SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–72250; File No. SR–Phlx–2014–24]

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto To Modify the Order Execution Algorithm of NASDAQ OMX PSX

May 23, 2014.

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 May 13, 2014, NASDAQ OMX PHLX LLC (''Phlx'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed Amendment No. 1 to the proposed rule change on May 16, 2014.[3] The Commission is publishing this notice, as amended, to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to modify the order execution algorithm of Phlx's NASDAQ OMX PSX facility (''PSX''). The text of the proposed rule change is available at *nasdaqomxphlx.cchwallstreet.com,* at the Exchange's principal office, and at the Commission's Public Reference Room.

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.

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

[2] 17 CFR 240.19b–4.

[3] In Amendment No. 1, the Exchange corrected figures in both the filing and the proposed rule text for price and share amounts used in examples of the proposed execution algorithm.

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

1. Purpose

Phlx launched PSX in 2010 with an order execution algorithm that allocated executions of incoming orders to orders on the PSX book based on the price and size of posted orders, rather than price and time, with allocations made on a pro rata basis among orders with similar price and display characteristics.[4] In 2013, after concluding that this pro rata model had not met the Exchange's expectations with respect to PSX's market share, Phlx adopted a price/time model that was functionally similar to the model in place at other national securities exchanges.[5] Phlx is now proposing to allow its member organizations to benefit from the advantages of each model, by adopting a system under which some securities may trade using the current price/time model, while others may trade under a pro rata model similar to, but in several respects different from, the model in effect from 2010 to 2013. As described in more detail below, Phlx will select the algorithm applicable to each security that is eligible for trading on PSX, and may change the applicable algorithm from time to time, subject to providing advance notice to market participants.[6]

Price/Time Algorithm

Phlx is not proposing to alter the operation of the price/time algorithm for those securities to which it is applied, although it is modifying the applicable rule text in certain respects to improve its clarity. Under this algorithm, the System executes trading interest in the following manner:

- Price—Better priced trading interest is executed ahead of inferior-priced trading interest.
- Display—Displayed Quotes/Orders at a particular price are executed in time priority among such interest.
- Non-Displayed Interest—Non-Displayed Orders and the reserve portion of Quotes and Reserve Orders (collectively, ''Non-Displayed Interest'') at a particular price are executed in time priority among such interest.

For example, assume that sell orders with the following sizes, time stamps, and display characteristics are on the PSX book:

- Order 1: 100 shares, Non-Displayed at $9.99, 11:00.00
- Order 2: 100 shares, Non-Displayed at $10.00, 10:59.50
- Order 3: 100 shares, Displayed at $10.00, 11:00.05
- Order 4: 100 shares, Displayed at $10.00, 11:00.10
- Order 5: 100 shares, Non-Displayed at $10.00, 11:00.10

If an order to buy 400 shares at $10.00 is entered, it will execute against the resting orders in the following sequence: Order 1, since its price is superior to that of the other orders; Order 3, since as among orders priced at $10.00, it is the Displayed Order that arrived on the book first and Displayed Orders are executed ahead of Non-Displayed Interest; Order 4, since Displayed Orders are executed ahead of Non-Displayed Interest, and Order 2, since all Displayed Orders at $10.00 have been executed and as among Non-Displayed Interest at $10.00, it was the first to arrive on the book.

Pro Rata Algorithm

As noted above, the pro rata model is being altered in several respects from the version previously in effect. Most notably, for those securities for which the pro rata model is applicable, Phlx may also opt to apply a version of the algorithm under which a specified percentage of an execution is guaranteed to an order that establishes the best price in PSX. This modification to the algorithm is referred to herein and in the proposed rule as the variation for ''Price-Setting Orders.'' As with the decision as to the applicable algorithm, Phlx will determine whether to apply the variation to each security that trades under the pro rata algorithm, and as described in more detail below, may change the application from time to time, subject to providing advance notice to market participants.

Price and Displayed Orders

Under the pro rata algorithm, the System will execute trading interest within the System in the following order:

- Price—Better priced trading interest is executed ahead of inferior-priced trading interest.

[4] Securities Exchange Act Release No. 62877 (September 9, 2010), 75 FR 56633 (September 16, 2010) (SR–Phlx–2010–79).

[5] Securities Exchange Act Release No. 69452 (April 25, 2013), 78 FR 25512 (May 1, 2013) (SR–Phlx–2013–24).

[6] The approach of allowing the applicable execution algorithm to vary on a security-by-security basis is currently used in the market structure of several options exchanges, including the NASDAQ Options Market (''NOM'') (Chapter VI, Section 10 of the NOM Rules); the BX Options Market (''BX Options'') (Chapter VI, Section 10 of the BX Options Rules); the Chicago Board Options Exchange (''CBOE'') (CBOE Rule 43.1); and the C2 Options Exchange (''C2'') (C2 Rule 6.12). It was also used in the cash equities markets at the former CBOE Stock Exchange (''CBXS'') (CBSX Rule 52.1).

• Display—Displayed Orders at a particular price with a size of at least one round lot will be executed ahead of Displayed Orders with a size of less than one round lot, Non-Displayed Interest with a size of at least one round lot, Minimum Quantity Orders, and Non-Displayed Interest with a size of less than one round lot.

• Allocation to Displayed Orders with a Size of One Round Lot or More—As among equally priced Displayed Orders with a size of at least one round lot, the System will allocate portions of incoming executable orders to displayed trading interest within the System pro rata based on the size of the Displayed Orders, rounding down to the nearest round lot. Next, portions of an order that would be executed in a size other than a round lot if they were allocated on a pro rata basis will be allocated for execution against available displayed trading interest, one round lot at a time, in the order of the displayed size (measured at the time when the pro rata allocation began) of the trading interest at that price (largest to smallest), or, as among orders with an equal size, based on time priority. Incoming orders with a size of less than one round lot will be allocated against available displayed trading interest in the order of the size of trading interest at that price (largest to smallest), or, as among orders with an equal size, based on time priority.

For example, assume that sell orders with the following sizes, time stamps, and display characteristics are on the PSX book:

• Order 1: 600 shares, Displayed at $10.00, 10:59.50

• Order 2: 400 shares, Displayed at $10.00, 11:00.05

• Order 3: 300 shares, Displayed at $10.00, 11:00.10

If an order to buy 1,200 shares at $10.00 is entered, it will execute against the resting orders in the following sequence and with the following share amounts:

• Orders 1, 2, and 3: The System will make a pro rata allocation of the incoming order to the resting orders based on their size in round lot increments, such that Order 1 will be allocated 500 shares ((600 ÷ 1,300) × 1,200, rounded down to the nearest round lot); Order 2 will be allocated 300 shares; and Order 3 will be allocated 200 shares.

• Order 1: After decrementation, the remaining orders on the book each have 100 shares, and the incoming order has 200 shares left to execute. The remaining 200 shares of the order will be allocated one round lot at a time, first to Order 1, since of the remaining resting orders, it was the order with the largest displayed size at the beginning of the pro rata allocation, and then to Order 2, the order with the next largest displayed size at the beginning of the pro rata allocation.

If the incoming order was 80 shares (less than one round lot), it would be allocated to Order 1 based on its size as the resting order with the largest displayed size.

Variation for Price-Setting Orders

For any security that trades under the pro rata algorithm, Phlx may adopt a variation of the algorithm that guarantees a specified percentage allocation for an order that sets the best price on PSX under certain conditions. The goal of the variation would be to increase the extent to which market participants commit capital to display significant size at a price that narrows the spread, thereby enhancing price discovery and transparency. The ''Guaranteed Percentage'' for all securities subject to this variation will be 40%.[7] The Exchange believes the Guaranteed Percentage of 40% strikes an appropriate balance between awarding the participant who sets a new price on PSX while also rewarding other participants who risk capital by displaying large size, thereby encouraging competition among market participants to fill incoming orders. This balance provides an incentive for aggressive quoting from both a price and size perspective.

When this variation of the pro rata algorithm is employed, a Displayed Order with a size of at least one round lot that establishes the best price in PSX when it is entered will be a ''Price-Setting Order'' if such order is executed; provided, however, that a better priced order will become the Price-Setting Order if it is executed. The allocation to the Price-Setting Order will be the greater of the Guaranteed Percentage or the allocation that the order would otherwise receive under the pro rata algorithm.

If the Price-Setting Order receives an allocation greater than the Guaranteed Percentage, the remainder of the order will be allocated to other displayed trading interest in the manner provided for Displayed Orders when the variation for Price-Setting Orders is not in effect (as provided in Rule 3307(b)(2)(A)). If the Price-Setting Order receives the Guaranteed Percentage, the System will then allocate round lot portions of the incoming order that are not allocated to the Price-Setting Order to other displayed trading interest within the System pro rata based on the size of such Displayed Orders (excluding the Price-Setting Order), rounding down to the nearest round lot. Next, portions of an order that would be executed in a size other than a round lot if they were allocated on a pro rata basis will be allocated for execution against available displayed trading interest (excluding the Price-Setting Order), one round lot at a time, in the order of the displayed size (measured at the time when the pro rata allocation began) of the trading interest at that price (largest to smallest), or, as among orders with an equal size, based on time priority. In the case of incoming orders with a size of less than one round lot, the Price-Setting Order will receive the Guaranteed Percentage of the order, and the remainder of the order will be allocated to available displayed trading interest in the order of the size of displayed trading interest at that price (largest to smallest), or, as among orders with an equal size, based on time priority.

By way of example, assume that Order 1 is on the PSX book to sell 1,000 shares at $10.01. If Order 2 is then entered onto the book to sell 1,000 shares at $10.00, Order 2 is presumptively the Price-Setting Order. Assume also that Order 3 to sell 3,000 shares at $10.00, and Order 4 to sell 1,000 shares at $10.00 are then entered onto the book. If an incoming order to buy 1,000 at $10.00 is then entered, 400 shares will be allocated to Order 2 based on the 40% Guaranteed Percentage for it as the Price-Setting Order.[8] The remaining shares will then be allocated among the other orders based on their displayed size as follows:

• Pro rata allocation of 400 shares to Order 3 ((3,000 ÷ 4,000) × 600, rounded down to the nearest round lot);

• Pro rata allocation of 100 shares to Order 4 ((1,000 ÷ 4,000) × 600, rounded down to the nearest round lot); and

• Remaining 100 shares to Order 3 (order with the largest original displayed size).

If the incoming order was an odd lot of 80 shares, the System would allocate 32 shares to Order 2 (40% allocated to the Price-Setting Order) and 48 shares to

[7] If Phlx determines to change the Guaranteed Percentage, it will file a proposed rule change to do so.

[8] If, before the incoming order was entered, another sell order was posted to the book at $9.99, it would have the potential to become the Price-Setting Order if it executed while still reflecting the best price in PSX. Once an order is executed as a Price-Setting Order, all previously entered orders that could have potentially been Price-Setting Orders are no longer eligible to be Price-Setting Orders.

Order 3 (resting order with the largest displayed size).

As noted above, if the allocation that a Price-Setting Order would receive via the pro rata algorithm provided for in Rule 3307(b)(2)(A) is greater than the Guaranteed Percentage, the Price-Setting Order would receive the higher allocation and remaining shares of the incoming order would be allocated as provided for in Rule 3307(b)(2)(A). For example, assume a Displayed Order to sell 1,000 shares at $10.01 resides on the PSX book (Order 1), a Displayed Order to sell 3,000 shares at $10.00 is entered and becomes the Price-Setting Order (Order 2), and additional Displayed Orders to sell at $10.00 with sizes of 1,000 shares (Order 3) and 1,000 shares (Order 4) are then entered. If an incoming order to buy 1,000 shares at $10.00 is entered, the System will allocate the incoming order as follow:

- 600 shares to Order 2 ((3,000 ÷ 5,000) × 1,000, resulting in an allocation in excess of the Guaranteed Percentage);
- 200 shares to Order 3 ((1,000 ÷ 5,000) × 1,000); and
- 200 shares to Order 4 ((1,000 ÷ 5,000) × 1,000).

Displayed Odd-Lot Orders

Following the processing of Displayed Orders with a size of one round lot or more, the System will allocate remaining shares of an incoming order among equally priced Displayed Orders with a size of less than one round lot, in the order of the size of the trading interest at that price (largest to smallest), or, as among orders with an equal size, based on time priority.

Non-Displayed Interest With a Size of One Round Lot or More

As among equally priced Non-Displayed Interest with a size of at least one round lot (excluding Minimum Quantity Orders), the System will allocate portions of incoming executable orders to Non-Displayed Interest within the System pro rata based on the size of Non-Displayed Interest, rounded down to the nearest round lot. Next, portions of an order that would be executed in a size other than a round lot if they were allocated on a pro rata basis will be allocated for execution against available Non-Displayed Interest, one round lot at a time, in the order of the size (measured at the time when the pro rata allocation began) of the trading interest at that price (largest to smallest), or, as among orders with an equal size, based on time priority. Incoming orders with a size of less than one round lot will be allocated against available Non-Displayed Interest in the order of the size of trading interest at that price (largest to smallest), or, as among orders with an equal size, based on time priority. Thus, the algorithm with respect to Non-Displayed Interest with a size of one round lot or more is identical to the algorithm for Displayed Orders with a size of one round lot or more.

Minimum Quantity Orders

Minimum Quantity Orders are orders that will not execute unless a specified minimum quantity of shares can be obtained. Minimum Quantity Orders that post to the PSX book are not displayed, and upon entry must have a size and a minimum quantity condition of at least one round lot. In the event that the shares remaining in the size of the order following a partial execution thereof are less than the minimum quantity specified by the market participant entering the order, the minimum quantity value of the order is reduced to the number of shares remaining. Because they are non-displayed, Minimum Quantity Orders are given a lower priority of execution than Displayed Orders. Moreover, because a minimum quantity condition cannot necessarily be satisfied in a pro rata allocation system, the orders are given a lower priority than other Non-Displayed Interest with a size of one round lot or more. As among equally priced Minimum Quantity Orders, the System will allocate incoming executable orders to Minimum Quantity Orders within the System in the ascending order of the size of the minimum quantity conditions assigned to the orders. Thus, an order with a minimum quantity condition of 300 shares will be filled before an order with a minimum quantity condition of 400 shares. If there are two or more Minimum Quantity Orders with an equal minimum quantity condition, the System will determine the order of execution based on time priority.

Non-Displayed Odd-Lot Orders

As among equally priced Non-Displayed Interest with a size of less than one round lot, the System will allocate incoming orders based on the size of the Non-Displayed Interest, in the order of the size of the trading interest at that price (largest to smallest), or, as among orders with an equal size, based on time priority.

Selection of Applicable Algorithm and Notice to Member Organizations

The algorithm applicable to a particular security will be selected by the Exchange and listed on a publicly available Web site. The selection will be made by the President of the Exchange or another officer of the Exchange designated by the President for this purpose. The selection will be based on an ongoing assessment 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 NBBO. Factors to be considered for each security would include the size of member organizations' quotes, the amount of time that PSX is at the NBBO, PSX market share, and observed changes in volume, average execution size, and average order size. As a general matter, the Exchange would examine these factors and consider adjusting the algorithm applicable to a security if it concluded that improvements in the security's performance on PSX might result. The Exchange expects that immediately following the implementation of this proposed rule change, most if not all securities will trade using the pro rata algorithm with the Price-Setting Order variation, with the goal of increasing the size of displayed liquidity in PSX, but that adjustments would then be made based on the observed performance of the securities. For example, if a security trading under the Price-Setting Order variation has large quoted size but PSX is generally not at the NBBO in the security, the Exchange would consider moving the security to the price/time algorithm as a means of encouraging market participants to quote more aggressively. Similarly, if PSX is employing the price/time algorithm and is at the NBBO consistently but with smaller size than the exchange considers ideal, the Exchange would consider adopting the pro rata algorithm with the variation for Price-Setting Orders as a means of maintaining the aggressive pricing from market participants while also encouraging larger quoted size, resulting in more time at the NBBO for larger size. The Exchange would also observe changes in PSX's market share and volume over time to determine if the applicable algorithm had a positive or negative effect on these metrics. In particular securities, the Exchange may also observe average execution size and/or average order size, with the goal of increasing both metrics. The Exchange may also conclude that if a group of similar securities (for example, certain exchange-traded funds) trade well using a particular algorithm, other securities with the same characteristics should also trade under that algorithm. Changes to the applicable algorithm, including the applicability of the variation for Price-Setting Orders, would be made

through a notice that is widely disseminated at least one month in advance of the change.[9]

2. Statutory Basis

Phlx believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,[10] in general, and with Section 6(b)(5) of the Act [11] 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. Phlx believes that the proposal has the potential to enhance the usefulness of PSX as a venue for trading cash equity securities by allowing the Exchange to adjust the execution algorithm applicable to a particular security to best suit its characteristics. Moreover, each component of the proposal—pro rata, the variation for Price-Setting Orders, and price/time—is itself consistent with the Act. Specifically, the Exchange believes that the use of the pro rata algorithm is consistent with the Act because it has the potential to encourage member organizations to display orders with greater size in order to receive a larger share of executions. Thus, the algorithm may facilitate transactions in securities and perfect the mechanism of a national market system by facilitating executions of larger orders with less impact on price. The proposal also has the potential to promote price discovery by providing a means to discourage the use of non-displayed liquidity. Moreover, the Commission has previously determined that PSX's prior pro rata algorithm was consistent with the Act because it ''may encourage participants, particularly those who wish to execute orders of large size, to display liquidity. . . . This in turn could facilitate the efficient execution of large orders, and foster best execution and price discovery. A novel exchange priority system that is designed to achieve these goals also may foster competition and innovation.'' [12] The Exchange further notes that the use of an algorithm that deemphasizes the importance of speed would provide an additional trading option to market participants that may wish to seek alternatives to the prevailing market structure for US cash equities.

The proposed variation to the algorithm for Price-Setting Orders is similarly consistent with the national market system purposes of the Act because it maintains the potential benefits of the pro rata algorithm discussed above while also having the potential to encourage market participants to set the best price on PSX. Thus, the Exchange believes that the proposal has the potential to enhance price discovery on PSX, while still promoting competition among market participants to receive allocations of incoming orders by posting orders with larger sizes.

In addition, the proposal is similar in several respects to rules in effect at US options exchanges. Notably, NOM and several other options exchanges [13] have rules that allow the applicable exchange to determine the algorithm—pro rata or price/time—applicable to each security that it trades.[14] In addition, the proposed variation to the pro rata algorithm for Price-Setting Orders is similar in intent to rules of numerous US options exchanges under which a specialist is guaranteed a percentage allocation of an incoming order in consideration of its performance of specialist obligations.[15] Similarly, the Exchange's proposal is designed to provide a means of encouraging market participants to compete to provide substantial liquidity at the inside market by guaranteeing them a percentage allocation. However, unlike the guaranteed allocation for specialists, the proposed allocation would be available to any market participant quoting in a security to which the variation applied.[16] Additionally, the proposal could foster competition, as the allocation would be awarded based on performance. The trading participant's order that is given the Guaranteed Percentage must compete with orders of every other trading participant to earn that Guaranteed Percentage. Furthermore, one order earning the Guaranteed Percentage carries no weight as to whether another order for the same participant earns the Guaranteed Percentage; that is, each order must compete to earn the Guaranteed Percentage.

For securities that the Exchange believes are not best served by a pro rata allocation, the proposal allows the Exchange to have the flexibility to use a price/time algorithm that replicates the algorithm in use at other national securities exchanges. The Exchange is not proposing to modify the operation of this algorithm, which has also previously been determined to be consistent with the Act.[17] This algorithm is consistent with the purposes of the Act because it reflects a fair and logical means of allocating executions based on the price, time of entry, and display characteristics of posted orders.

The Exchange further believes that the process for determining the algorithm applicable to a particular security is consistent with the Act's purposes of perfecting the mechanisms of a national market system and protecting investors and the public interest. The rule allows the Exchange to select among alternatives, most aspects of which have already been determined by the Commission to be consistent with the Act. Moreover, by allowing adjustments, the rule will enable the Exchange to continually evaluate data and adapt the trading of securities to changing circumstances, with the goals of increasing displayed size and time at the inside and narrowing spreads. Finally, the Exchange believes that the requirement to provide market participants with at least one month notice of any change will ensure that market participants have adequate notice of changes to enable them to make any needed adjustments to their order routing practices.

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

Phlx does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance

[9] Based on input from its affiliated options exchanges that allow for similar variation of execution algorithms, the Exchange believes that even less notice would be adequate to allow market participants to adjust their systems to reflect changes. However, PSX is initially proposing one month notice to avoid any possible issues after the adoption of the new model. PSX may submit a proposed rule change to reduce the time in the future.

[10] 15 U.S.C. 78f.

[11] 15 U.S.C. 78f(b)(5).

[12] Securities Exchange Act Release No. 62877 (September 9, 2010), 75 FR 56633, 56635 (September 16, 2010) (SR–Phlx–2010–79).

[13] The former CBSX cash equities exchange, which recently ceased operations, also had such a rule.

[14] *See supra* n.6. It should be noted that these rules do not specify the factors to be considered by the exchange in selecting the applicable algorithm. The Exchange understands, however, that staff of NOM and BX Options apply factors similar to the ones proposed herein in making such selections.

[15] *See, e.g.,* PHLX Rule 1014(g).

[16] The proposed rule is also similar to CBOE Rule 43.1 and former CBSX Rule 52.1, which provide priority to the market participant that was first to establish a price (the ''Market Turner''), and to retain such priority in the event the market moves beyond, but then returns to, the Market Turner's price.

[17] Securities Exchange Act Release No. 69452 (April 25, 2013), 78 FR 25512 (May 1, 2013) (SR–Phlx–2013–24).

of the purposes of the Act, as amended.[18] Currently, PSX has minimal market share, and the Exchange believes that the proposal may enhance its competitiveness by offering a unique market model not currently offered by other national securities exchanges trading cash equities. Since use of PSX is entirely voluntary and numerous competitive alternatives exist, the change will not impose any burden on competition. Moreover, the Exchange's prior experience with use of a pro rata algorithm on PSX leads it to believe that although the market model may not draw significant volume of order flow away from other trading venues, nevertheless the model is attractive to some market participants and therefore is likely to enhance PSX's competitiveness.

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

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) By order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be 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, as amended, 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 email to *rule-comments@sec.gov.* Please include File Number SR–Phlx–2014–24 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–2014–24. This file number should be included on the subject line if email 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 Web site 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 offices 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–2014–24, and should be submitted on or before June 20, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[19]

Kevin M. O'Neill,

Deputy Secretary.

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[18] 15 U.S.C. 78f(b)(8).

[19] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–72244; File No. SR–NASDAQ–2014–056]

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Extension of the Exchange's Penny Pilot Program and Replacement of Penny Pilot Issues That Have Been Delisted

May 23, 2014.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b–4 [2] thereunder, notice is hereby given that on May 20, 2014, The NASDAQ Stock Market LLC (''NASDAQ'' 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 NASDAQ. 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

NASDAQ is filing with the Commission a proposal to amend Chapter VI, Section 5 (Minimum Increments) of the rules of the NASDAQ Options Market (''NOM'') to extend through December 31, 2014, the Penny Pilot Program in options classes in certain issues (''Penny Pilot'' or ''Pilot''), and to change the date when delisted classes may be replaced in the Penny Pilot.[3]

The Exchange requests that the Commission waive the 30-day operative delay period to the extent needed for timely industry-wide implementation of the proposal.

The text of the amended Exchange rule is set forth immediately below.

Proposed new language is *underlined* and proposed deleted language is [bracketed].

NASDAQ Stock Market Rules

Options Rules

* * * * *

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

[2] 17 CFR 240.19b–4.

[3] The Penny Pilot was established in March 2008 and was last extended in December 2013. *See* Securities Exchange Act Release Nos. 57579 (March 28, 2008), 73 FR 18587 (April 4, 2008) (SR–NASDAQ–2008–026) (notice of filing and immediate effectiveness establishing Penny Pilot); and 71105 (December 17, 2013), 78 FR 77530 (December 23, 2013) (SR–NASDAQ–2013–154) (notice of filing and immediate effectiveness extending the Penny Pilot through June 30, 2014).