

## V. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>14</sup> that the proposed rule change (SR-FINRA-2011-067) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>15</sup>

**Kevin O'Neill,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-66576; File No. SR-NYSE-2012-01]

### Self-Regulatory Organizations; New York Stock Exchange LLC; Order Approving a Proposed Rule Change To Establish an NYBX Immediate-or-Cancel Order

March 12, 2012.

#### I. Introduction

On January 11, 2012, the New York Stock Exchange LLC ("NYSE" or "Exchange") 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 amend NYSE Rule 1600 to establish a new order type known as an "NYBX IOC order." A NYBX IOC order would execute exclusively against contra-side liquidity in the Exchange's Display Book ("DBK") and/or in the New York Block Exchange ("NYBX" or "Facility"). The proposed rule change was published for comment in the **Federal Register** on January 30, 2012.<sup>3</sup> The Commission received no comment letters on the proposal. This order approves the proposed rule change.

#### II. Description of the Proposed Rule Change

NYBX is a facility of the Exchange and provides for electronic matching and execution of non-displayed orders with the aggregate of all displayed and non-displayed orders residing within NYBX and the DBK.<sup>4</sup> Only securities

listed on NYSE are eligible to trade on NYBX.<sup>5</sup>

NYSE proposes to establish a new order type, the NYBX IOC order, which is a limit order to buy or sell that is designated as immediate or cancel and would be cancelled if the order is not immediately able to execute, in whole or in part, exclusively against contra-side liquidity in the DBK and/or NYBX at a price that is at or within the national best bid or offer ("NBBO").<sup>6</sup> Any unexecuted portion of an NYBX IOC order would be immediately cancelled. No portion of an NYBX IOC order would be routed elsewhere, placed on the DBK, or remain in the NYBX Facility. Instead the order would be cancelled back to the User.<sup>7</sup> Unlike other NYBX order types, the NYBX IOC order will not allow a minimum triggering volume quantity ("MTV") designation.<sup>8</sup>

A NYBX IOC order would be entered in the same manner as other NYBX orders, as provided under NYSE Rule 1600(c)(1), and, except for the optional time in force order parameters of NYSE Rule 1600(c)(3)(B)(i), would be required to contain the order parameters listed in NYSE Rule 1600(c)(3)(A). A NYBX IOC order would be subject to order processing set forth in NYSE Rule 1600(d)(1).<sup>9</sup> In a situation in which the size of the NYBX IOC order is less than the total available contra side liquidity that is potentially executable within the limit price in the NYBX and the DBK, the existing "tie breaker" rules set forth in NYSE Rule 1600(d)(1)(C)(i) for routing decision purposes will provide that an execution in the DBK has priority over an execution at the same price in the NYBX.<sup>10</sup>

<sup>5</sup> See NYSE Rule 1600(b)(2)(C).

<sup>6</sup> See proposed NYSE Rule 1600(c)(2)(D).

<sup>7</sup> See *id.*

<sup>8</sup> See *id.* See also NYSE Rule 1600(b)(2)(E).

<sup>9</sup> Accordingly, as set forth in the Notice, the NYBX Facility would apply the order execution process that is set forth in Rule 1600(d)(1)(C)(i) to NYBX IOC orders, including that an NYBX IOC order may execute at multiple price points that may be available in the DBK and NYBX Facility that are within the limit price of the NYBX IOC order. Because by its terms, an NYBX IOC order does not route to other markets, have an MTV, or leave a residual in the NYBX, certain aspects of the order execution processing rules are inapplicable, specifically NYSE Rules 1600(d)(1)(C)(ii)-(vi) and 1600(d)(1)(D).

<sup>10</sup> In the Notice, the Exchange provided the following example: If a buy NYBX IOC order for 1,000 shares arrives at the Facility with a limit price of \$10.05, the Facility would review the available contra-side liquidity in the DBK (both displayed and undisplayed) and the NYBX. Assuming the contra-side liquidity in the DBK is 300 shares at \$10.04 (undisplayed), 200 shares at \$10.05 (NBO displayed), and 200 shares at \$10.05 (undisplayed), and in the NYBX is 200 shares at \$10.05, the NYBX IOC buy order would simultaneously be routed to DBK as 300 shares at \$10.04 and 400 shares at

Since NYBX IOC order would not be routed elsewhere, if another automated trading center is displaying a better price than either the NYBX or the DBK, and an execution in the NYBX Facility or DBK would result in a trade through in violation of Regulation NMS, the NYBX IOC order would be cancelled. Likewise, if another automated trading center is displaying prices that are the same or inferior to prices in the NYBX or the DBK, and routing is not required by Regulation NMS, the NYBX IOC order would execute within the DBK and/or the NYBX without routing to such automated trading center.

NYSE also proposes certain technical changes to NYSE Rule 1600. First, the Exchange proposes to amend NYSE Rule 1600(g) to add references to trading pauses in individual securities, as provided for under NYSE Rule 80C. Second, because the Exchange has eliminated the class of market participants formerly known as Registered Competitive Market Makers, the Exchange proposes to delete NYSE Rule 1600(h)(3), which is no longer applicable.<sup>11</sup> Third, the Exchange proposes to clarify NYSE Rule 1600(b)(2)(D) that NYBX orders are defined within NYSE Rule 1600(c)(2), not only within NYSE Rule 1600(c)(2)(A) as is currently reflected.

#### III. Discussion and Commission's Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>12</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>13</sup> which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts, promote just and equitable principles of trade, remove

\$10.05, and 200 shares would execute in the Facility at \$10.05, for a total execution of 900 shares. The remaining 100 shares of the buy NYBX IOC order would be cancelled. Assuming the buy NYBX IOC order is instead for 700 shares, pursuant to the tie-breaker rule in NYSE Rule 1600(d)(1)(C)(i), the full volume of the order would route to the DBK, executing 300 shares at \$10.04 and 400 shares at \$10.05, and the Facility's 200 share contra-side order at \$10.05 would not be filled.

<sup>11</sup> See Securities Exchange Act Release No. 60356 (July 21, 2009), 74 FR 37281 (July 28, 2009) (SR-NYSE-2009-08) (Rescinding Rules 110 and 107A, which established the roles of Competitive Traders and Registered Competitive Market Makers).

<sup>12</sup> In approving this proposed rule change, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>13</sup> 15 U.S.C. 78f(b)(5).

<sup>14</sup> 15 U.S.C. 78s(b)(2).

<sup>15</sup> 17 CFR 200.30-3(a)(12).

<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 No. 66218 (January 24, 2012), 77 FR 4604 ("Notice").

<sup>4</sup> See NYSE Rule 1600(a).

impediments to and perfect the mechanism of a free and open market and a national market system. The proposal appears reasonably designed to provide NYBX users flexibility and greater control over how their orders interact with available liquidity. The Commission notes that the proposal is consistent with the order protection rule of Regulation NMS, because an NYBX IOC order would not be permitted to trade through a protected quotation of another automated trading center.

#### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>14</sup> that the proposed rule change (SR-NYSE-2012-01) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>15</sup>

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

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-66577; File No. SR-FINRA-2012-020]

### Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of Proposed Rule Change Relating to Post-Trade Transparency for Agency Pass-Through Mortgage-Backed Securities Traded TBA

March 12, 2012.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that, on March 1, 2012, the Financial Industry Regulatory Authority, Inc. ("FINRA") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by FINRA. 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

FINRA is proposing to amend the FINRA Rule 6700 Series and Trade Reporting and Compliance Engine ("TRACE") dissemination protocols

regarding the reporting and dissemination of transactions in TRACE-Eligible Securities that are Agency Pass-Through Mortgage-Backed Securities that are traded to be announced ("TBA") ("TBA transactions"); to amend FINRA Rule 7730 regarding TRACE fees to provide for data fees for TBA transaction data; and to amend the FINRA Rule 6700 Series and FINRA Rule 7730 to delete references to a pilot program that expired on November 18, 2011, and to incorporate other minor administrative, technical or clarifying changes.<sup>3</sup>

The text of the proposed rule change is available on FINRA's Web site at <http://www.finra.org>, at the principal office of FINRA 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, FINRA 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. FINRA 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

FINRA proposes amendments to the TRACE rules and dissemination protocols to provide greater transparency in TBA transactions. First, FINRA proposes to amend Rule 6730, to establish distinct requirements for reporting TBA transactions for which good delivery may be made ("TBA transactions GD") and for reporting TBA transactions in products that are not traded for good delivery ("TBA transactions NGD"), and, in two stages, to reduce the time frames to report each type of TBA transaction and to make a related amendment to Rule 6710(u), the definition of "TBA," to incorporate the concepts "for good delivery" and "not for good delivery." Second, FINRA proposes to amend Rule 6750 to provide for the dissemination of TBA transactions and to establish, as part of TRACE dissemination protocols, a \$25 million dissemination cap for TBA

transactions GD and a \$10 million dissemination cap for TBA transactions NGD. Third, FINRA proposes to amend Rule 7730 to establish fees for current market data for TBA transactions and aged TBA transaction data.<sup>4</sup> Finally, FINRA proposes to amend Rule 6730 to delete references to a pilot program that expired on November 18, 2011, and Rule 6730 and Rule 7730 to incorporate other minor administrative, technical or clarifying changes as described in greater detail below.

#### TBA Transactions

As provided in Rule 6710(u), TBA means

"to be announced" and refers to a transaction in an Agency Pass-Through Mortgage-Backed Security \* \* \* where the parties agree that the seller will deliver to the buyer an Agency Pass-Through Mortgage-Backed Security of a specified face amount and coupon from a specified Agency or Government-Sponsored Enterprise program representing a pool (or pools) of mortgages (that are not specified by unique pool number).<sup>5</sup>

In a TBA transaction, the parties agree on a price for delivering a given volume of Agency Pass-Through Mortgage-Backed Securities at a specified future date. The distinguishing feature of a TBA transaction is that the actual identity of the securities to be delivered at settlement is not specified on the date of execution ("Trade Date"). Instead, the parties to the trade agree on only five general parameters of the securities to be delivered: issuer, mortgage type, maturity, coupon, and month of settlement.

TBA transactions are "for good delivery" ("GD") or "not for good delivery" ("NGD"). The GD and NGD distinctions and classifications are based on market standards and conventions that identify which mortgage pools (or combinations of mortgage pools) satisfy "good delivery" requirements, which were developed to facilitate the securitization of common

<sup>4</sup> The term Historic TRACE Data is defined in Rule 7730(f)(4) and refers to aged TRACE transaction data, which will include TBA transaction data.

<sup>5</sup> As defined in Rule 6710(v), an Agency Pass-Through Mortgage-Backed Security means:

A mortgage-backed security issued by an Agency or a Government-Sponsored Enterprise, for which the timely payment of principal and interest is guaranteed by an Agency or a Government-Sponsored Enterprise, representing ownership interests in a pool or pools of residential mortgage loans with the security structured to "pass through" the principal and interest payments made by the mortgagees to the owners of the pool(s) on a pro rata basis.

The terms Agency and Government-Sponsored Enterprise ("GSE") are defined in, respectively, Rule 6710(k) and Rule 6710(n).

<sup>14</sup> 15 U.S.C. 78s(b)(2).

<sup>15</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> The terms TRACE-Eligible Security, Agency Pass-Through Mortgage-Backed Security and TBA are defined in, respectively, Rule 6710(a), Rule 6710(v) and Rule 6710(u).