

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.<sup>13</sup>

Kevin M. O'Neill,

Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-66923; File No. SR-NSX-2012-05]

### Self-Regulatory Organizations; National Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend Its Rules Regarding Routing of Limit Orders

May 4, 2012.

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 April 26, 2012, National Stock Exchange, Inc. ("NSX" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the 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

National Stock Exchange, Inc. ("NSX" or "Exchange") is proposing to modify the text of NSX Rule 11.15 to harmonize it with current system functionality of routed limit orders.

The text of the proposed rule change is available on the Exchange's Web site at <http://www.nsx.com>, at the principal office of the Exchange, 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 parts of such statements.

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

###### 1. Purpose

NSX Rule 11.15(a)(ii)(A) (Routing to Away Trading Centers) currently provides that, for orders other than sweep orders that are, consistent with the terms of the order, routed to away trading centers, the order will be converted into one or more limit orders, as necessary, to be matched for execution against each protected quotation at the Protected National Best Bid or Offer ("NBBO") available at away trading centers. With respect to the price of the routed limit order, Rule 11.15(a)(ii)(A) currently provides: "Each such converted limit order shall be priced at the price of the protected quotation that it is to be matched for execution against" (italics added).

Notwithstanding the text of Rule 11.15(a)(ii)(A), the Exchange's trading system, NSX BLADE® ("Blade"), currently prices each such converted limit order at a price that is one trading increment inside the best bid or offer on the NSX book, but in any case not higher (if a bid) or lower (if an offer) than the limit price specified by the terms of the original order. The proposed edits to Rule 11.15(a)(ii)(A) would conform the text of the rules to current Blade functionality.

Specifically, new subsections (1) and (2) are proposed to be added to Rule 11.15(a)(ii)(A). Subsection (1) would address the pricing of routed market orders (the treatment of which remains unchanged, namely, such orders shall be routed at the price of the protected quotation that it is to be matched against for execution). Subsection (2) would address the pricing of routed limit orders, and specifies in clauses (x) and (y) the converted limit price for each a buy and sell order, respectively. In the case of a buy order, the converted limit price shall be the lower of the limit price of the original order and one increment lower than the lowest offer on the NSX book. In the case of a sell order, the converted limit price shall be the higher of the limit price of the original order and one increment higher than the highest bid on the NSX book.

The proposed pricing methodology benefits ETP Holders by minimizing the risk of non-fills or delayed fills that might arise as a result of the order being routed at the NBBO price. NBBO quotes may flicker and/or be cancelled by the time a routed order arrives at the away destination. Under such circumstances, if priced at the NBBO, a routed limit order may be rejected by the away destination and, upon return to NSX, undergo a re-evaluation within Blade (consistent with Regulation NMS and NSX rules), after which it may be subjected to one or more repeat cycles of the foregoing process ("unfilled routing cycles"). The orders are routed as Immediate or Cancel ("IOC") orders and thus retain the full protections of Rule 611. By re-pricing routed limit orders as proposed above, the chances are maximized that an ETP Holder's routed limit order is filled quickly and at the best price available (and never worse than the original order's limit price), and not at a price that can otherwise be filled against the NSX book.

The following examples reflect both the current functionality of routed limit orders in Blade and also routed limit order pricing under the proposed rules:

#### EXAMPLE 1

Original order	NSX best offer	National best offer
Buy Limit @ 10.10 .....	10.05	9.95

**Result:** The original limit order is converted to a buy limit order at a price of \$10.04 (one increment lower than the lowest offer on the NSX book, which is

lower than the original order limit price of \$10.10), and routed to the market displaying the National Best Offer of \$9.95. The order may then be executed

at that away market, in whole or in part, subject to the applicable trading rules of

<sup>13</sup> 17 CFR 200.30-3(a)(12).

<sup>14</sup> 15 U.S.C. 78s(b)(1).

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

that trading center.<sup>3</sup> In this example, an execution at the away market would generally be at a price of \$9.95.<sup>4</sup> Current rule text would price the routed limit order at \$9.95 (the price of the protected quotation against which it is matched

for execution). This pricing methodology (which routes the buy order at \$10.04 rather than \$9.95) is beneficial to an ETP Holder because it minimizes the chances of repeated unfilled routing cycles as described

above, intends to access the best priced displayed liquidity, and does not route the order at a price that can be filled against the NSX book.

#### EXAMPLE 2

Original order	NSX best offer	National best offer
Buy Limit @ 10.00 .....	10.05	9.95

*Result:* The original limit order is converted to a buy limit order at a price of \$10.00 (the limit price of the original order, which is lower than one increment lower than the lowest offer on the NSX book) and routed to the market displaying the National Best Offer of \$9.95. The order may then be executed at that away market, in whole

or in part, subject to the applicable trading rules of that trading center. In this example, an execution at the away market would generally be at a price of \$9.95.<sup>5</sup> Current rule text would price the routed limit order at \$9.95 (the price of the protected quotation against which it is matched for execution). This pricing methodology (which routes the buy

order at \$10.00 rather than \$9.95) is beneficial to an ETP Holder because it minimizes the chances of repeated unfilled routing cycles as described above, intends to access the best priced displayed liquidity, and does not route the order at a price higher than the limit price.

#### EXAMPLE 3

Original order	NSX best offer	National best offer
Buy Limit @ 9.95 .....	10.05	9.95

*Result:* The original limit order is converted to a buy limit order at a price of \$9.95 (the limit price of the original order, which is lower than one increment lower than the lowest offer on the NSX book) and routed to the

market displaying the National Best Offer of \$9.95. The order may then be executed at that away market, in whole or in part, subject to the applicable trading rules of that trading center. In this example, an execution at the away

market would generally be at a price of \$9.95.<sup>6</sup> Current rule text would likewise price the routed limit order at \$9.95 (the price of the protected quotation against which it is matched for execution).

#### EXAMPLE 4

Original order	NSX best bid	National best bid
Sel Limit @ 9.90 .....	9.95	10.05

*Result:* The original limit order is converted to a sell limit order at a price of \$9.96 (one increment higher than the highest bid on the NSX book, which is higher than the original order limit price of \$9.90) and routed to the market displaying the National Best Bid of \$10.05. The order may then be executed at that away market, in whole or in part,

subject to the applicable trading rules of that trading center. In this example, an execution at the away market would generally be at a price of \$10.05.<sup>7</sup> Current rule text would price the routed limit order at \$10.05 (the price of the protected quotation against which it is matched for execution). This pricing methodology (which routes the sell

order at \$9.96 rather than \$10.05) is beneficial to an ETP Holder because it minimizes the chances of repeated unfilled routing cycles as described above, intends to access the best priced displayed liquidity, and does not route the order at a price that can be filled against the NSX book.

#### EXAMPLE 5

Original order	NSX best bid	National best bid
Sell Limit @ 10.00 .....	9.95	10.05

<sup>3</sup> See NSX Rule 11.15(c)(i).

<sup>4</sup> This predicted result is dependent on the rules of the away market and assumes certain things, including without limitation the absence of an un-displayed, lower priced offer at the away market that would interact at a lower price, and that the away market's displayed NBO of 9.95 has not

changed (e.g., been cancelled or improved by a lower priced offer) by the time the routed order is received at the away trading center.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> This predicted result is dependent on the rules of the away market and certain things, including

without limitation the absence of an un-displayed, higher priced bid at the away market that would interact at a higher price, and that the away market's displayed NBB of 10.05 has not changed (e.g., been cancelled or improved by a higher priced bid) by the time the routed order is received at the away trading center.

*Result:* The original limit order is converted to a sell limit order at a price of \$10.00 (the limit price of the original order, which is higher than one increment higher than the highest bid on the NSX book) and routed to the market displaying the National Best Bid of \$10.05. The order may then be executed at that away market, in whole

or in part, subject to the applicable trading rules of that trading center. In this example, an execution at the away market would generally be at a price of \$10.05.<sup>8</sup> Current rule text would price the routed limit order at \$10.05 (the price of the protected quotation against which it is matched for execution). This pricing methodology (which routes the

sell order at \$10.00 rather than \$10.05) is beneficial to an ETP Holder because it minimizes the chances of repeated unfilled routing cycles as described above, intends to access the best priced displayed liquidity, and does not route the order at a price higher than the limit price.

#### EXAMPLE 6

Original order	NSX best bid	National best bid
Sell Limit @ 10.05 .....	9.95	10.05

*Result:* The original limit order is converted to a sell limit order at a price of \$10.05 (the limit price of the original order, which is higher than one increment higher than the highest bid on the NSX book) and routed to the market displaying the National Best Bid of \$10.05. The order may then be executed at that away market, in whole or in part, subject to the applicable trading rules of that trading center. In this example, an execution at the away market would generally be at a price of \$10.05.<sup>9</sup> Current rule text would likewise price the routed limit order at \$10.05 (the price of the protected quotation against which it is matched for execution).

#### 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6 of the Act,<sup>10</sup> and the rules and regulations thereunder and, in particular, the requirements of Section 6(b) of the Act.<sup>11</sup> Specifically, the Exchange believes the modification of Rule 11.15 furthers the objective of Section 6(b)(1) of the Act because it aligns the text of the rule with the actual functionality regarding how limit orders are currently routed. By conforming the text of the Exchange's rules to accurately reflect the method by which the Exchange's system currently re-prices routed limit orders, the proposed rule change harmonizes the Exchange's trading system functionality with the text of NSX rules and thereby promotes clarity and eliminates confusion. In addition, the manner in which limit orders are routed by the Exchange as described herein allows an ETP Holder's routed limit order to be filled more quickly and at the best price available (and never worse than the original order's limit price), and not at a price

that can otherwise be filled against the NSX book. The Exchange believes that this manner of pricing routed limit orders best serves its ETP Holders. Accordingly, the Exchange believes that the proposed rule change promotes just and equitable principles of trade, removes impediments, and perfects the mechanism of a free and open market and a national market system and, in general, protects investors and the public interest.

The proposed rule change provides transparency and certainty with respect to routed limit orders by providing detail on precisely how Blade prices and routes limit orders to away market centers. In so doing, the proposed rule change promotes the maintenance of a fair and orderly market, the protection of investors and the protection of the public interest, consistent with the Act and the rules promulgated thereunder.

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

The Exchange does not believe that the proposed rule change will impose any inappropriate burden on competition.

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

Written comments on the proposed rule change were neither solicited nor received.

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

Because the 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, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>12</sup> and Rule 19b-4(f)(6) thereunder.<sup>13</sup> At any time within 60 days of the filing of such 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 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
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NSX-2012-05 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-NSX-2012-05. This file number should be included on the subject line if email is used. To help the Commission process and review your

description and the 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.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> 15 U.S.C. 78f.

<sup>11</sup> 15 U.S.C. 78f(b).

<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change along with a brief

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 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-NSX-2012-05 and should be submitted on or before May 31, 2012.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>14</sup>

**Kevin M. O'Neill,**  
Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-66928; File Nos. SR-NYSE-2011-55; SR-NYSEAmex-2011-84]

### Self-Regulatory Organizations; New York Stock Exchange LLC; NYSE Amex LLC; Notice of Designation of Longer Period for Commission Action on Proceedings To Determine Whether To Disapprove Proposed Rule Changes, as Modified by Amendments Nos. 1 and 2, Adopting NYSE Rule 107C To Establish a Retail Liquidity Program for NYSE-Listed Securities on a Pilot Basis Until 12 Months From Implementation Date, and Adopting NYSE Amex Rule 107C To Establish a Retail Liquidity Program for NYSE Amex Equities Traded Securities on a Pilot Basis Until 12 Months From Implementation Date

May 4, 2012.

On October 19, 2011, New York Stock Exchange LLC ("NYSE") and NYSE Amex LLC ("NYSE Amex") and together with NYSE, the "Exchanges" each filed with the Securities and Exchange Commission ("Commission") 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> a proposed rule change to establish a Retail Liquidity Program ("Program") on a pilot basis for a period of one year from the date of implementation, if approved. The proposed rule changes were published for comment in the **Federal Register** on November 9, 2011.<sup>3</sup>

The Commission received 28 comments on the NYSE proposal<sup>4</sup> and

four comments on the NYSE Amex proposal.<sup>5</sup> On December 19, 2011, the Commission extended the time for Commission action on the proposed rule changes until February 7, 2012.<sup>6</sup> In connection with the proposals, the Exchanges requested exemptive relief from Rule 612(c) of Regulation NMS,<sup>7</sup> which prohibits a national securities exchange from accepting or ranking certain orders based on an increment smaller than the minimum pricing increment.<sup>8</sup> The Exchanges submitted a consolidated response letter on January 3, 2012.<sup>9</sup> On January 17, 2012, the Exchanges each filed Partial Amendment No. 1 to their proposals.<sup>10</sup>

CFA Institute, dated November 30, 2011 ("CFA Letter I"); David Green, Bright Trading, dated November 30, 2011 ("Green Letter"); Robert Bright, Chief Executive Officer, and Dennis Dick, CFA, Market Structure Consultant, Bright Trading LLC, dated November 30, 2011 ("Bright Trading Letter"); Bodil Jelsness, dated November 30, 2011 ("Jelsness Letter"); Christopher Nagy, Managing Director, Order Routing and Market Data Strategy, TD Ameritrade, dated November 30, 2011 ("TD Ameritrade Letter"); Laura Kenney, dated November 30, 2011 ("Kenney Letter"); Suhas Daftuar, Hudson River Trading LLC, dated November 30, 2011 ("Hudson River Trading Letter"); Bosier Parsons, Bright Trading LLC, dated November 30, 2011 ("Parsons Letter"); Mike Stewart, Head of Global Equities, UBS, dated November 30, 2011 ("UBS Letter"); Dr. Larry Padén, Bright Trading, dated December 1, 2011 ("Padén Letter"); Thomas Dercks, dated December 1, 2011 ("Dercks Letter"); Eric Swanson, Secretary, BATS Global Markets, Inc., dated December 6, 2011 ("BATS Letter"); Ann Vlcek, Director and Associate General Counsel, Securities Industry and Financial Markets Association, dated December 7, 2011 ("SIFMA Letter I"); and Al Patten, dated December 29, 2011 ("Patten Letter").

<sup>5</sup> See Knight Letter I; CFA Letter I; TD Ameritrade Letter; and letter to the Commission from Shannon Jennwein, dated November 30, 2011 ("Jennwein Letter").

<sup>6</sup> See Securities Exchange Act Release No. 66003, 76 FR 80445 (December 23, 2011).

<sup>7</sup> 17 CFR 242.612(c).

<sup>8</sup> See Letter from Janet M. McGinness, Senior Vice President-Legal and Corporate Secretary, Office of the General Counsel, NYSE Euronext to Elizabeth M. Murphy, Secretary, Commission, dated October 19, 2011. The Exchanges amended the exemptive relief request on January 13, 2012. See Letter from Janet M. McGinness, Senior Vice President-Legal and Corporate Secretary, Office of the General Counsel, NYSE Euronext to Elizabeth M. Murphy, Secretary, Commission, dated January 13, 2012.

<sup>9</sup> See Letter to the Commission from Janet McGinness, Senior Vice President, Legal & Corporate Secretary, Legal & Government Affairs, NYSE Euronext, dated January 3, 2012 ("Exchanges' Response Letter I").

<sup>10</sup> In Amendment No. 1, the Exchanges propose to modify the proposals as follows: (1) To state that Retail Member Organizations may receive free executions for their retail orders and the fees and credits for liquidity providers and Retail Member Organizations would be determined based on experience with the Retail Liquidity Program in the first several months; (2) to correct a typographical error referring to the amount of minimum price improvement on a 500 share order; (3) to indicate the Retail Liquidity Identifier would be initially available on each Exchange's proprietary data feeds, and would be later available on the public market

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

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

<sup>3</sup> See Securities Exchange Act Release Nos. 65671 (November 2, 2011), 76 FR 69774 (SR-NYSE Amex-2011-84); and 65672 (November 2, 2011), 76 FR 69788 (SR-NYSE-2011-55).

<sup>4</sup> See Letters to the Commission from Sal Arnuk, Joe Saluzzi and Paul Zajac, Themis Trading LLC, dated October 17, 2011 ("Themis Letter"); Garret Cook, dated November 4, 2011 ("Cook Letter"); James Johannes, dated November 27, 2011 ("Johannes Letter"); Ken Voorhies, dated November 28, 2011 ("Voorhies Letter"); William Wuepper, dated November 28, 2011 ("Wuepper Letter"); A. Joseph, dated November 28, 2011 ("Joseph Letter"); Leonard Amoroso, General Counsel, Knight Capital, Inc., dated November 28, 2011 ("Knight Letter I"); Kevin Basic, dated November 28, 2011 ("Basic Letter"); J. Fournier, dated November 28, 2011 ("Fournier Letter"); Ullrich Fischer, CTO, PairCo, dated November 28, 2011 ("PairCo Letter"); James Angel, Associate Professor of Finance, McDonough School of Business, Georgetown University, dated November 28, 2011 ("Angel Letter"); Jordan Wollin, dated November 29, 2011 ("Wollin Letter"); Aaron Schafter, President, Great Mountain Capital Management LLC, dated November 29, 2011 ("Great Mountain Capital Letter"); Wayne Koch, Trader, Bright Trading, dated November 29, 2011 ("Koch Letter"); Kurt Schact, CFA, Managing Director, and James Allen, CFA, Head, Capital Markets Policy,

<sup>14</sup> 17 CFR 200.30-3(a)(12).