

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 22	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2014 - * 65	Amendment No. (req. for Amendments *)
Filing by NASDAQ OMX PHLX LLC. Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934				
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>
			Section 19(b)(3)(B) * <input type="checkbox"/>	
			Rule	
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934	
Section 806(e)(1) * <input type="checkbox"/>		Section 806(e)(2) * <input type="checkbox"/>	Section 3C(b)(2) * <input type="checkbox"/>	
Exhibit 2 Sent As Paper Document <input type="checkbox"/>		Exhibit 3 Sent As Paper Document <input type="checkbox"/>		
<b>Description</b>				
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).				
<input type="text" value="Relating to Rule 705"/>				
<b>Contact Information</b>				
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 *	<input type="text" value="Angela"/>	Last Name *	<input type="text" value="Dunn"/>	
Title *	<input type="text" value="Associate General Counsel"/>			
E-mail *	<input type="text" value="angela.dunn@nasdaqomx.com"/>			
Telephone *	<input type="text" value="(215) 496-5692"/>	Fax	<input type="text"/>	
<b>Signature</b>				
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	<input type="text" value="09/25/2014"/>	<input type="text" value="Executive Vice President and General Counsel"/>		
By	<input type="text" value="Edward S. Knight"/>	<input type="text"/>		
(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.				
<input type="button" value="Persona Not Validated - 1383935917270"/>				

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 the Proposed Rule Change

(a) NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> proposes to delete certain extraneous language from Exchange Rule 705 to amend an inadvertent error in the rule text.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and a copy of the applicable portion of the rule text is attached hereto as Exhibit 5.

(b) Inapplicable.

(c) Inapplicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange on July 16, 2014. No other action by the Exchange is necessary for the filing of the rule change. Exchange staff will advise the Board of any action taken pursuant to delegated authority.

Questions and comments on the proposed rule change may be directed to Angela Dunn, Associate General Counsel, The NASDAQ OMX Group, Inc., at (215) 496-5692.

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

a. Purpose

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

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

The purpose of the proposed rule change is to correct the text of Exchange Rule 705, entitled “Fidelity Bonds,” by deleting certain text which was not deleted when the Exchange filed to replace Rule 705<sup>3</sup> with a rule in substantially the same form as that at the Financial Industry Regulatory Authority, Inc. (“FINRA”).<sup>4</sup> Exchange Rule 705 was replaced by a new Rule 705 as of April 2, 2012, in order to harmonize the Phlx Rules with FINRA rules. The title of Exchange Rule 705 was changed from “Members Must Carry” to “Fidelity Bonds.” The Exchange intended to delete Rule 705 in its entirety and rename the rule and replace the text with new text similar to that in FINRA Rule 4360. The Exchange inadvertently did not include all of the Supplementary Material section of the Rule in the original filing so that it could be deleted. The Exchange proposes to delete the current Supplementary Material .03 to Exchange Rule 705 in accordance with the intent of the original rule proposal.

The purpose of a fidelity bond is to protect a member organization against certain types of losses, including, but not limited to, those caused by the malfeasance of its officers and employees, and the effect of such losses on the member organization's capital. At this time the Exchange is seeking to delete rule text which covers Employee

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<sup>3</sup> See Securities Exchange Act Release No. 66362 (February 9, 2012), 77 FR 8931 (February 15, 2012) (SR-Phlx-2012-13). See also Securities Exchange Act Release No. 66407 (February 23, 2012), 77 FR 10787 (February 16, 2012) (SR-Phlx-2012-21). See also Securities Exchange Act Release No. 66411 (February 23, 2012), 77 FR 10788 (February 12, 2012) (SR-NYSE-2012-04) (an immediately effective filing which incorporated the FINRA rule by merely noting the text would be the same as the FINRA rule). See also Securities Exchange Act Release No. 66407 (February 23, 2012), 77 FR 10787 (February 16, 2012) (SR-Phlx-2012-21). See also Securities Exchange Act Release No. 66412 (February 23, 2012), 77 FR 10791 (February 16, 2012) (SR-NYSEAmex-2012-08) (an immediately effective filing which incorporated the FINRA rule by merely noting the text would be the same as the FINRA rule).

<sup>4</sup> See FINRA Rule 4360 “Fidelity Bonds.”

Blanket Bond Coverage in Supplementary Material .03. The rule text that the Exchange proposes to delete states that member organizations subject to minimum net capital under Rule 15c3-1 are required to have Brokers Blanket Bond Coverage with respect to employees (including officers, regardless of their duties) in amounts not less than the minimums prescribed above which apply both to partner coverage and employee blanket bond coverage. In addition to this basic Brokers Blanket Bond Coverage, “member organizations are required to include the following minimum specific coverages with respect to: MISPLACEMENT, FRAUDULENT TRADING, CHECK FORGERY and SECURITIES FORGERY, ON PREMISES AND IN TRANSIT.” Further, all employee Fidelity coverage shall be on the Standard Form 14 Stock Brokers' Bond, Federal Insurance Company's Form B Bond or Lloyd's form if it is the full equivalent. With respect to Misplacement, Check Forgery, On Premises and In Transit, at least the amount of the basic bond minimum requirement shall be carried. With respect to Fraudulent Trading, at least \$50,000 or 50% of the basic bond minimum requirement, whichever is greater, with a top minimum of \$500,000 shall be carried. With respect to Securities Forgery, at least \$50,000 or 25% of the basic bond minimum requirement, whichever is greater, with a top minimum of \$250,000 shall be carried.

The rule text the Exchange is proposing to delete further goes on to note that a “review for adequacy of coverage shall be made at least annually as of the anniversary date of the issuance of the bond and minimum requirements for the next twelve months shall be established by reference to the highest net capital requirement in the preceding twelve months. Each member organization will be expected to review carefully any need for coverage greater than that provided by the required minimums. Where experience or

the nature of the business warrants additional coverage the Exchange expects the member organization to acquire it.”

Each member and member organization, according to the rule text the Exchange is proposing to delete, is required to carry certain forms of insurance and advise the Exchange if such insurance is entirely or partially cancelled. Members and member organizations are required to provide details in writing within 10 days of cancellation. A member organization which becomes eligible to elect and does elect to compute its minimum required net capital under the alternative net capital requirement set forth in paragraph (f) of Rule 15c3-1, instead of under the requirements set forth in paragraph (a) in the deleted rule text, shall determine its minimum required coverage in the same manner as specified in sections .02(b) and .03 hereof.”

Finally, the rule states that each member organization “may self-insure to the extent of \$5,000 or 10% of its minimum insurance requirement as fixed by the Exchange, whichever is greater, for each type of coverage required by the rule. The excess of any such amount self-insured over the maximum permissible self-insurance must be deducted from the member organization's net worth in the calculation of net capital for purposes of Rule 15c3-1.”

The Exchange notes that at the time of the filing it sought to replace the current rule in its entirety and adopt the FINRA rule as noted in the original filing.<sup>5</sup> FINRA Rule 4360 requires a member (including a firm that signs a multi-year insurance policy), annually as of the yearly anniversary date of the issuance of the fidelity bond, to review the adequacy of its fidelity bond coverage and make any required adjustments to its

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<sup>5</sup> See Securities Exchange Act Release No. 66362 (February 9, 2012), 77 FR 8931 (February 15, 2012) (SR-Phlx-2012-13).

coverage, as set forth in the rule. Under FINRA Rule 4360(d), a member's highest net capital requirement during the preceding 12-month period, based on the applicable method of computing net capital (dollar minimum, aggregate indebtedness or alternative standard), is used as the basis for determining the member's minimum required fidelity bond coverage for the succeeding 12-month period. The "preceding 12-month period" includes the 12-month period that ends 60 days before the yearly anniversary date of a member's fidelity bond. This would give a firm time to determine its required fidelity bond coverage by the anniversary date of the bond.

Further, FINRA Rule 4360 allows a member that has only been in business for one year and elected the aggregate indebtedness ratio for calculating its net capital requirement to use, solely for the purpose of determining the adequacy of its fidelity bond coverage for its second year, the 15 to 1 ratio of aggregate indebtedness to net capital in lieu of the 8 to 1 ratio (required for broker-dealers in their first year of business) to calculate its net capital requirement. Notwithstanding the above, such member would not be permitted to carry less minimum fidelity bond coverage in its second year than it carried in its first year.

FINRA Rule 4360 exempts from the fidelity bond requirements members in good standing with a national securities exchange that maintain a fidelity bond subject to the requirements of such exchange that are equal to or greater than the requirements set forth in Rule 4360. Additionally, FINRA Rule 4360 continues to exempt from the fidelity bond requirements any firm that acts solely as a Designated Market Maker floor broker or registered floor trader and does not conduct business with the public.

The Exchange intended to adopt the FINRA rule instead.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>6</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>7</sup> 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 correcting an error in the Exchange's Rules in order that the Rule properly reflect the correct text. An accurate and up-to-date Rulebook will avoid confusion for market participants. This proposal is not substantive, rather, the proposals seek to update the rules to reflect the current operation of the Exchange. The Exchange believes that the requirements of FINRA Rule 4360, including, but not limited to, requiring each member that is required to join SIPC to maintain blanket fidelity bond coverage, increasing the minimum requirement fidelity bond coverage and maintaining a fidelity bond that provides for per loss coverage without an aggregate limit of liability promotes investor protection by protecting firms from unforeseen losses. The proposed amendments will conform Phlx's Rule to a corresponding FINRA rule, to promote application of consistent regulatory standards.

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. The Exchange is merely seeking to correct an inadvertent error in the Rule text. The Exchange's original intent was to adopt the FINRA rule and the changes proposed

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<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).



herein further that intent and conform the Phlx rule to the FINRA rule to promote application of consistent regulatory standards.

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

Not applicable.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)<sup>8</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>9</sup> in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. The Exchange believes the proposed rule change will correct an inadvertent error in the Rulebook and provide clarity to its members and member organizations. The filing of this proposal will correct the rule text to reflect the intent of the 2012 filing<sup>10</sup> and to promote application of consistent regulatory standards.

Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that

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<sup>8</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>9</sup> 17 CFR 240.19b-4(f)(6).

<sup>10</sup> See note 5.

subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the 30-day pre-operative waiting period contained in Rule 19b-4(f)(6)(iii) so that the Exchange can quickly correct the inadvertent error and avoid inconsistency in its Rules. The Exchange believes that this is consistent with the protection of investors and the public interest, because accurate rules are important to the function of the Exchange. The proposed amendments reflect the Exchange's intent in a prior filing. This rule change is not substantive but merely seeks to properly amend rules to reflect the current operation of the Exchange.

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

This proposed rule change is based on a prior Phlx and FINRA Rule Filing.<sup>11</sup>

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

Not applicable.

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<sup>11</sup> See Securities Exchange Act Release No. 66362 (February 9, 2012), 77 FR 8931 (February 15, 2012) (SR-Phlx-2012-13). See also Securities Exchange Act Release No. 63961 (February 24, 2011), 76 FR 11542 (March 2, 2011) (SR-FINRA-2010-059) (a rule change to adopt a rule of the National Association of Securities Dealers, Inc. ("NASD") as part of the consolidation of the FINRA rulebook). The proposed Rule is substantially similar to a FINRA Rule. The Exchange would not allow members and member organizations to request an exemption from certain requirements of the Rule similar to FINRA which has procedures for requesting exemption. The Exchange would only permit the exemptions in proposed Rule 705(f).

10. Advance 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.
5. Text of the proposed rule change.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-Phlx-2014-65)

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Rule 705

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 25, 2014, NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to delete certain extraneous language from Exchange Rule 705 to amend an inadvertent error in the rule text.

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaqomxphlx.cchwallstreet.com/>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

<sup>2</sup> 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 purpose of the proposed rule change is to correct the text of Exchange Rule 705, entitled “Fidelity Bonds,” by deleting certain text which was not deleted when the Exchange filed to replace Rule 705<sup>3</sup> with a rule in substantially the same form as that at the Financial Industry Regulatory Authority, Inc. (“FINRA”).<sup>4</sup> Exchange Rule 705 was replaced by a new Rule 705 as of April 2, 2012, in order to harmonize the Phlx Rules with FINRA rules. The title of Exchange Rule 705 was changed from “Members Must Carry” to “Fidelity Bonds.” The Exchange intended to delete Rule 705 in its entirety and

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<sup>3</sup> See Securities Exchange Act Release No. 66362 (February 9, 2012), 77 FR 8931 (February 15, 2012) (SR-Phlx-2012-13). See also Securities Exchange Act Release No. 66407 (February 23, 2012), 77 FR 10787 (February 16, 2012) (SR-Phlx-2012-21). See also Securities Exchange Act Release No. 66411 (February 23, 2012), 77 FR 10788 (February 12, 2012) (SR-NYSE-2012-04) (an immediately effective filing which incorporated the FINRA rule by merely noting the text would be the same as the FINRA rule). See also Securities Exchange Act Release No. 66407 (February 23, 2012), 77 FR 10787 (February 16, 2012) (SR-Phlx-2012-21). See also Securities Exchange Act Release No. 66412 (February 23, 2012), 77 FR 10791 (February 16, 2012) (SR-NYSEAmex-2012-08) (an immediately effective filing which incorporated the FINRA rule by merely noting the text would be the same as the FINRA rule).

<sup>4</sup> See FINRA Rule 4360 “Fidelity Bonds.”

rename the rule and replace the text with new text similar to that in FINRA Rule 4360. The Exchange inadvertently did not include all of the Supplementary Material section of the Rule in the original filing so that it could be deleted. The Exchange proposes to delete the current Supplementary Material .03 to Exchange Rule 705 in accordance with the intent of the original rule proposal.

The purpose of a fidelity bond is to protect a member organization against certain types of losses, including, but not limited to, those caused by the malfeasance of its officers and employees, and the effect of such losses on the member organization's capital. At this time the Exchange is seeking to delete rule text which covers Employee Blanket Bond Coverage in Supplementary Material .03. The rule text that the Exchange proposes to delete states that member organizations subject to minimum net capital under Rule 15c3-1 are required to have Brokers Blanket Bond Coverage with respect to employees (including officers, regardless of their duties) in amounts not less than the minimums prescribed above which apply both to partner coverage and employee blanket bond coverage. In addition to this basic Brokers Blanket Bond Coverage, "member organizations are required to include the following minimum specific coverages with respect to: MISPLACEMENT, FRAUDULENT TRADING, CHECK FORGERY and SECURITIES FORGERY, ON PREMISES AND IN TRANSIT." Further, all employee Fidelity coverage shall be on the Standard Form 14 Stock Brokers' Bond, Federal Insurance Company's Form B Bond or Lloyd's form if it is the full equivalent. With respect to Misplacement, Check Forgery, On Premises and In Transit, at least the amount of the basic bond minimum requirement shall be carried. With respect to Fraudulent Trading, at least \$50,000 or 50% of the basic bond minimum requirement, whichever is

greater, with a top minimum of \$500,000 shall be carried. With respect to Securities Forgery, at least \$50,000 or 25% of the basic bond minimum requirement, whichever is greater, with a top minimum of \$250,000 shall be carried.

The rule text the Exchange is proposing to delete further goes on to note that a “review for adequacy of coverage shall be made at least annually as of the anniversary date of the issuance of the bond and minimum requirements for the next twelve months shall be established by reference to the highest net capital requirement in the preceding twelve months. Each member organization will be expected to review carefully any need for coverage greater than that provided by the required minimums. Where experience or the nature of the business warrants additional coverage the Exchange expects the member organization to acquire it.”

Each member and member organization, according to the rule text the Exchange is proposing to delete, is required to carry certain forms of insurance and advise the Exchange if such insurance is entirely or partially cancelled. Members and member organizations are required to provide details in writing within 10 days of cancellation. A member organization which becomes eligible to elect and does elect to compute its minimum required net capital under the alternative net capital requirement set forth in paragraph (f) of Rule 15c3-1, instead of under the requirements set forth in paragraph (a) in the deleted rule text, shall determine its minimum required coverage in the same manner as specified in sections .02(b) and .03 hereof.”

Finally, the rule states that each member organization “may self-insure to the extent of \$5,000 or 10% of its minimum insurance requirement as fixed by the Exchange, whichever is greater, for each type of coverage required by the rule. The excess of any

such amount self-insured over the maximum permissible self-insurance must be deducted from the member organization's net worth in the calculation of net capital for purposes of Rule 15c3-1.”

The Exchange notes that at the time of the filing it sought to replace the current rule in its entirety and adopt the FINRA rule as noted in the original filing.<sup>5</sup> FINRA Rule 4360 requires a member (including a firm that signs a multi-year insurance policy), annually as of the yearly anniversary date of the issuance of the fidelity bond, to review the adequacy of its fidelity bond coverage and make any required adjustments to its coverage, as set forth in the rule. Under FINRA Rule 4360(d), a member's highest net capital requirement during the preceding 12-month period, based on the applicable method of computing net capital (dollar minimum, aggregate indebtedness or alternative standard), is used as the basis for determining the member's minimum required fidelity bond coverage for the succeeding 12-month period. The "preceding 12-month period" includes the 12-month period that ends 60 days before the yearly anniversary date of a member's fidelity bond. This would give a firm time to determine its required fidelity bond coverage by the anniversary date of the bond.

Further, FINRA Rule 4360 allows a member that has only been in business for one year and elected the aggregate indebtedness ratio for calculating its net capital requirement to use, solely for the purpose of determining the adequacy of its fidelity bond coverage for its second year, the 15 to 1 ratio of aggregate indebtedness to net capital in lieu of the 8 to 1 ratio (required for broker-dealers in their first year of business) to calculate its net capital requirement. Notwithstanding the above, such member would not

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<sup>5</sup> See Securities Exchange Act Release No. 66362 (February 9, 2012), 77 FR 8931 (February 15, 2012) (SR-Phlx-2012-13).



be permitted to carry less minimum fidelity bond coverage in its second year than it carried in its first year.

FINRA Rule 4360 exempts from the fidelity bond requirements members in good standing with a national securities exchange that maintain a fidelity bond subject to the requirements of such exchange that are equal to or greater than the requirements set forth in Rule 4360. Additionally, FINRA Rule 4360 continues to exempt from the fidelity bond requirements any firm that acts solely as a Designated Market Maker floor broker or registered floor trader and does not conduct business with the public.

The Exchange intended to adopt the FINRA rule instead.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>6</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>7</sup> 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 correcting an error in the Exchange's Rules in order that the Rule properly reflect the correct text. An accurate and up-to-date Rulebook will avoid confusion for market participants. This proposal is not substantive, rather, the proposals seek to update the rules to reflect the current operation of the Exchange. The Exchange believes that the requirements of FINRA Rule 4360, including, but not limited to, requiring each member that is required to join SIPC to maintain blanket fidelity bond coverage, increasing the minimum requirement fidelity

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<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

bond coverage and maintaining a fidelity bond that provides for per loss coverage without an aggregate limit of liability promotes investor protection by protecting firms from unforeseen losses. The proposed amendments will conform Phlx's Rule to a corresponding FINRA rule, to promote application of consistent regulatory standards.

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. The Exchange is merely seeking to correct an inadvertent error in the Rule text. The Exchange's original intent was to adopt the FINRA rule and the changes proposed herein further that intent and conform the Phlx rule to the FINRA rule to promote application of consistent regulatory standards.

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<sup>8</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>9</sup>

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<sup>8</sup> 15 U.S.C. 78s(b)(3)(a)(ii).

<sup>9</sup> 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

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

#### IV. Solicitation of Comments

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

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2014-65 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-2014-65. 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

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proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>).

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

All submissions should refer to File Number SR-Phlx-2014-65 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>10</sup>

Kevin M O'Neill  
Deputy Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).

**Exhibit 5**

*Deleted text is in brackets.*

**RULES OF THE EXCHANGE**

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**Rule 705. Fidelity Bonds**

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[••• *Supplementary Material:* -----

**Employee Blanket Bond Coverage**

**.03 A. *Basic Coverage.***—Member organizations subject to minimum net capital under Rule 15c3-1 are required to have Brokers Blanket Bond Coverage with respect to employees (including officers, regardless of their duties) in amounts not less than the minimums prescribed above which apply both to partner coverage and employee blanket bond coverage.

**B. *Specific Coverages.***—In addition to this basic Brokers Blanket Bond Coverage, member organizations are required to include the following minimum specific coverages with respect to: MISPLACEMENT, FRAUDULENT TRADING, CHECK FORGERY and SECURITIES FORGERY, ON PREMISES AND IN TRANSIT.

1. All employee Fidelity coverage shall be on the Standard Form 14 Stock Brokers' Bond, Federal Insurance Company's Form B Bond or Lloyd's form if it is the full equivalent.
2. With respect to Misplacement, Check Forgery, On Premises and In Transit, at least the amount of the basic bond minimum requirement shall be carried.
3. With respect to Fraudulent Trading, at least \$50,000 or 50% of the basic bond minimum requirement, whichever is greater, with a top minimum of \$500,000 shall be carried.
4. With respect to Securities Forgery, at least \$50,000 or 25% of the basic bond minimum requirement, whichever is greater, with a top minimum of \$250,000 shall be carried.

**General**

A review for adequacy of coverage shall be made at least annually as of the anniversary date of the issuance of the bond and minimum requirements for the next twelve months shall be established by reference to the highest net capital requirement in the preceding twelve months. Each member organization will be expected to review carefully any need for coverage greater than that provided by the required minimums. Where experience or the nature of the business warrants additional coverage the Exchange expects the member organization to acquire it.

Each member and member organization required to carry the above forms of insurance shall advise the Exchange if such insurance is entirely or partially cancelled. Full details should be given in writing within 10 days of such cancellation.

A member organization which becomes eligible to elect and does elect to compute its minimum required net capital under the alternative net capital requirement set forth in paragraph (f) of Rule 15c3-1, instead of under the requirements set forth in paragraph (a) of such rule, shall determine its minimum required coverage in the same manner as specified in sections .02(b) and .03 hereof.

Each member organization may self-insure to the extent of \$5,000 or 10% of its minimum insurance requirement as fixed by the Exchange, whichever is greater, for each type of coverage required by the rule. The excess of any such amount self-insured over the maximum permissible self-insurance must be deducted from the member organization's net worth in the calculation of net capital for purposes of Rule 15c3-1.]

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