Required fields are shown with yellow backgrounds and asterisks.

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

File No.* SR - 2016 - * 113

Amendment No. (req. for Amendments *)

Filing by   NASDAQ 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) * ☐

Rule

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

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

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

Section 806(e)(1) * ☐

Section 806(e)(2) * ☐

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

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ▣

Exhibit 3 Sent As Paper Document ▣

Description

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

Proposal to amend the Limit Order Protection (LOP) for members accessing PSX and adding rule text related to a collar applicable to Primary Pegging and Market Pegging Orders.

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 * Angela   Last Name * Dunn

Title * Principal Attorney General Counsel

E-mail * Angela.Dunn@nasdaq.com

Telephone * (215) 496-5692   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 11/15/2016

By Edward S. Knight

Executive Vice President and General Counsel

(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.

edward.knight@nasdaq.com

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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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
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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

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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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 PHLX LLC ("Phlx" or "Exchange"), pursuant to Section

19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] is

filing with the Securities and Exchange Commission ("SEC" or "Commission") a

proposal to amend the Limit Order Protection or "LOP" for members accessing PSX and

adding rule text related to a collar applicable to Primary Pegging and Market Pegging

Orders.

        A notice of the proposed rule change for publication in the Federal Register is at

Exhibit 1 and the text of the amended Exchange Rule is at 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 the

Exchange on August 15, 2016. No other action is necessary for the filing of the rule

change. Questions and comments on the proposed rule change may be directed to:

<div align="center">
Angela Saccomandi Dunn
Principal Associate General Counsel
Nasdaq, Inc.
215-496-5692.
</div>

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[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 Exchange recently adopted a new mechanism to protect against erroneous Limit Orders which are entered into PSX at Rule 3307(f).[3] This mechanism addresses risks to market participants of human error in entering Limit Orders at unintended prices. Specifically, LOP prevents certain Limit Orders from executing or being placed on the Order Book at prices outside pre-set standard limits. The System rejects those Limit Orders, rather than executing them automatically. LOP rejects Limit Orders back to the member when the order exceeds certain defined logic. Specifically, LOP prevents certain Limit Orders at prices outside of pre-set standard limits ("LOP Limit") from being accepted by the System.

Modifications of Orders

In its adoptive filing, the Exchange noted that LOP shall apply to all Quotes and Orders, including any modified Orders.[4] At this time, the Exchange proposes to remove "including any modified Orders" from the rule text at rule 3307(f)(i). The Exchange proposes to amend this language because it is misleading and may cause confusion. The Exchange proposes to state that LOP shall apply to all Quotes and Orders, including Quotes and Orders that have been modified, where the modification results in a new timestamp and priority.[5] Any Order that is modified within the System, but does not lose

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3   See Securities Exchange Act Release No. 78246 (August 24, 2016), 81 FR 59672 (August 30, 2016)(SR-Phlx-2016-58).

4   If an Order is modified, LOP will review the order anew and, if LOP is triggered, such modification will not take effect and the original order will be rejected.

5   See Rule 4756 (Entry and Display of Quotes and Orders) at (a)(3).

priority, for example an Order that was decremented, will not be subject to LOP after it was modified because the system does not cancel decremented orders from the Order Book. If an Order is cancelled either by the member or by the system and a new Order entered into the System, the new Order would be subject to LOP. For example, if the price of an Order is modified, the system will cancel the Order and the modified Order would receive a new timestamp and priority and this Order would be subject to LOP.

Exceptions to LOP

The Exchange also noted in its adoptive filing that LOP would not apply to Market Orders, Market Maker Peg Orders[6] or Intermarket Sweep Orders (ISO).[7] The Exchange proposes to modify this language to specifically state that LOP would not apply to Orders with Market and Primary Pegging.[8]

There are three types of Pegging Orders: Primary Pegging, Market Pegging and Midpoint Pegging. Pegging is an Order Attribute that allows an Order to have its price

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[6]   A "Market Maker Peg Order" is an Order Type designed to allow a Market Maker to maintain a continuous two-sided quotation at a displayed price that is compliant with the quotation requirements for Market Makers set forth in Rule 3213(a)(2). The displayed price of the Market Maker Peg Order is set with reference to a "Reference Price" in order to keep the displayed price of the Market Maker Peg Order within a bounded price range. A Market Maker Peg Order may be entered through RASH or FIX only. A Market Maker Peg Order must be entered with a limit price beyond which the Order may not be priced. The Reference Price for a Market Maker Peg Order to buy (sell) is the then-current National Best Bid (National Best Offer) (including PSX), or if no such National Best Bid or National Best Offer, the most recent reported last-sale eligible trade from the responsible single plan processor for that day, or if none, the previous closing price of the security as adjusted to reflect any corporate actions (e.g., dividends or stock splits) in the security. See PSX Rule 3301A(b)(5)(A).

[7]   An Intermarket Sweep or ISO Order, which is an Order that is immediately executable within PSX against Orders against which they are marketable, is not subject to LOP.   See PSX Rule 3401(g).

[8]   Orders with Market and Primary Pegging available through RASH and FIX only.

automatically set with reference to the NBBO; provided, however, that if PSX is the sole

market center at the Best Bid or Best Offer (as applicable), then the price of any

Displayed Order with Primary Pegging (as defined below) will be set with reference to

the highest bid or lowest offer disseminated by a market center other than PSX. An

Order with a Pegging Order Attribute may be referred to as a "Pegged Order."[9] For

purposes of this Rule 3301B, the price to which an Order is pegged will be referred to as

the Inside Quotation, the Inside Bid, or the Inside Offer, as appropriate. There are three

varieties of Pegging:

- Primary Pegging means Pegging with reference to the Inside Quotation on the same side of the market. For example, if the Inside Bid was $11, an Order to buy with Primary Pegging would be priced at $11.

- Market Pegging means Pegging with reference to the Inside Quotation on the opposite side of the market. For example, if the Inside Offer was $11.06, an Order to buy with Market Pegging would be priced at $11.06.

- Midpoint Pegging means Pegging with reference to the midpoint between the Inside Bid and the Inside Offer (the "Midpoint"). Thus, if the Inside Bid was $11 and the Inside Offer was $11.06, an Order with Midpoint Pegging would be priced at $11.03. An Order with Midpoint Pegging is not displayed. An Order with Midpoint Pegging may be executed in sub-pennies if necessary to obtain a midpoint price.

Midpoint Pegging will be the only Pegging Order subject to LOP, provided it has a

limit price. An Order with Pegging may specify a limit price beyond which the Order

may not be executed; provided, however, that if an Order has been assigned a Pegging

Order Attribute and a Discretion Order[10] Attribute, the Order may execute at any price

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[9]   PSX Rule 3301B(d).

[10]   Discretion is an Order Attribute under which an Order has a non-displayed discretionary price range within which the entering Participant is willing to trade; such an Order may be referred to as a "Discretionary Order." See PSX Rule 3301B(g).

within the discretionary price range, even if beyond the limit price specified with respect to the Pegging Order Attribute. A Midpoint Pegging Order may have a discretion attribute. A Midpoint Pegging Order with a discretion price would not be subject to LOP. The Exchange notes that a Midpoint Pegging Order, similar to a Primary or Market Pegging Order, as explained below, may result is an aggressive or passive price. As a result, the LOP may remove orders that were intended to be more aggressive or passive due to the discretionary attribute. For this reason, the Exchange will not subject a Midpoint Pegging Order with a discretion price to LOP.

In addition, an Order with Primary Pegging or Market Pegging may specify an Offset Amount,[11] such that the price of the Order will vary from the Inside Quotation by the selected Offset Amount. The Offset Amount may be either aggressive or passive. Thus, for example, if a Participant entered an Order to buy with Primary Pegging and a passive Offset Amount of $0.05 and the Inside Bid was $11, the Order would be priced at $10.95. If the Participant selected an aggressive Offset Amount of $0.02, however, the Order would be priced at $11.02. An Order with Primary Pegging and an Offset Amount will not be Displayed, unless the Order is Attributable. The Exchange notes that both Market and Primary Pegging may impact the market by effecting the bid or offer.

The Exchange is not applying LOP to orders with Market or Primary Pegging because it may result in removing orders that were intended to be more aggressive or to set the bid or offer on the market due to the order attributes noted above. These Pegging Orders are also subject to a collar, which is explained in this rule change.

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[11]   An offset is not supported for a Midpoint Pegging Order.

In contrast, an Order with Midpoint Pegging will only be at the midpoint and not have the same impact as the other two types of orders and therefore subjecting such an order to LOP does not impact the potential of the order since by definition it is set to the midpoint. An Order with Midpoint Pegging will not be displayed and is not subject to a collar.

An Order with Market Pegging and no Offset behaves as a "market order" with respect to any liquidity on the PSX Book at the Inside Quotation on the opposite side of the market because it is immediately executable at that price. If, at the time of entry, there is no price to which a Pegged Order can be pegged, the Order will be rejected; provided, however, that a Displayed Order that has Market Pegging, or an Order with a Non-Display Attribute that has Primary Pegging or Market Pegging, will be accepted at its limit price. In the case of an Order with Midpoint Pegging, if the Inside Bid and Inside Offer are locked, the Order will be priced at the locking price, if the Inside Bid and Inside Offer are crossed, the Order will nevertheless be priced at the midpoint between the Inside Bid and Inside Offer, and if there is no Inside Bid and/or Inside Offer, the Order will be rejected. However, even if the Inside Bid and Inside Offer are locked or crossed, an Order with Midpoint Pegging that locked or crossed an Order on the PSX Book would execute (provided, however, that a Midpoint Peg Post-Only Order would execute or post as described in Rule 3301B(d). It is important to note that only to the extent that a Midpoint Pegging Order has a limit price that the Order would be subject to LOP, unless the Midpoint Pegging Order also has a discretion attribute. If no limit price is specified, the Midpoint Pegging Order would not be subject to LOP.

LOP will be operational each trading day, except during trading halts and pauses.

Members will continue to be subject to certain parameters when submitting Limit Orders

into the Order Book. LOP will not apply in the event that there is no established LOP

Reference Price.[12] The LOP Reference Price shall be the current National Best Bid or

Best Offer (NBBO), the bid for sell orders and the offer for buy orders.[13] LOP is will be

applicable on all protocols.[14] The LOP feature will be mandatory for all PSX members.

Implementation of LOP

The Exchange indicated in its adoptive rule change that it would implement this

rule within ninety (90) days of the approval of the proposed rule change.[15] At this time,

the Exchange proposes to delay this implementation an additional sixty (60) days from

the original timeframe in order to implement the LOP with the changes proposed herein.

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[12]   For example, if there is a one-sided quote or if the NBB, when used as the LOP
        Reference Price, is equal to or less than $0.50.

[13]   The Exchange will not accept incoming Limit Orders that exceed the LOP
        Reference Threshold. Limit Orders will not be accepted if the price of the Limit
        Order is greater than the LOP Reference Threshold for a buy Limit Order. Limit
        Orders will not be accepted if the price of the Limit Order is less than the LOP
        Reference Threshold for a sell Limit Order. The LOP Reference Threshold for
        buy orders will be the LOP Reference Price (offer) plus the applicable percentage
        specified in the LOP Limit. The LOP Reference Threshold for sell orders will be
        the LOP Reference Price (bid) minus the applicable percentage specified in the
        LOP Limit. The LOP Limit will be the greater of 10% of the LOP Reference
        Price or $0.50 for all securities across all trading sessions. The LOP Reference
        Price will be the current National Best Bid or Best Offer (NBBO), the bid for sell
        orders and the offer for buy orders.

[14]   PSX maintains several communications protocols for members to use in entering
        Orders and sending other messages to PSX, such as: OUCH, RASH, FLITE, and
        FIX.

[15]   See note 3 above.

The Exchange will issue an Equities Trader Alert in advance to inform market

participants of such implementation date.

Pegging Order Collar

In 2009, the Exchange adopted a collar for certain Unpriced Orders.[16] At that

time, the Exchange defined an Unpriced Order as any order type permitted by the System

to buy or sell shares of a security at the national best bid (best offer) ("NBBO") at the

time when the order reaches the System. Any portion of an Unpriced Order that would

execute on PSX at a price more than $0.25 or 5 percent worse than the NBBO at the time

when the order reaches the System, whichever is greater, will be cancelled.

This rule related to the collar was inadvertently removed from the Exchange's

rules.[17] At this time, the Exchange proposes to amend the PSX rules to add the collar

into the rules once again.

The purpose of the collar is to protect market participants by reducing the risk that

Primary and Market Pegging Orders will execute at prices that are significantly worse

than the national best bid and offer ("NBBO") at the time the Exchange receives the

order. The Exchange believes that most market participants expect that their order will

be executed at its full size at a price reasonably related to the prevailing market.

However, market participants may not be aware that there is insufficient liquidity at or

near the NBBO to fill the entire order, particularly for more thinly-traded securities.

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[16]   See Securities Exchange Act Release No. 63051 (October 6, 2010), 75 FR 63240
        (October 14, 2010) (SR-Phlx-2010-135). An "Unpriced Order" was defined in
        this rule change as any order type permitted by the System to buy or sell shares of
        a security at the national best bid (best offer) ("NBBO") at the time when the
        order reaches the System.

[17]   See Securities Exchange Act Commission Release No. 75293 (June 24, 2015), 80
        FR 37327 (June 30, 2015) (SR-Phlx-2015-29).

The Exchange proposes to memorialize this collar, which currently exists in its trading and routing systems functionality, and define it specifically as applicable to Primary and Market Pegging Orders. The Exchange seeks to memorialize the rule within Rule 3301B, entitled "Order Attributes." The new rule text would state, "Primary Pegging Orders and Market Pegging Orders are subject to a collar. Any portion of a Primary Pegging Order or Market Pegging Order that would execute, either on the Exchange or when routed to another market center, at a price of more than $0.25 or 5 percent worse than the NBBO at the time when the order reaches the System, whichever is greater, will be cancelled."

The following example illustrates how the collar works. A market participant submits a routable order to buy 500 shares. The NBBO is $6.00 bid by $6.05 offer, with 100 shares available on each side. Both sides of the NBBO are set by another market center ("Away Market"), but PSX has 100 shares available at the $6.05 to sell at the offer price and also has reserve orders to sell 100 shares at $6.32 and 400 shares at $6.40. No other market center is publishing offers to sell the security in between $6.05 and $6.40.

In this example, the order would be executed in the following manner:

- 100 shares would be executed by PSX at the $6.05;

- 400 shares would be routed to the Away Market as an immediate or cancel order with a price of $6.05;

- 100 shares executed by the Away Market;[18]

- 300 shares returned to PSX;

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[18]   This assumes that the Away Market's offer was still available and that the Away Market had no additional non-displayed orders at this price.

- 100 shares executed by PSX at $6.32 (more than $0.25 but less than 5 percent worse than the NBBO); and 200 shares, representing the remainder of the order, would be cancelled because the remaining liquidity available at $6.40 is more than 5 percent worse than the NBBO.

Implementation of Pegging Order Collar

The Exchange intends to implement the Pegging Order Collar as soon as practicable pursuant to this proposal. The Exchange requests a waiver of the operative delay to implement the Pegging Order Collar.

b.   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,[19] in general, and furthers the objectives of Section 6(b)(5) of the Act,[20] 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 mitigating risks to market participants of human error in entering Limit Orders at clearly unintended prices. The proposal will allow for protections for Limit Orders which should encourage price continuity and, in turn, protect investors and the public interest by reducing executions occurring at dislocated prices.

The Exchange's proposal to amend the language concerning the modification of Orders is consistent with the Act because only new Orders would be subject to LOP. The proposed new language specifies that Orders that are modified for size and remain in the

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[19]   15 U.S.C. 78f(b).

[20]   15 U.S.C. 78f(b)(5).

Order Book with the same priority, because only size was modified to reduce the size, will not be subject to LOP. Other modifications to Orders that amend the timestamp or priority will subject the modified orders to LOP because these Orders will be submitted into the System as new Orders. The LOP functionality protects market participants by reducing the risk that Midpoint Pegging Orders will execute at prices that are significantly worse than the national best bid and offer ("NBBO") at the time the Exchange receives the order.

The LOP feature assists with the maintenance of fair and orderly markets by mitigating the risks associated with errors resulting in executions at prices that are away from the Best Bid or Offer and potentially erroneous. Further it protects investors from potentially receiving executions away from the prevailing prices at any given time. The Exchange adopted LOP to avoid a series of improperly priced aggressive orders transacting in the Order Book.

The Exchange believes that excluding Primary Pegging and Market Pegging Orders is consistent with the Act because including such orders may result in removing orders that were intended to be more aggressive or to set the bid or offer on the market due to the order attributes noted in the Purpose section of this rule change. Market and Primary Pegging Orders are also currently subject to a collar. Market and Primary Pegging Orders that would execute, either on the Exchange or when routed to another market center, at a price of more than $0.25 or 5 percent worse than the NBBO at the time when the order reaches the System, whichever is greater, will be cancelled.[21]

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[21]   The Exchange inadvertently removed the rule from the Phlx Rulebook. The Exchange proposes to adopt the rule herein.

Further, the Market Pegging Order has its own process for rejecting those orders where no price exists to which a Pegged Order can be pegged.

This feature should create a level of protection that prevents the Limit Orders from entering the Order Book outside of an acceptable range for the Limit Order to execute. The LOP should reduce the negative impacts of sudden, unanticipated volatility, and serve to preserve an orderly market in a transparent and uniform manner, increase overall market confidence, and promote fair and orderly markets and the protection of investors.

Pegging Order Collar

The Exchange believes that the collar proposal is consistent with the Act because 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 avoiding execution of Primary and Market Pegging Orders (either on PSX or on other market centers as a result of orders routed by PSX) at prices that are significantly worse than the NBBO at the time the order is initially received. The NBBO provides reasonable guidance of the current value of a given security and therefore market participants should have confidence that their Market and Primary Pegging Orders will not be executed at a significantly worse price than the NBBO.

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 LOP feature should provide market participants with additional price protection from anomalous executions. This feature is not optional and is applicable to all members

submitting Limit Orders. Thus, the Exchange does not believe the proposal creates any

significant impact on competition. In addition, the proposed collar in Rule 3301B would

be applicable to all Market and Primary Pegging Orders entered into the PSX System.

Similarly, all Midpoint Pegging Order will be subject to LOP, unless they have a

discretion attribute.

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)[22]

of the Act and Rule 19b-4(f)(6) thereunder[23] 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's proposal does not significantly affect the protection of investors or the public

interest because it seeks to make clear the impact to modified orders and also it seeks to

exclude Market and Primary Pegging Orders to ensure that it does not prevent these order

types from executing and preventing market participants from having its price

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[22]   15 U.S.C. 78s(b)(3)(A).

[23]   17 CFR 240.19b-4(f)(6).

automatically set with reference to the NBBO. The Exchange's proposal does not impose

any significant burden on competition because the LOP rule will apply to all PSX market

participants in a uniform manner. The Exchange's collar proposal does not significantly

affect the protection of investors or the public interest because this functionality serves to

protect market participants by reducing the risk that Primary and Market Pegging Orders

will execute at prices that are significantly worse than the national best bid and offer

("NBBO") at the time the Exchange receives the order. The Exchange's proposal does

not impose any significant burden on competition because the LOP rule will apply to all

PSX market participants in a uniform manner.

The Exchange's collar proposal does not impose any significant burden on

competition because the collar would be applied to all Market and Primary Pegging

Orders entered on PSX.

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

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.

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.

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 operative delay contained in Rule 19b-4(f)(6)(iii), with respect to the LOP functionality, so that it may request a delay of implementation for the LOP functionality for an additional sixty (60) days from the original implementation date.[24] The Exchange is requesting additional time to implement the additional amendments to LOP which are proposed herein. The Exchange's proposal should encourage price continuity and protect investors and the public interest by reducing executions occurring at dislocated prices. LOP should reduce the negative impacts of sudden, unanticipated volatility, and serve to preserve an orderly market in a transparent and uniform manner, increase overall market confidence, and promote fair and orderly markets and the protection of investors. This proposal would specify the manner in which modified Orders will be treated with respect to LOP and exclude Market and Primary Pegging Orders types, which have other protections in place, which prevent aberrant orders.

With respect to the collar, the Exchange requests a waiver of the operative delay to ensure that this protective feature is memorialized immediately into the Exchange's Rulebook to reflect current practice. This functionality exists today on PSX and was inadvertently removed from the Rulebook. The Exchange believes that memorializing the language is important to inform market participants about the parameters within which the Exchange accepts Pegging Orders.

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[24]   See note 3.

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

        Not applicable.

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.   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-2016-113)

November __, 2016

Self-Regulatory Organizations; NASDAQ PHLX LLC; Notice of Filing and Immediate
Effectiveness of Proposed Rule Change to Amend the Limit Order Protection

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 November 15, 2016, NASDAQ

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 amend the Limit Order Protection or "LOP" for

members accessing PSX and adding rule text related to a collar applicable to Primary

Pegging and Market Pegging Orders.

The text of the proposed rule change is available on the Exchange's Website at

http://nasdaqphlx.cchwallstreet.com/, at the principal office of the Exchange, and at the

Commission's Public Reference Room.

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[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 Exchange recently adopted a new mechanism to protect against erroneous

Limit Orders which are entered into PSX at Rule 3307(f).[3] This mechanism addresses

risks to market participants of human error in entering Limit Orders at unintended prices.

Specifically, LOP prevents certain Limit Orders from executing or being placed on the

Order Book at prices outside pre-set standard limits. The System rejects those Limit

Orders, rather than executing them automatically. LOP rejects Limit Orders back to the

member when the order exceeds certain defined logic. Specifically, LOP prevents certain

Limit Orders at prices outside of pre-set standard limits ("LOP Limit") from being

accepted by the System.

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[3]   See Securities Exchange Act Release No. 78246 (August 24, 2016), 81 FR 59672
        (August 30, 2016)(SR-Phlx-2016-58).

Modifications of Orders

In its adoptive filing, the Exchange noted that LOP shall apply to all Quotes and

Orders, including any modified Orders.[4] At this time, the Exchange proposes to remove

"including any modified Orders" from the rule text at rule 3307(f)(i). The Exchange

proposes to amend this language because it is misleading and may cause confusion. The

Exchange proposes to state that LOP shall apply to all Quotes and Orders, including

Quotes and Orders that have been modified, where the modification results in a new

timestamp and priority.[5] Any Order that is modified within the System, but does not lose

priority, for example an Order that was decremented, will not be subject to LOP after it

was modified because the system does not cancel decremented orders from the Order

Book. If an Order is cancelled either by the member or by the system and a new Order

entered into the System, the new Order would be subject to LOP. For example, if the

price of an Order is modified, the system will cancel the Order and the modified Order

would receive a new timestamp and priority and this Order would be subject to LOP.

Exceptions to LOP

The Exchange also noted in its adoptive filing that LOP would not apply to

Market Orders, Market Maker Peg Orders[6] or Intermarket Sweep Orders (ISO).[7] The

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[4]   If an Order is modified, LOP will review the order anew and, if LOP is triggered,
        such modification will not take effect and the original order will be rejected.

[5]   See Rule 4756 (Entry and Display of Quotes and Orders) at (a)(3).

[6]   A "Market Maker Peg Order" is an Order Type designed to allow a Market Maker
        to maintain a continuous two-sided quotation at a displayed price that is compliant
        with the quotation requirements for Market Makers set forth in Rule 3213(a)(2).
        The displayed price of the Market Maker Peg Order is set with reference to a
        "Reference Price" in order to keep the displayed price of the Market Maker Peg
        Order within a bounded price range. A Market Maker Peg Order may be entered
        through RASH or FIX only. A Market Maker Peg Order must be entered with a

Exchange proposes to modify this language to specifically state that LOP would not apply to Orders with Market and Primary Pegging.[8]

There are three types of Pegging Orders: Primary Pegging, Market Pegging and Midpoint Pegging. Pegging is an Order Attribute that allows an Order to have its price automatically set with reference to the NBBO; provided, however, that if PSX is the sole market center at the Best Bid or Best Offer (as applicable), then the price of any Displayed Order with Primary Pegging (as defined below) will be set with reference to the highest bid or lowest offer disseminated by a market center other than PSX. An Order with a Pegging Order Attribute may be referred to as a "Pegged Order."[9] For purposes of this Rule 3301B, the price to which an Order is pegged will be referred to as the Inside Quotation, the Inside Bid, or the Inside Offer, as appropriate. There are three varieties of Pegging:

- • Primary Pegging means Pegging with reference to the Inside Quotation on the same side of the market. For example, if the Inside Bid was $11, an Order to buy with Primary Pegging would be priced at $11.

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limit price beyond which the Order may not be priced. The Reference Price for a Market Maker Peg Order to buy (sell) is the then-current National Best Bid (National Best Offer) (including PSX), or if no such National Best Bid or National Best Offer, the most recent reported last-sale eligible trade from the responsible single plan processor for that day, or if none, the previous closing price of the security as adjusted to reflect any corporate actions (e.g., dividends or stock splits) in the security. See PSX Rule 3301A(b)(5)(A).

[7]   An Intermarket Sweep or ISO Order, which is an Order that is immediately executable within PSX against Orders against which they are marketable, is not subject to LOP. See PSX Rule 3401(g).

[8]   Orders with Market and Primary Pegging available through RASH and FIX only.

[9]   PSX Rule 3301B(d).

- Market Pegging means Pegging with reference to the Inside Quotation on the opposite side of the market. For example, if the Inside Offer was $11.06, an Order to buy with Market Pegging would be priced at $11.06.

- Midpoint Pegging means Pegging with reference to the midpoint between the Inside Bid and the Inside Offer (the "Midpoint"). Thus, if the Inside Bid was $11 and the Inside Offer was $11.06, an Order with Midpoint Pegging would be priced at $11.03. An Order with Midpoint Pegging is not displayed. An Order with Midpoint Pegging may be executed in sub-pennies if necessary to obtain a midpoint price.

Midpoint Pegging will be the only Pegging Order subject to LOP, provided it has a limit price. An Order with Pegging may specify a limit price beyond which the Order may not be executed; provided, however, that if an Order has been assigned a Pegging Order Attribute and a Discretion Order[10] Attribute, the Order may execute at any price within the discretionary price range, even if beyond the limit price specified with respect to the Pegging Order Attribute. A Midpoint Pegging Order may have a discretion attribute. A Midpoint Pegging Order with a discretion price would not be subject to LOP. The Exchange notes that a Midpoint Pegging Order, similar to a Primary or Market Pegging Order, as explained below, may result is an aggressive or passive price. As a result, the LOP may remove orders that were intended to be more aggressive or passive due to the discretionary attribute. For this reason, the Exchange will not subject a Midpoint Pegging Order with a discretion price to LOP.

In addition, an Order with Primary Pegging or Market Pegging may specify an Offset Amount,[11] such that the price of the Order will vary from the Inside Quotation by

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[10]   Discretion is an Order Attribute under which an Order has a non-displayed discretionary price range within which the entering Participant is willing to trade; such an Order may be referred to as a "Discretionary Order." See PSX Rule 3301B(g).

[11]   An offset is not supported for a Midpoint Pegging Order.

the selected Offset Amount. The Offset Amount may be either aggressive or passive.

Thus, for example, if a Participant entered an Order to buy with Primary Pegging and a

passive Offset Amount of $0.05 and the Inside Bid was $11, the Order would be priced at

$10.95. If the Participant selected an aggressive Offset Amount of $0.02, however, the

Order would be priced at $11.02. An Order with Primary Pegging and an Offset Amount

will not be Displayed, unless the Order is Attributable. The Exchange notes that both

Market and Primary Pegging may impact the market by effecting the bid or offer.

The Exchange is not applying LOP to orders with Market or Primary Pegging

because it may result in removing orders that were intended to be more aggressive or to

set the bid or offer on the market due to the order attributes noted above. These Pegging

Orders are also subject to a collar, which is explained in this rule change.

In contrast, an Order with Midpoint Pegging will only be at the midpoint and not

have the same impact as the other two types of orders and therefore subjecting such an

order to LOP does not impact the potential of the order since by definition it is set to the

midpoint. An Order with Midpoint Pegging will not be displayed and is not subject to a

collar.

An Order with Market Pegging and no Offset behaves as a "market order" with

respect to any liquidity on the PSX Book at the Inside Quotation on the opposite side of

the market because it is immediately executable at that price. If, at the time of entry,

there is no price to which a Pegged Order can be pegged, the Order will be rejected;

provided, however, that a Displayed Order that has Market Pegging, or an Order with a

Non-Display Attribute that has Primary Pegging or Market Pegging, will be accepted at

its limit price. In the case of an Order with Midpoint Pegging, if the Inside Bid and

Inside Offer are locked, the Order will be priced at the locking price, if the Inside Bid and

Inside Offer are crossed, the Order will nevertheless be priced at the midpoint between

the Inside Bid and Inside Offer, and if there is no Inside Bid and/or Inside Offer, the

Order will be rejected. However, even if the Inside Bid and Inside Offer are locked or

crossed, an Order with Midpoint Pegging that locked or crossed an Order on the PSX

Book would execute (provided, however, that a Midpoint Peg Post-Only Order would

execute or post as described in Rule 3301B(d). It is important to note that only to the

extent that a Midpoint Pegging Order has a limit price that the Order would be subject to

LOP, unless the Midpoint Pegging Order also has a discretion attribute. If no limit price

is specified, the Midpoint Pegging Order would not be subject to LOP.

LOP will be operational each trading day, except during trading halts and pauses.

Members will continue to be subject to certain parameters when submitting Limit Orders

into the Order Book. LOP will not apply in the event that there is no established LOP

Reference Price.[12] The LOP Reference Price shall be the current National Best Bid or

Best Offer (NBBO), the bid for sell orders and the offer for buy orders.[13] LOP is will be

applicable on all protocols.[14] The LOP feature will be mandatory for all PSX members.

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[12]   For example, if there is a one-sided quote or if the NBB, when used as the LOP
        Reference Price, is equal to or less than $0.50.

[13]   The Exchange will not accept incoming Limit Orders that exceed the LOP
        Reference Threshold. Limit Orders will not be accepted if the price of the Limit
        Order is greater than the LOP Reference Threshold for a buy Limit Order. Limit
        Orders will not be accepted if the price of the Limit Order is less than the LOP
        Reference Threshold for a sell Limit Order. The LOP Reference Threshold for
        buy orders will be the LOP Reference Price (offer) plus the applicable percentage
        specified in the LOP Limit. The LOP Reference Threshold for sell orders will be
        the LOP Reference Price (bid) minus the applicable percentage specified in the
        LOP Limit. The LOP Limit will be the greater of 10% of the LOP Reference
        Price or $0.50 for all securities across all trading sessions. The LOP Reference

Implementation of LOP

The Exchange indicated in its adoptive rule change that it would implement this rule within ninety (90) days of the approval of the proposed rule change.[15] At this time, the Exchange proposes to delay this implementation an additional sixty (60) days from the original timeframe in order to implement the LOP with the changes proposed herein. The Exchange will issue an Equities Trader Alert in advance to inform market participants of such implementation date.

Pegging Order Collar

In 2009, the Exchange adopted a collar for certain Unpriced Orders.[16] At that time, the Exchange defined an Unpriced Order as any order type permitted by the System to buy or sell shares of a security at the national best bid (best offer) ("NBBO") at the time when the order reaches the System. Any portion of an Unpriced Order that would execute on PSX at a price more than $0.25 or 5 percent worse than the NBBO at the time when the order reaches the System, whichever is greater, will be cancelled.

Price will be the current National Best Bid or Best Offer (NBBO), the bid for sell orders and the offer for buy orders.

[14]   PSX maintains several communications protocols for members to use in entering Orders and sending other messages to PSX, such as: OUCH, RASH, FLITE, and FIX.

[15]   See note 3 above.

[16]   See Securities Exchange Act Release No. 63051 (October 6, 2010), 75 FR 63240 (October 14, 2010) (SR-Phlx-2010-135). An "Unpriced Order" was defined in this rule change as any order type permitted by the System to buy or sell shares of a security at the national best bid (best offer) ("NBBO") at the time when the order reaches the System.

This rule related to the collar was inadvertently removed from the Exchange's rules.[17] At this time, the Exchange proposes to amend the PSX rules to add the collar into the rules once again.

The purpose of the collar is to protect market participants by reducing the risk that Primary and Market Pegging Orders will execute at prices that are significantly worse than the national best bid and offer ("NBBO") at the time the Exchange receives the order. The Exchange believes that most market participants expect that their order will be executed at its full size at a price reasonably related to the prevailing market. However, market participants may not be aware that there is insufficient liquidity at or near the NBBO to fill the entire order, particularly for more thinly-traded securities.

The Exchange proposes to memorialize this collar, which currently exists in its trading and routing systems functionality, and define it specifically as applicable to Primary and Market Pegging Orders. The Exchange seeks to memorialize the rule within Rule 3301B, entitled "Order Attributes." The new rule text would state, "Primary Pegging Orders and Market Pegging Orders are subject to a collar. Any portion of a Primary Pegging Order or Market Pegging Order that would execute, either on the Exchange or when routed to another market center, at a price of more than $0.25 or 5 percent worse than the NBBO at the time when the order reaches the System, whichever is greater, will be cancelled."

The following example illustrates how the collar works. A market participant submits a routable order to buy 500 shares. The NBBO is $6.00 bid by $6.05 offer, with 100 shares available on each side. Both sides of the NBBO are set by another market

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17   See Securities Exchange Act Commission Release No. 75293 (June 24, 2015), 80 FR 37327 (June 30, 2015) (SR-Phlx-2015-29).

center ("Away Market"), but PSX has 100 shares available at the $6.05 to sell at the offer

price and also has reserve orders to sell 100 shares at $6.32 and 400 shares at $6.40. No

other market center is publishing offers to sell the security in between $6.05 and $6.40.

In this example, the order would be executed in the following manner:

- 100 shares would be executed by PSX at the $6.05;

- 400 shares would be routed to the Away Market as an immediate or cancel order
  with a price of $6.05;

- 100 shares executed by the Away Market;[18]

- 300 shares returned to PSX;

- 100 shares executed by PSX at $6.32 (more than $0.25 but less than 5 percent
  worse than the NBBO); and 200 shares, representing the remainder of the order,
  would be cancelled because the remaining liquidity available at $6.40 is more
  than 5 percent worse than the NBBO.

Implementation of Pegging Order Collar

The Exchange intends to implement the Pegging Order Collar as soon as

practicable pursuant to this proposal. The Exchange requests a waiver of the operative

delay to implement the Pegging Order Collar.

2.   Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the

Act,[19] in general, and furthers the objectives of Section 6(b)(5) of the Act,[20] in particular,

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[18]   This assumes that the Away Market's offer was still available and that the Away
         Market had no additional non-displayed orders at this price.

[19]   15 U.S.C. 78f(b).

[20]   15 U.S.C. 78f(b)(5).

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 mitigating risks to market participants of human error in entering Limit Orders at clearly unintended prices. The proposal will allow for protections for Limit Orders which should encourage price continuity and, in turn, protect investors and the public interest by reducing executions occurring at dislocated prices.

The Exchange's proposal to amend the language concerning the modification of Orders is consistent with the Act because only new Orders would be subject to LOP. The proposed new language specifies that Orders that are modified for size and remain in the Order Book with the same priority, because only size was modified to reduce the size, will not be subject to LOP. Other modifications to Orders that amend the timestamp or priority will subject the modified orders to LOP because these Orders will be submitted into the System as new Orders. The LOP functionality protects market participants by reducing the risk that Midpoint Pegging Orders will execute at prices that are significantly worse than the national best bid and offer ("NBBO") at the time the Exchange receives the order.

The LOP feature assists with the maintenance of fair and orderly markets by mitigating the risks associated with errors resulting in executions at prices that are away from the Best Bid or Offer and potentially erroneous. Further it protects investors from potentially receiving executions away from the prevailing prices at any given time. The Exchange adopted LOP to avoid a series of improperly priced aggressive orders transacting in the Order Book.

The Exchange believes that excluding Primary Pegging and Market Pegging Orders is consistent with the Act because including such orders may result in removing orders that were intended to be more aggressive or to set the bid or offer on the market due to the order attributes noted in the Purpose section of this rule change. Market and Primary Pegging Orders are also currently subject to a collar. Market and Primary Pegging Orders that would execute, either on the Exchange or when routed to another market center, at a price of more than $0.25 or 5 percent worse than the NBBO at the time when the order reaches the System, whichever is greater, will be cancelled.[21] Further, the Market Pegging Order has its own process for rejecting those orders where no price exists to which a Pegged Order can be pegged.

This feature should create a level of protection that prevents the Limit Orders from entering the Order Book outside of an acceptable range for the Limit Order to execute. The LOP should reduce the negative impacts of sudden, unanticipated volatility, and serve to preserve an orderly market in a transparent and uniform manner, increase overall market confidence, and promote fair and orderly markets and the protection of investors.

Pegging Order Collar

The Exchange believes that the collar proposal is consistent with the Act because 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 avoiding execution of Primary and Market Pegging Orders (either on PSX or on other market centers as a result of

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[21] The Exchange inadvertently removed the rule from the Phlx Rulebook. The Exchange proposes to adopt the rule herein.

orders routed by PSX) at prices that are significantly worse than the NBBO at the time

the order is initially received. The NBBO provides reasonable guidance of the current

value of a given security and therefore market participants should have confidence that

their Market and Primary Pegging Orders will not be executed at a significantly worse

price than the NBBO.

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 LOP feature should provide market participants with additional price protection

from anomalous executions. This feature is not optional and is applicable to all members

submitting Limit Orders. Thus, the Exchange does not believe the proposal creates any

significant impact on competition. In addition, the proposed collar in Rule 3301B would

be applicable to all Market and Primary Pegging Orders entered into the PSX System.

Similarly, all Midpoint Pegging Order will be subject to LOP, unless they have a

discretion attribute.

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)(iii) of the Act[22] and subparagraph (f)(6) of Rule 19b-4

thereunder.[23]

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. Please include File Number SR-

    Phlx-2016-113 on the subject line.

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[22]   15 U.S.C. 78s(b)(3)(A)(iii).

[23]   17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory
         organization to give the Commission written notice of its intent to file the
         proposed rule change at least five business days prior to the date of filing of the
         proposed rule change, or such shorter time as designated by the Commission. The
         Exchange has satisfied this requirement.

Paper comments:

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

All submissions should refer to File Number SR-Phlx-2016-113. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (http://www.sec.gov/rules/sro.shtml).

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

All submissions should refer to File Number SR-Phlx-2016-113 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.[24]

Robert W. Errett
Deputy Secretary

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[24]   17 CFR 200.30-3(a)(12).

EXHIBIT 5

New text is underlined; deleted text is in brackets.

NASDAQ PHLX Rules

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NASDAQ PSX Rules

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Rule 3301B. Order Attributes.

As described in Rule 3301A, the following Order Attributes may be assigned to those Order Types for which they are available.

(a) – (c) No change.

(d) Pegging. Pegging is an Order Attribute that allows an Order to have its price automatically set with reference to the NBBO; provided, however, that if PSX is the sole market center at the Best Bid or Best Offer (as applicable), then the price of any Displayed Order with Primary Pegging (as defined below) will be set with reference to the highest bid or lowest offer disseminated by a market center other than PSX. An Order with a Pegging Order Attribute may be referred to as a "Pegged Order." For purposes of this rule, the price to which an Order is pegged will be referred to as the Inside Quotation, the Inside Bid, or the Inside Offer, as appropriate. There are three varieties of Pegging:

   • Primary Pegging means Pegging with reference to the Inside Quotation on the same side of the market. For example, if the Inside Bid was $11, an Order to buy with Primary Pegging would be priced at $11.

   • Market Pegging means Pegging with reference to the Inside Quotation on the opposite side of the market. For example, if the Inside Offer was $11.06, an Order to buy with Market Pegging would be priced at $11.06.

   • Midpoint Pegging means Pegging with reference to the midpoint between the Inside Bid and the Inside Offer (the "Midpoint"). Thus, if the Inside Bid was $11 and the Inside Offer was $11.06, an Order with Midpoint Pegging would be priced at $11.03. An Order with Midpoint Pegging is not displayed. An Order with Midpoint Pegging may be executed in sub-pennies if necessary to obtain a midpoint price.

Pegging is available only during Market Hours. An Order with Pegging may specify a limit price beyond which the Order may not be executed; provided, however, that if an Order has been assigned a Pegging Order Attribute and a Discretion Order Attribute, the

Order may execute at any price within the discretionary price range, even if beyond the limit price specified with respect to the Pegging Order Attribute. If an Order with Pegging is priced at its limit price, the price of the Order may nevertheless be changed to a less aggressive price based on changes to the Inside Quotation. In addition, an Order with Primary Pegging or Market Pegging may specify an Offset Amount, such that the price of the Order will vary from the Inside Quotation by the selected Offset Amount. The Offset Amount may be either aggressive or passive. Thus, for example, if a Participant entered an Order to buy with Primary Pegging and a passive Offset Amount of $0.05 and the Inside Bid was $11, the Order would be priced at $10.95. If the Participant selected an aggressive Offset Amount of $0.02, however, the Order would be priced at $11.02. An Order with Primary Pegging and an Offset Amount will not be Displayed, unless the Order is Attributable. An Order with Midpoint Pegging will not be Displayed. An Order with Market Pegging and no Offset behaves as a "market order" with respect to any liquidity on the PSX Book at the Inside Quotation on the opposite side of the market because it is immediately executable at that price. If, at the time of entry, there is no price to which a Pegged Order can be pegged, the Order will be rejected; provided, however, that a Displayed Order that has Market Pegging, or an Order with a Non-Display Attribute that has Primary Pegging or Market Pegging, will be accepted at its limit price. In the case of an Order with Midpoint Pegging, if the Inside Bid and Inside Offer are locked, the Order will be priced at the locking price, if the Inside Bid and Inside Offer are crossed, the Order will nevertheless be priced at the midpoint between the Inside Bid and Inside Offer, and if there is no Inside Bid and/or Inside Offer, the Order will be rejected. However, even if the Inside Bid and Inside Offer are locked or crossed, an Order with Midpoint Pegging that locked or crossed an Order on the PSX Book would execute.

Primary Pegging and Market Pegging are available through RASH and FIX only. An Order entered through OUCH or FLITE with Midpoint Pegging will have its price set upon initial entry to the Midpoint, unless the Order has a limit price that is lower than the Midpoint for an Order to buy (higher than the Midpoint for an Order to sell), in which case the Order will be ranked on the PSX Book at its limit price. Thereafter, if the NBBO changes so that the Midpoint is lower than (higher than) the price of an Order to buy (sell), the Pegged Order will be cancelled back to the Participant.

An Order entered through RASH or FIX with Pegging will have its price set upon initial entry and will thereafter have its price reset in accordance with changes to the relevant Inside Quotation. An Order with Pegging receives a new timestamp whenever its price is updated and therefore will be evaluated with respect to possible execution (and routing, if it has been assigned a Routing Order Attribute) in the same manner as a newly entered Order. If the price to which an Order is pegged is not available, the Order will be rejected.

Primary Pegging Orders and Market Pegging Orders are subject to a collar. Any portion of a Primary Pegging Order or Market Pegging Order that would execute, either on the Exchange or when routed to another market center, at a price of more than $0.25 or 5

percent worse than the NBBO at the time when the order reaches the System, whichever is greater, will be cancelled.

(e) – (k) No change.

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Rule 3307. Processing of Orders

System orders shall be executed in accordance with one of two execution algorithms: Price/Time or Pro Rata. Securities that are subject to the Pro Rata algorithm may also be subject to the variation for Price-Setting Orders described in Rule 3307(b)(2)(B). The algorithm applicable to a particular security (including the applicability of the variation for Price-Setting Orders) will be selected by the President of the Exchange or another officer of the Exchange designated by the President for this purpose, and will be listed on a publicly available website. The Exchange will notify member organizations of changes in the algorithm applicable to a particular security (including the applicability of the variation for Price-Setting Orders) through a notice that is widely disseminated at least one month in advance of the change. In selecting the applicable algorithm (including the applicability of the variation for Price-Setting Orders), the Exchange will conduct ongoing assessments of the depth of liquidity made available by member organizations in particular stocks, with the goal of maximizing the displayed size, minimizing the quoted spread, and increasing the extent of PSX's time at the national best bid and best offer. Factors to be considered for each security would include the size of member organizations' quotes, the amount of time that PSX is at the national best bid and best offer, PSX's market share, and observed changes in volume, average execution size, and average order size.

(a) - (e) No change.

(f) **Limit Order Protection ("LOP").** LOP is a feature of PSX that prevents certain Limit Orders at prices outside of pre-set standard limits ("LOP Limit") from being accepted by the System.

    (i) **Applicability**. LOP applies to all Quotes and Orders, including Quotes and Orders that have been modified, where the modification results in a new timestamp and priority[, including any modified Orders]. LOP does not apply to [Market]Orders with Market and Primary Pegging, Market Maker Peg Orders or Intermarket Sweep Orders. A Midpoint Pegging Order with a discretion price would not be subject to LOP. LOP is operational each trading day. LOP is not operational during trading halts and pauses. LOP would not apply in the event there is no established LOP Reference Price or the National Best Bid, when used as the LOP Reference Price, is equal to or less than $0.50.

    (ii) **LOP Limit**. The LOP Limit shall be the greater of 10% of the LOP Reference Price or $0.50 for all securities across all trading sessions.

(iii) **LOP Reference Price**. The LOP Reference Price shall be the current National Best Bid or Best Offer, the bid for sell orders and the offer for buy orders.

(iv) **LOP Reference Threshold**. The LOP Reference Threshold for buy orders will be the LOP Reference Price (offer) plus the applicable LOP Limit. The LOP Reference Threshold for sell orders will be the LOP Reference Price (bid) minus the applicable LOP Limit.

(v) **Acceptance of Orders**. LOP will reject incoming Limit Orders that exceed the LOP Reference Threshold. Limit Orders will be rejected if the price of the Limit Order is greater than the LOP Reference Threshold for a buy Limit Order. Limit Orders will be rejected if the price of the Limit Order is less than the LOP Reference Threshold for a sell Limit Order.

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