

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-70270; File No. SR-Phlx-2013-84)

August 27, 2013

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Phlx Rule 910 and Related Phlx Rules

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 14, 2013, NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a 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 Phlx Rule 910 (Qualification as Member Organization) and related Phlx rules. The text of the proposed rule change is below. Proposed additions are underlined and proposed deletions are in brackets.

**Rule 900.2. Membership Applications**

(a) – (c) No change.

(d) [If the Membership Department does not approve a membership application or permit application, the department will notify the applicant in writing of the specific grounds for denial and the applicant shall have a right to a hearing. Any appeal from a decision of the Membership Department shall be heard by a special committee of the Board of Directors composed of three (3) Directors, of whom at least one (1) shall be a Public Director. The person requesting review

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

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

may appeal by filing a written notice thereof with the Secretary of the Exchange within ten (10) days after a decision. The person requesting review shall be permitted to submit a written statement to this special committee. The Secretary of the Exchange shall certify the record of the proceeding, if any and the written decision and shall submit these documents to the special committee. The special committee's review of the action shall be based solely on the record, the written decision and any statement submitted by the person requesting the review. The special committee shall prepare and deliver to such person a written decision and reasons therefor. If the special committee affirms the action, the action shall become effective ten (10) days from the date of the special committee's decision. There shall be no appeal to the Board of Directors from any decision of the special committee.

(e)] Absent a showing of good cause, an application filed pursuant to this Rule shall lapse after a 90 calendar day period if an applicant fails to provide the requisite documentation provided for in this Rule or any subsequent written request for information or documents pursuant to this Rule within such time period agreed to by the Membership Department. If such time period elapses, an applicant seeking membership to the Exchange shall be required to file a new application pursuant to this Rule. The applicant will be required to pay an additional application fee at that time. The Exchange will not refund any fees for lapsed applications.

[(f)] (e) The provisions of this Rule 900.2 shall not apply to a corporation pursuant to Rule 798.

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### **Rule 910. Qualification as Member Organization**

(a) – (e) No change.

(f) (1) To obtain and maintain the status of a member organization, an organization shall: (i) be a broker or dealer duly registered under the Exchange Act; (ii) be duly qualified by a permit holder

who is primarily affiliated with such organization for purposes of nominating as provided in the By-Laws; (iii) have submitted to the Membership Department an application for such status in the form approved by the Membership Department and any other information and materials requested by the Membership Department; (iv) have had such application approved by the Membership Department; and (v) meet such other requirements as are set forth in these By-Laws or the Rules of the Exchange.

(2) To obtain and maintain the status of a Market Maker on PSX, a member organization whose market making has not previously been approved by FINRA under the NASD Rule 1000 Series (or such successor FINRA Rules as may be adopted by FINRA), NASDAQ under the NASDAQ Rule 1000 Series, or NASDAQ OMX BX under the BX Rule 1000 Series shall: (i) have submitted to the Membership Department an application for such status in the form approved by the Membership Department and any other information and material requested by the Membership Department; (ii) have had such application approved by the Membership Department; and (iii) meet such other requirements as are set forth in the By-Laws or Rules of the Exchange. The information to be provided shall include a business plan, an organizational chart, written supervisory procedures reflecting the change, and such other information as the Membership Department may request.

(g) – (j) No change.

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**Rule 923. [Reserved] Review of Membership Department Decisions**

If the Membership Department takes an adverse action with respect to a membership application, permit application, or other matter for which the Membership Department has responsibility, the department will notify the applicant in writing of the specific grounds for denial and the

applicant shall have a right to a hearing. Any appeal from a decision of the Membership Department shall be heard by a special committee of the Board of Directors composed of three (3) Directors, of whom at least one (1) shall be a Public Director. The person requesting review may appeal by filing a written notice thereof with the Secretary of the Exchange within ten (10) days after a decision. The person requesting review shall be permitted to submit a written statement to this special committee. The Secretary of the Exchange shall certify the record of the proceeding, if any, and the written decision and shall submit these documents to the special committee. The special committee's review of the action shall be based solely on the record, the written decision and any statement submitted by the person requesting the review. The special committee shall prepare and deliver to such person a written decision and reasons therefor. If the special committee affirms the action, the action shall become effective ten (10) days from the date of the special committee's decision. There shall be no appeal to the Board of Directors from any decision of the special committee.

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**Rule 3212. Registration as a Market Maker**

(a) Quotations and quotation sizes may be entered into PSX only by a member organization registered as a PSX Market Maker or other entity approved by the Exchange to function in a market-making capacity. Member organizations seeking to become registered as a PSX Market Maker must comply with the applicable requirements of Rule 910.

(b) - (c) No change.

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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 rules to allow market making on PSX.<sup>3</sup> Rule 910(f) provides that member organizations seeking to maintain their status shall submit to the Exchange's Membership Department (the "Department") any information and materials requested by the Department. Pursuant to this authority, the Department has determined that in the event a member organization seeks to become a market maker on PSX, it may request information from the member organization in order to evaluate its qualifications. However, in order to make the requirements of the rule clearer, and to describe circumstances in which submission of additional information will not be deemed necessary, the Exchange is proposing to amend Rule 910.<sup>4</sup>

Specifically, the amended rule will provide that a member organization seeking to become a PSX Market Maker must submit required material to the Exchange's Membership Department unless the member organization's market making has previously been approved by the Financial Industry Regulation Authority ("FINRA") under the NASD Rule 1000 Series (or

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

<sup>4</sup> In addition, the Exchange is adding a cross-reference to Rule 910 to Rule 3212, which governs registration of PSX market makers in specific securities for which they intend to make markets.

such successor FINRA rules as FINRA may adopt), The NASDAQ Stock Market (“NASDAQ”) under the NASDAQ Rule 1000 Series, or NASDAQ OMX BX (“BX”) under the BX Rule 1000 Series. In this respect, the proposed rule is modeled on NASDAQ Rules 1011 and 1017, which provide that a member’s market making for the first time on NASDAQ is considered a material change in its business operations, requiring approval by the NASDAQ Membership Department, unless “the member’s market making has previously been approved by FINRA under NASD Rule 1017 or NASDAQ OMX BX under NASDAQ OMX BX Equity Rule 1017.”<sup>5</sup> Thus, the rule recognizes the work performed by other self-regulatory organizations in vetting the capability of the member to perform market making functions.

In cases where a Phlx member organization has not been previously approved to engage in market making by FINRA, NASDAQ, or BX, the member organization would be required (i) to submit to the Membership Department an application in the form approved by the Membership Department and any other information and material requested by the Membership Department; (ii) to have had such application approved by the Membership Department; and (iii) to meet such other requirements as are set forth in these [sic] By-Laws or the Rules of the Exchange (e.g., compliance with Rule 3213 (Registration as a Market Maker) and Rule 911 (Member and Member Organization Participation)). The information to be provided shall include a business plan, an organizational chart, written supervisory procedures reflecting the change, and such other information as the Membership Department may request. This information is similar to the information required under NASDAQ Rule 1017(b) in similar

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<sup>5</sup> The proposed Phlx rule is slightly broader, in that it would recognize a new member’s approval as a market maker, or an existing member’s approval as a market maker, under the Rule 1000 Series of the referenced self-regulatory organizations. The referenced rules govern both new membership applications and applications for a change in business operations.

circumstances.<sup>6</sup> The Exchange believes that such information will enable the Membership Department to review details necessary to assess the capability of the member organization to act in a market making capacity.

Phlx is also proposing to move Rule 900.2(d), which addresses appeals from denials of membership or permit applications by the Membership Department, to new Rule 923. In addition, Phlx proposes broadening the scope of the moved rule to apply to any adverse decision of the Membership Department, so that the rule applies to decisions with respect to market making under Rule 910. Rule 923 provides that if the Membership Department takes an adverse action with respect to a membership application, permit application, or other matter for which the Membership Department has responsibility, the department will notify the applicant in writing of the specific grounds for denial and the applicant shall have a right to a hearing. An appeal would be heard by a special committee of the Board of Directors composed of three Directors, of whom at least one shall be a Public Director. The person requesting review may appeal by filing a written notice thereof with the Secretary of the Exchange within ten days after a decision. The person requesting review is permitted to submit a written statement to this special committee. The Secretary of the Exchange shall certify the record of the proceeding, if any, and the written decision and shall submit these documents to the special committee. The special committee's review of the action shall be based solely on the record, the written decision and any statement submitted by the person requesting the review. The special committee shall prepare and deliver to such person a written decision and reasons therefor. If the special committee affirms the

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<sup>6</sup> In contrast to the NASDAQ Rule, however, the Phlx rule will not specifically require the applicant to provide pro forma financial statements, which Phlx believes are unlikely to provide materially useful information about the applicant. The proposed rule is sufficiently broad, however, to allow the Membership Department to request such information if deemed appropriate in a specific case.

action, the action shall become effective ten days from the date of the special committee's decision. The decision of the special committee may not be appealed to the Board of Directors, and would thus constitute final action by the Exchange.

## 2. Statutory Basis

Phlx believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>7</sup> in general, and with Section 6(b)(5) of the Act,<sup>8</sup> in particular, in that the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Specifically, the proposed rule change will make it clear that member organizations seeking to make markets on PSX for the first time will be required to submit information necessary to allow the Phlx Membership Department to assess the capability of the member organization to act in that capacity. The rule change will also relieve member organizations seeking to make markets on PSX for the first time from the requirement to submit to pre-review by the Membership Department in instances where they have already undergone such a review under the rules of FINRA, NASDAQ or BX. The rule change also broadens the scope of what may be appealed to a special committee of the Board of Directors to include any adverse action of the Membership Department for which it has responsibility. The Exchange believes that it is appropriate to apply a consistent process to all adverse actions of the Membership Department, including adverse decisions concerning applications to obtain and maintain the status of a Market Maker, as it will

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<sup>7</sup> 15 U.S.C. 78f.

<sup>8</sup> 15 U.S.C. 78f(b)(4) [sic] and (5).



lessen the burden on member organizations should they otherwise be required to comply with multiple appellate processes. Moreover, adopting a uniform appellate process will promote consistent reviews of matters concerning membership-related adverse actions. Accordingly, Phlx believes that the rule change will remove impediments to and perfect the mechanism of a free and open market, and protect investors and the public interest, because it will clarify the scope of regulatory review by the Phlx Membership Department while also relieving member organizations of unnecessary regulatory burdens.

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. Specifically, by clarifying the scope of regulatory review by the Phlx Membership Department of member organizations seeking to become market makers on PSX, the rule change reflects appropriate regulatory reviews with respect to member organizations engaging in a new market activity and provides a uniform process applied to appeals of all adverse actions taken by the Membership Department. To the extent that this review may be seen as a burden on competition because it may limit the extent to which a member organization may make markets, or slow the timing of a member organization entering this business, such burdens are appropriate in light of the importance of assessing a member organization's capability. Moreover, the change to provide that review is not necessary in the case of member organizations approved to make markets by other SROs will help mitigate any burden created by the new rule by eliminating duplicative regulatory reviews. The Exchange believes that the efficiency and consistency that comes from applying a uniform process to any adverse action of the Membership Department lessens the burden on a member organization that appeals such an action as it would otherwise be required to follow differing processes, depending on the nature of the adverse action taken.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(ii) [sic] of the Act<sup>9</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>10</sup>

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.

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

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<sup>9</sup> 15 U.S.C. 78s(b)(3)(a)(ii) [sic].

<sup>10</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2013-84 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-Phlx-2013-84. 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 such 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 publicly available. All submissions should refer

to File Number SR-Phlx-2013-84 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>11</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>11</sup> 17 CFR 200.30-3(a)(12).