SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72713; File No. SR-Phlx-2014-49)

July 29, 2014

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate
Effectiveness of Proposed Rule Change to Disclose Publicly the Sources of Data Used for
Exchange Functions

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule

19b-4 thereunder,[2] notice is hereby given that, on July 16, 2014, NASDAQ OMX PHLX LLC

("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("Commission") a

proposed rule change as described in Items I and II 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

Phlx proposes a rule change to disclose publicly the sources of data, whether from the

network processors or from direct data feeds, that Phlx utilizes when performing (1) order

handling and execution; (2) order routing; and (3) related compliance processes.

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

In its filing with the Commission, Phlx 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 those 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 parts of such statements.

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

[2]   17 CFR 240.19b-4.

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

1.   Purpose

In her June 5, 2014 market structure speech, the Chair requested that all national securities exchanges review and disclose their policies and procedures governing the market data used when performing important exchange functions.[3] In a letter dated June 20, 2014, the Director of the Division of Trading and Markets codified this request:

> We believe there is a need for clarity regarding whether (1) the SIP data feeds, (2) proprietary data feeds, or (3) a combination thereof, are used by the exchanges for purposes of (1) order handling and execution (e.g., with pegged or midpoint orders), (2) order routing, and (3) regulatory compliance, as applicable. …
> Accordingly, we ask that proposed rule changes be filed that disclose the particular market data feeds that are used for each of these purposes. Consistent with your recent discussions with Commission staff, we ask that each SRO file these proposed rule changes with the Commission by July 15, 2014.[4]

Phlx fully supports the Commission's efforts to provide more clarity in this area. Through this proposed rule change, Phlx is publicly clarifying on a market-by-market basis the specific network processor and proprietary data feeds that Phlx utilizes for the handling, routing, and execution of orders, and for performing the regulatory compliance checks related to each of those functions. These complex practices are governed by a few, simple principles that are designed to ensure that Phlx has the most accurate view of the trading interest available across

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[3]   See Mary Jo White, Chair, Securities and Exchange Commission, Speech at the Sandler O'Neill & Partners L.P. Global Exchange and Brokerage Conference (June 5, 2014).

[4]   See Letter from Steven Luparello, Director, SEC Division of Trading and Markets, to Robert Greifeld, Chief Executive Officer, NASDAQ OMX Group, Inc., dated June 20, 2014.

multiple markets, and to maximize the synchronization of the many exchange functions that depend upon the calculation of an accurate NBBO and top-of-book for each market. These principles are:

1. Phlx uses a proprietary data feed from each exchange that provides a reliable proprietary data feed. Where no reliable proprietary data feed is available, Phlx uses the network processor feed;

2. Where Phlx uses a proprietary data feed for an exchange quote, it also maintains access to the network processor feed as a back-up in the event a specific proprietary feed become unavailable or unusable for any reason;

3. Phlx uses the same proprietary data feed when performing order handling, routing, and execution functions, and also when the execution and routing system performs internal compliance checks related to those functions; and

4. Phlx acquires and processes all proprietary and network processor feeds via the same technological configuration (i.e., telecommunication circuitry, switches, and feed handlers) to the greatest extent possible.

5. Phlx calculates the National Best Bid and Offer ("NBBO") and top-of-book for each exchange at a single point within the Phlx system, and then distributes that data simultaneously to numerous applications performing order handling,[5] routing, execution, and internal compliance functions throughout the Phlx system.

As of the date of this filing, Phlx utilizes the following data feeds for the handling, execution and routing of orders, as well as for performing related compliance checks:

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[5] With respect to order handling, the NBBO and top-of-book calculation feeds applications governing the proper processing midpoint orders, pegged orders, price-to-comply orders, and retail orders.

Market Center	Primary Source	Secondary Source
A – NYSE MKT (AMEX)	CQS/UQDF	n/a
B – NASDAQ OMX BX	BX ITCH 4.1	CQS/UQDF
D – FINRA ADF	CQS/UQDF	n/a
J – DirectEdge A	EdgeBook	CQS/UQDF
K – DirectEdge X	EdgeBook	CQS/UQDF
M – CSX	CQS/UQDF	n/a
N – NYSE	NYSE OpenBook Ultra	CQS/UQDF
P – NYSE Arca	ArcaBook Binary uncompacted	CQS/UQDF
T/Q – NASDAQ	ITCH 4.1	CQS/UQDF
W – CBOE	CQS/UQDF	n/a
X – NASDAQ OMX PSX	PSX ITCH 4.1	CQS/UQDF
Y – BATS Y-Exchange	BATS PITCH	CQS/UQDF
Z – BATS Exchange	BATS PITCH	CQS/UQDF

Phlx uses these feeds to calculate the NBBO via an application called the "NMSFeed."

The NMSFeed consumes the Phlx Protected Quote Service ("NPQS"), which provides an

internal view of that exchange's own market data as ITCH, plus the proprietary and network

processor market data feeds listed above. The NMSFeed calculates a Regulation NMS-

Compliant "Best Bid or Offer" ("Compliant BBO"), and then delivers that information

throughout the Phlx System, including to the "OUCH" order entry ports,[6] the routing system,

and various compliance applications described below.

Upon receipt of an update to a protected quote for a specific venue, the NMSFeed

updates its quote for that venue, recalculates the consolidated BBO based upon the update, and

recalculates the Compliant BBO after applying Phlx's own BBO. Any quote that crosses Phlx's

BBO is ignored. Phlx odd lot orders at the same price are aggregated and considered in the

NBBO calculation if the sum is greater than or equal to a round lot. Otherwise, they are not

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[6]   OUCH is a protocol that allows Phlx participants to enter, replace and cancel orders and receive executions. In addition to OUCH, Phlx offers the FLITE protocol as an option for participants. In this document, references to OUCH also include FLITE because they are interchangeable for these purposes.

considered in the NBBO calculation. Out of the remaining quotes, the most aggressive remaining bid and offer (excluding Phlx [7] and any destination which has been excluded from the NBBO in compliance with the self-help procedures under Regulation NMS) is selected and reported as the best quote. If away markets are crossing the market after applying Phlx's BBO, orders will be accepted as originally priced and have the potential to execute. Any order sent to Phlx that is not an Intermarket Sweep Order ("ISO") will have the Compliant BBO check enforced by the system.[8]

The Phlx OMX Routing and Special Handling System ("RASH") utilizes the Compliant BBO to determine if and when an order with special processing directives is marketable either against one or more orders in either the Core Matching System or a remote trading venue. RASH also receives market data feeds from certain venues not displaying protected quotes in the national market system for use in "XQDRK" [sic] and "XCST" routing strategies set forth in Phlx Rule 3315(a)(1)(A)(xiii) [sic] and (xiv) [sic], respectively. RASH maintains a number of routing processes, or Routers, unique to each venue that the System accesses. These Routers maintain a limited set of details for orders that are configured as routable by the user, while also monitoring the current best bid and best offer prices on each exchange.

The Phlx system includes internal compliance applications related to locked and crossed markets, trade throughs, limit-up/limit-down, and Regulation SHO compliance. Each of these

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[7] Deletion of Phlx's quote at this stage of the process is necessary because otherwise the system would prevent valid executions on Phlx in the erroneous belief that such executions would be "trade throughs" in violation of Regulation NMS.

[8] In general, any order that is sent to Phlx with an ISO flag is not re-priced and will be processed at its original price. There are a limited number of circumstances in which an order marked as an ISO will be determined not to be executable at its original price and will be re-priced. These include re-pricing under the Plan to Address Extraordinary Market Volatility, re-pricing to comply with Regulation SHO, and the re-pricing of an order with a post-only condition if Phlx has an order at that price at the time the order is accepted.

applications utilizes the Compliant BBO to ensure compliance with applicable regulations. Phlx operates a separate real-time surveillance system that is external to the execution systems and that monitors the execution system's compliance with applicable rules and regulations. The real-time surveillance system utilizes a "mirrored" version of the internal NMSFeed in various realtime surveillance patterns, including (1) Lock/Cross, which detects lock/cross events across all markets, regardless of whether or not Phlx is a participant in the event; (2) Trade Through, which detects potential trade through events for all three Phlx equity markets; and (3) RegSho, which detects potential RegSho violations, alerting when a trade executes at or below the NBB at the time of order entry while the stock is in a RegSho restricted state.

In addition to the operational transparency provided above, Phlx is also proposing to add Rule 3304, which will provide for the public display of the proprietary and network processor feeds that Phlx utilizes in the order handling, routing, and execution processes described above, as well as in the compliance functions described above. Phlx will display this information on www.nasdaqtrader.com, which is heavily used by Phlx members and their customers.

2.   Statutory Basis

Phlx believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,[9] in general and with Sections 6(b)(5) of the Act,[10] 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 regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. The Exchange

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[9]   15 U.S.C. 78f.

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

believes that this proposal is in keeping with those principles by enhancing transparency through

the dissemination of the most accurate quotations data and by clarifying its contents.

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

The Exchange does not believe that the proposed rule change will result in any burden on

competition that is not necessary or appropriate in furtherance of the purposes of the Act, as

amended.

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

Written comments were neither solicited nor received.

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

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 if consistent with the protection of investors and the public

interest, it has become effective pursuant to Section 19(b)(3)(A) of the Act[11] and Rule 19b-

4(f)(6)[12] thereunder.[13]

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 necessary or appropriate in the public interest, for the protection of investors, or

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[11]   15 U.S.C. 78s(b)(3)(A).

[12]   17 CFR 240.19b-4(f)(6).

[13]   17 CFR 240.19b–4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires the Exchange to give
        the Commission written notice of the Exchange's intent to file the proposed rule change,
        along with a brief description and text of 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 Commission deems this requirement to have been
        met.

otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the

Commission will institute proceedings to determine whether the proposed rule change 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-2014-
  49 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-Phlx-2014-49. 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 website (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-2014-49 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.[14]

Kevin M. O'Neill
Deputy Secretary

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[14]   17 CFR 200.30-3(a)(12).