.0020 per share executed for other Quotes/O[orders]

Non-Displayed Order: \$0.0010 per share executed for a midpoint pegged order or a midpoint peg post-only order (a “midpoint order”)

\$0.0005 per share executed for other non-displayed orders

(2) Fees for Execution of Quotes/Orders in Securities Listed on the New York Stock Exchange (“NYSE”)

Charge to member organization entering order that executes in NASDAQ OMX PSX: \$0.00275 per share executed for orders entered through a NASDAQ OMX PSX MPID through which the member organization provides an average daily volume of 10,000 or more shares of liquidity during the month

\$0.0028 per share executed for an order that is designated as eligible for routing

\$0.0030 per share executed for other orders

Credit to member organization providing liquidity through the NASDAQ OMX PSX System:

Displayed Quote/Order: \$0.0028 per share executed for Quotes/Orders entered by a member organization that provides an average daily volume of 2 million or more shares of liquidity during the month

\$0.0026 per share executed for Quotes/Orders entered through a NASDAQ OMX PSX MPID through which the member organization provides an average daily volume of 100,000 or more shares of liquidity during the month

\$0.0020 per share executed for other Quotes/Orders

Non-Displayed Order: \$0.0010 per share executed for midpoint orders

\$0.0005 per share executed for other non-displayed orders

(3) Fees for Execution of Orders in Securities Listed on Exchanges other than Nasdaq and NYSE

Charge to member organization entering order that executes in NASDAQ OMX PSX: \$0.0025 per share executed for orders entered through a NASDAQ OMX PSX MPID through which the member organization provides an average daily volume of 10,000 or more shares of liquidity during the month

\$0.0025 per share executed for an order that is designated as eligible for routing

\$0.0030 per share executed for other orders

Credit to member organization providing liquidity through the NASDAQ OMX PSX System:

Displayed Quote/Order: \$0.0032 per share executed for a Quote/Order in an LMM Category 1 Security entered by its Lead Market Maker

\$0.0038 per share executed for a Quote/Order in an LMM Category 2 Security entered by its Lead Market Maker

\$0.0042 per share executed for a Quote/Order in an LMM Category 3 Security entered by its Lead Market Maker

\$0.0048 per share executed for a Quote/Order in an LMM Category 4 Security entered by its Lead Market Maker

\$0.0028 per share executed for Quotes/Orders entered by a member organization that provides an average daily volume of 2 million or more shares of liquidity during the month

\$0.0026 per share executed for Quotes/Orders entered through a NASDAQ OMX PSX MPID through which the member organization provides an average daily volume of 100,000 or more shares of liquidity during the month

\$0.0020 per share executed for other Quotes/Orders

Non-Displayed Order: \$0.0010 per share executed for midpoint orders

\$0.0005 per share executed for other non-displayed orders

(4) No change.

[For purposes of determining average daily volume hereunder, any day that the market is not open for the entire trading day will be excluded from such calculation.]

(b) No change.

(c) Lead Market Makers

(1) Definitions

(A) A “Qualified Security” means any NMS stock (as defined in SEC Rule 600 under Regulation NMS) that has been selected by the Exchange as a security for which it wishes to designate a Lead Market Maker.

(B) An “LMM Category 1 Security” means, with respect to a particular month, a Qualified Security with an average daily volume on all exchanges and trade reporting facilities during the prior three months of at least 50 million shares per day.

(C) An “LMM Category 2 Security” means, with respect to a particular month, a Qualified Security with an average daily volume on all exchanges and trade reporting facilities during the prior three months of at least 5 million but less than 50 million shares per day.

(D) An “LMM Category 3 Security” means, with respect to a particular month, a Qualified Security with an average daily volume on all exchanges and trade reporting facilities during the prior three months of at least 1 million but less than 5 million shares per day.

(E) An “LMM Category 4 Security” means, with respect to a particular month, a Qualified Security with an average daily volume on all exchanges and trade reporting facilities during the prior three months of less than 1 million shares per day.

(F) A “Lead Market Maker” or “LMM” is a registered PSX Market Maker for a Qualified Security that has been designated by the Exchange and has committed to maintain minimum performance standards.

(G) “Regular market hours” means 9:30 a.m. through 4:00 p.m. Eastern Time, or such shorter period as may be designated by the Exchange on a day when PSX closes early.

(H) “NBBO” means the national best bid and national best offer.

(I) “Group” means one or more Qualified Securities designated from time to time by the Exchange for purposes of being assigned to an LMM.

(2) Requirements for LMM Pricing

(A) In order to qualify for the pricing for LMMs set forth in paragraph (a) for any Qualified Security to which it has been assigned, an LMM must, through the MPID in which is registered as a PSX Market Maker, adhere to the following performance standards with respect to that Qualified Security:

(i) The LMM must at all times during regular market hours maintain a displayed quote/order on each side of the market that is within at least 5% of the NBBO and that has a size of at least 500 shares; and

(ii) The LMM must maintain a displayed bid quotation and/or displayed offer quotation of at least 100 shares at the national best bid and/or the national best offer at least 25% of the time during regular market hours.

(iii) For a period of six months following initial designation as an LMM for a Group, the LMM must adhere to such additional commitments with respect to size and/or percentage time at the national best bid and/or national best offer as to which the LMM has agreed pursuant to paragraph (c)(3), measured as an average across all Qualified Securities in the Group.

In addition, an LMM will not qualify for the pricing for LMMs for any Qualified Security unless the LMM, through the MPID in which it is registered as a PSX Market Maker (i) provides an average daily volume of 5 million or more shares of liquidity in all securities during the month and (ii) adheres to the performance standards described in paragraph (c)(2)(A)(i) – (iii) with respect to at least 90% of the Qualified Securities for which it is the LMM.

(B) Any period of time for which an LMM has received an excused withdrawal under Rule 3219 will not be considered in determining an LMM's compliance with performance standards.

(3) Designation of Lead Market Makers

(A) LMMs shall be designated by the Exchange using the following competitive bidding process:

(i) The Exchange will select Qualified Securities and assign them into a Group based on factors that include, but may not be limited to, historical trading patterns and the interest expressed by member organizations in making a market in particular securities.

(ii) Following the selection of a Group by the Exchange, the Exchange shall publicly announce an auction for that Group. Under such an auction, member organizations that are registered PSX Market Makers may submit a bid to become the LMM for all of the Qualified Securities in such Group. Bids must be submitted within the time frame specified by the Exchange, which time frame shall not be less than five business days from the date on which the auction is announced. Each bidder must agree to adhere to the minimum performance standards described above, and may, in addition, offer to adhere to heightened standards as follows:

A. Percentage of time at which the LMM's bid quotation and/or offer quotation is at the national best bid and/or national best offer during regular market hours, in increments of 5% of the trading day above the base percentage of 25% of the trading day; and

B. Size of bid quotation at the national best bid and offer quotation at the national best offer, in increments of 100 shares on each side above the base size of 100 shares on each side.

(B) The LMM for a Group of Qualified Securities will be designated on the basis of submitted bids, as follows:

(i) The bidder with the highest commitment to percentage of time at the national best bid and/or national best offer will be designated as the LMM. In the event of a tie, the bidder with the highest commitment to size at the national best bid and national best offer will be designated as the LMM. In the event of a tie with respect to both criteria, the bidder with the highest total volume on PSX during the prior twelve calendar months will be designated. The designation will be effective on the first day of the month following the completion of the bidding process.

(ii) If the Exchange is unable to allocate one or more Qualified Securities through a bidding process because no member organizations submit bids for it, the Exchange will assign the Qualified Security to the first registered market maker that expresses in interest in becoming the LMM. The Exchange will publish on its website a list of Qualified Securities that have not been assigned an LMM.

(C) After serving as an LMM for a particular group of Qualified Securities for a period of six months, an LMM may withdraw from serving as LMM for any or all such Qualified Securities, by providing the Exchange three months' notice (or such shorter notice period as to which the Exchange may consent). In the event of an LMM withdrawal, the affected Qualified Securities will be reassigned as provided in paragraph (c)(3)(B). In addition, the Exchange may determine that a particular security will cease to be a Qualified Security, but shall provide at least three months' advance notice of such a determination.

(D) In the event an LMM fails to meet the performance standards specified in paragraph (c)(2)(A)(i) – (iii) with respect to a Qualified Security during a particular month, the Exchange will notify the LMM of such deficiency. If the LMM fails to meet the performance standards specified in paragraph (c)(2)(A)(i) – (iii) with respect to the same Qualified Security during a second consecutive month, the Exchange may reassign such Qualified Security to another LMM using the method provided for in paragraph (c)(3)(B).

(E) If a registered market maker for a Qualified Security that is not the LMM for such Qualified Security wishes to become the LMM for such Qualified Security, it may initiate a challenge by notifying the Exchange of its intention to initiate a challenge. If this occurs, the incumbent LMM will be notified of the challenge, and the performance of the incumbent LMM and the challenger will be evaluated over the course of the following two calendar months with respect to both percentage of time and size at the NBBO. More than one member organization may challenge an LMM at one time.

(F) If, during the two-month period of the challenge, a challenger (i) satisfies the requirements for LMM pricing in paragraph (c)(2) with respect to average daily volume and performance standards for the Qualified Security that is the subject of the challenge, and (ii) exceeds the incumbent LMM's time at the NBBO by a daily average of at least 5%; or equals or exceeds the incumbent LMM's time at the NBBO by a daily average of less than 5% but exceeds the LMM's size at the NBBO by a daily average of at least 100 shares, the Qualified Security will be reassigned to the challenger on the first day of the following month. If there is more than one

challenger and both satisfy the foregoing requirements, the Qualified Security will be assigned to the challenger with the highest time at the NBBO (or the highest size at the NBBO in the event of a tie). In addition, during the challenge months, a challenger will be eligible to receive credits with respect to providing liquidity through displayed orders in the Qualified Security that is the subject of the challenge at the rates provided for in paragraph (a) with respect to an LMM, provided that it satisfied the volume requirements and performance standards provided for in paragraph (c)(2) with respect to the Qualified Security.

(G) If a challenger does not exceed the incumbent LMM with respect to average time at the NBBO and average size at the NBBO over the course of the two challenge months, the Qualified Security will be retained by the incumbent LMM. If the challenger did, however, exceed the average time at the NBBO and average size at the NBBO of the incumbent LMM during the month immediately prior to the challenge months, and the challenger satisfied all the volume requirements and performance standards provided for in paragraph (c)(2) with respect to the Qualified Security, the challenger will receive, for the months of the challenge, the following credits with respect to providing liquidity through displayed orders in the Qualified Security that is the subject of the challenge: \$0.0031 per share executed with respect to an LMM Category 1 Security; \$0.0034 per share executed with respect to an LMM Category 2 Security; \$0.0036 per share executed with respect to an LMM Category 3 Security; and \$0.0039 per share executed with respect to an LMM Category 4 Security.

(H) If a challenger does not exceed the incumbent LMM with respect to average time at the NBBO and average size at the NBBO over the course of the two challenge months, and did not exceed the average time at the NBBO and average size at the NBBO of the incumbent LMM during the month immediately prior to the challenge months, the Qualified Security will be retained by the incumbent LMM, the challenger will receive the credits otherwise applicable to its provision of liquidity under paragraph (a), and the challenger may not attempt to challenge with respect to that Qualified Security again for a period of six months.

(I) No challenge may be initiated for the first six months after a Qualified Security has been assigned to a particular LMM.

[(c)] (d) Excess Order Fee

(1) – (4) No change.

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