NASDAQ OMX® | BX

April 17, 2013

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street N.E.
Washington, D.C. 20549

**Re: Securities Exchange Act Release No. 69040**
**File No. SR-BX-2013-016**

Dear Ms. Murphy:

On behalf of NASDAQ OMX BX, Inc. ("BX"), The NASDAQ OMX Group, Inc. appreciates the opportunity to respond to a comment from NYSE Euronext (on behalf of NYSE Arca Inc. and NYSE Amex Options LLC) regarding BX's proposed rule change to establish a directed order process ("BX Proposal"). BX believes that its filing satisfies the requirements of Section 6(b)(5) of the Act in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanisms of a free and open market and a national market system, and, in general, to protect investors and the public interest, because it will establish a directed order process that will provide Participants with additional choices among the many competing exchanges with regard to their execution needs and strategies. Accordingly, despite the comment letter from NYSE Euronext, BX believes that this proposal should be approved by the Commission, for the reasons stated in the proposed rule change and for the reasons stated below.

NYSE Euronext states that the BX Proposal is lacking important details regarding the allocation of a Directed Order in certain situations where the Directed Market Maker is quoting first in time priority at the best price, and, by implication, could be used to foster internalization beyond the level generally seen as acceptable by the Commission. BX does not agree. When the Directed Market Maker is quoting first in time priority at the best price, such Directed Market Maker shall receive the amount of the Directed Order equal to the Directed Market Maker's quote/order size at that price. This language is clear and is intended to address the situation where a Directed Allocation is not needed; that is, when the Directed Market Maker has time priority. BX, nevertheless, intends to amend the proposed rule change to make this clearer.

The language in the proposal that provides that the Directed Allocation is distributed in time sequence is intended merely to govern how the Directed Allocation is distributed among a Directed Market Maker's multiple quotes/orders. It refers to the *Directed Allocation*, which is defined as 40% of the Directed Order. Accordingly, a Directed Market Maker cannot use a small quote/order, like a 1 lot, to completely "jump the queue" by later submitting a larger quote/order at the same price, because the priority afforded via Directed Allocation is limited to the 40% calculation. Of course, a Directed Allocation is necessarily an exception to time priority, because it is intended to reward a Directed Market Maker who attracted the Directed Order to the exchange by affording such Directed Market Maker an allocation (limited to the 40% calculation) despite their rank in time priority. With respect to NYSE Euronext's example, the second quote or order is not executed in full, because it is limited to the 40% Directed Allocation. BX intends to clarify the relevant sentences in an amendment. The following example illustrates this outcome:

NBBO: $1.00 - $1.05

BX Options Book in time sequence:
MM1 Quote A $1.00 - $1.05 (size 1 x 1, first in time priority)
Firm2 Order B Sell 20 at $1.05
MM3 Quote C $1.00 - $1.05 (size 20 x 20)
Firm4 Order D Sell 50 at $1.05
MM1 Order E Sell 19 at $1.05 (last in time priority)

BX Options Best offer: 110 contracts at $1.05

BX receives a Directed Order from an order routing affiliate of MM1 to buy 20 contracts at $1.05, directed to MM1

The Directed Order executes 1 against MM1 Quote A
The Directed Order executes 7 against MM1 Order E
The Directed Order executes 12 against Firm2 Order B

MM1, the Directed Market Maker, receives a total of 40% of the Directed Order. Only if MM1 were quoting more than 8 contracts at the first position in time priority would such market maker receive more than 40% of the Directed Order.

NYSE Euronext also states that there are additional concerns based on the way that NYSE Euronext perceived the extent to which a Directed Market Maker could jump the queue. As explained above, the Directed Allocation will not function the way NYSE Euronext understood, and, thus, their specific concerns relating to selective quoting, price improving orders and opportunities for internalization, are not applicable.

Lastly, NYSE Euronext states that the proposal grants a preferential allocation to Directed Market Makers quoting outside the NBBO. This is incorrect; there is never an allocation to a quote that is outside the NBBO at the time of execution. To the extent that the Directed Order has already cleared interest at the NBBO and has size remaining that can be executed at the next price, the Directed Market Maker can receive a "preferential" Directed Allocation at that next price, as long as such next price is now the NBBO and the Directed Market Maker is quoting at that price. Accordingly, the proposal does break new ground, but the new ground is that the proposal acknowledges and addresses the reality of executions at multiple prices. It is not new ground with respect to requiring the Directed Market Maker must be at the NBBO; instead, the proposal recognizes the new NBBO and *preserves* the requirement that the Directed Market Maker be at the new NBBO. The "particular price" language of the rule is subject to the requirement that any such price must be at the NBBO, which appears in proposed

Section 10(3)(i) as: "(i) When BX's disseminated price is the NBBO and the Directed Market Maker is quoting at BX's disseminated price, the Directed Order shall be executed and allocated as follows..." BX acknowledged in its proposal and explained, in detail, in its proposed rule change, why this is appropriate and consistent with the Act. Although BX agrees that this is a new development, BX notes that the proposed rule change was published for notice and comment with an explicit set of questions, including NYSE Euronext's point, which BX believes was sufficiently addressed.

Specifically, BX's proposal provides a preferential allocation to Market Makers who are taking the commensurate risk of quoting at the NBBO *at the time of execution* of the Directed Order, which fosters price discovery and transparency. The availability of a certain depth of a quote beyond the current NBBO is critical to price discovery, particularly respecting the execution of larger orders when the NBBO consists of a small size. BX believes that this practice would be enhance transparency and price discovery. Directed Market Makers will continue to have the incentive to quote aggressively to maximize their participation. Quoting outside the NBBO is not improper nor does it indicate that a quote is not aggressive. Market Makers quoting outside of the NBBO are nevertheless contributing to the market by providing depth and the ability to execute more of an order, especially where the NBBO size is small. BX's proposal creates an ability to do that efficiently, with a single order. Today, multiple directed orders can be entered at different prices on NYSE Euronext's exchanges as well as other exchanges, and can ultimately receive a directed allocation, but it requires using multiple orders. BX seeks to provide a more efficient mechanism.

Again, we appreciate the opportunity to respond and the Commission staff's consideration of our comments. Please feel free to contact me at 215-496-5179 with any questions.

Sincerely,

Edith Hallahan
Principal Associate General Counsel
The NASDAQ OMX Group, Inc.