

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-69441; File No. SR-NYSE-2013-29]

### Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing of Proposed Rule Change Deleting NYSE Rule 476(a)(8), Which Addresses Wash Sales, in Order To Harmonize the Exchange's Rules With the Rules of the Financial Industry Regulatory Authority

April 24, 2013.

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the "Act")<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on April 10, 2013, New York Stock Exchange LLC ("NYSE" or the "Exchange") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II, below, which Items have been prepared by the self-regulatory organization. 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 delete NYSE Rule 476(a)(8), which addresses wash sales, in order to harmonize the Exchange's rules with the rules of the Financial Industry Regulatory Authority ("FINRA"). The text of the proposed rule change is available on the Exchange's Web site at [www.nyse.com](http://www.nyse.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 self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

##### 1. Purpose

The Exchange proposes to delete NYSE Rule 476(a)(8), which addresses wash sales, in order to harmonize the Exchange's rules with the rules of FINRA.

##### Background

On July 30, 2007, FINRA's predecessor, the National Association of Securities Dealers, Inc. ("NASD"), and NYSE Regulation, Inc. ("NYSER") consolidated their member firm regulation operations into a combined organization, FINRA. Pursuant to Rule 17d-2 under the Securities Exchange Act of 1934, as amended (the "Act"), NYSE, NYSER and FINRA entered into an agreement (the "Agreement") to reduce regulatory duplication for their members by allocating to FINRA certain regulatory responsibilities for certain NYSE rules and rule interpretations ("FINRA Incorporated NYSE Rules"). NYSE MKT LLC ("NYSE MKT") became a party to the Agreement effective December 15, 2008.<sup>4</sup>

As part of its effort to reduce regulatory duplication and relieve firms that are members of FINRA, NYSE, and NYSE MKT of conflicting or unnecessary regulatory burdens, FINRA is now engaged in the process of reviewing and amending the NASD and FINRA Incorporated NYSE Rules in order to create a consolidated FINRA rulebook.<sup>5</sup>

##### Proposed Rule Change

Current NYSE Rule 476(a)(8) prohibits a member, member organization, principal executive, approved person, registered or non-registered employee of a member or member organization, or person otherwise subject to the

jurisdiction of the Exchange from (i) making a fictitious bid, offer, or transaction, (ii) giving an order for the purchase or sale of securities the execution of which would involve no change of beneficial ownership, or (iii) executing such an order with knowledge of its character. In 2009, the Exchange adopted NYSE Rules 6140(a) and (b), which are substantially the same as FINRA Rules 6140(a) and (b)<sup>6</sup> and also address wash sale activity. NYSE Rule 6140(a) provides that no member or member organization may execute or cause to be executed or participate in an account for which there are executed purchases of any NMS stock as defined in Rule 600(b)(47) of SEC Regulation NMS ("designated security") at successively higher prices, or sales of any such security at successively lower prices, for the purpose of creating or inducing a false, misleading or artificial appearance of activity in such security or for the purpose of unduly or improperly influencing the market price for such security or for the purpose of establishing a price that does not reflect the true state of the market in such security. NYSE Rule 6140(b) prohibits a member or member organization, for the purpose of creating or inducing a false or misleading appearance of activity in a designated security or creating or inducing a false or misleading appearance with respect to the market in such security, from:

- (1) Executing any transaction in such security which involves no change in the beneficial ownership thereof;
- (2) entering any order or orders for the purchase of such security with the knowledge that an order or orders of substantially the same size, and at substantially the same price, for the sale of any such security, has been or will be entered by or for the same or different parties; or
- (3) entering any order or orders for the sale of any such security with the knowledge that an order or orders of substantially the same size, and at substantially the same price, for the purchase of such security, has been or will be entered by or for the same or different parties.

The Exchange notes that NYSE Rule 476(a)(8), which was adopted at a time when the Exchange was operating in a manual on-Floor trading environment, has a different scienter standard than NYSE Rule 6140 and FINRA Rule 6140. These rules provide that a market participant is prohibited from engaging in wash sales that have the purpose of

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

<sup>4</sup> See Securities Exchange Act Release Nos. 56148 (July 26, 2007), 72 FR 42146 (August 1, 2007) (order approving the Agreement); 56147 (July 26, 2007), 72 FR 42166 (August 1, 2007) (SR-NASD-2007-054) (order approving the incorporation of certain NYSE Rules as "Common Rules"); and 60409 (July 30, 2009), 74 FR 39353 (August 6, 2009) (order approving the amended and restated Agreement, adding NYSE MKT LLC as a party). Paragraph 2(b) of the Agreement sets forth procedures regarding proposed changes by FINRA, NYSE or NYSE MKT to the substance of any of the Common Rules.

<sup>5</sup> FINRA's rulebook currently has three sets of rules: (1) NASD Rules, (2) FINRA Incorporated NYSE Rules, and (3) consolidated FINRA Rules. The FINRA Incorporated NYSE Rules apply only to those members of FINRA that are also members of the NYSE ("Dual Members"), while the consolidated FINRA Rules apply to all FINRA members. For more information about the FINRA rulebook consolidation process, see FINRA Information Notice, March 12, 2008.

<sup>6</sup> See Securities Exchange Act Release No. 59965 (May 21, 2009), 74 FR 25783 (May 29, 2009) (SR-NYSE-2009-25).

creating or inducing a false or misleading appearance of activity in a designated security. The “purpose” or scienter requirement in NYSE Rule 6140 and FINRA Rule 6140 recognizes that in today’s markets there can be certain instances of trading activity that may inadvertently and unknowingly result in executions with no change in beneficial ownership, for example trades entered from an off-Floor participant that experience latency issues over which the participant has little or no control, and that such conduct should not always be treated as a wash sale violation if the market participant did not act with purpose.

On the other hand, NYSE Rule 476(a)(8) prohibits (i) making a fictitious bid, offer, or transaction, (ii) giving an order for the purchase or sale of securities the execution of which would involve no change of beneficial ownership, or (iii) executing such an order with knowledge of its character. The second prong can be read as having no scienter requirement.<sup>7</sup> As such, the example given above involving an off-Floor market participant’s algorithmic orders that inadvertently execute against themselves due to latency issues could be deemed a violation of the second prong of NYSE Rule 476(a)(8). The Exchange believes that such conduct should not be treated as a wash sale violation in all instances and therefore proposes to eliminate NYSE Rule 476(a)(8) and instead utilize NYSE Rule 6140 for wash sale disciplinary actions. The proposed rule change would achieve a greater level of consistency with FINRA’s rules and promote harmonization, consistency, transparency, and clarity with respect to the Exchange’s rules and thereby facilitate FINRA’s enforcement of them.<sup>8</sup>

The proposed rule change would not result in any material diminution of the Exchange’s enforcement authority or any material change in surveillance of potentially violative activity. The Exchange may still bring a disciplinary action in appropriate cases where a market participant engages in a significant amount of trades without change of beneficial ownership, even if such activity does not violate Rule 6140(b) per se because the participant

did not act with “purpose.” Such conduct could also give rise to other violations, such as a failure to supervise under NYSE Rule 342, and the Exchange has brought at least one such case.<sup>9</sup> Such conduct could also violate just and equitable principles of trade or otherwise constitute unethical activity under NYSE Rule 2010.<sup>10</sup>

So that there is no change in the scope of persons subject to disciplinary action for wash sales, the Exchange proposes to make a conforming amendment to NYSE Rules 6140(a) and (b) to provide that the rules apply not only to members and member organizations but also to principal executives, approved persons, registered or non-registered employees of a member or member organization or persons otherwise subject to the jurisdiction of the Exchange.

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act,<sup>11</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>12</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect

<sup>9</sup> See *In the Matter of Goldman Sachs & Co.*, NYSE Hearing Board Decision 12–3 (Apr. 4, 2012) (between January 2009 and at least September 2011, member firm violated NYSE Rule 342 in its capacity as a NYSE Supplemental Liquidity Provider by failing to maintain supervisory procedures that were reasonably designed to detect and prevent potentially violative wash trading activity).

<sup>10</sup> See Calvin David Fox, 56 S.E.C. 1371, 1376 (2003) (“With respect to a charge that conduct was inconsistent with just and equitable principles of trade, we have held that a self-regulatory organization need not find that the respondent acted with scienter, but must find that the respondent acted in bad faith or unethically.”). NYSE Rule 2110 [sic] is a broad ethical concept that covers all unethical business-related conduct. See also *In the Matter of Merrill Lynch, Pierce, Fenner & Smith Incorporated*, NYSE Hearing Board Decision 10–13 (May 14, 2010) (firm violated just and equitable principles of trade in that it introduced prearranged or wash sales in the round-lot portion of a partial round lot order); *In the Matter of Robert Cutter Matlock, Jr.*, NYSE Hearing Board Decision 06–19 (March 27, 2006) (Exchange need not prove scienter for violations of just and equitable principles of trade, but rather is required to show the respondent acted in bad faith or unethically); *In the Matter of Mary Roy Wong*, NYSE Hearing Board Decision 06–187 (February 13, 2007) (Exchange need not prove scienter for violations of just and equitable principles of trade, but rather is required to show the respondent acted in bad faith or unethically).

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

<sup>12</sup> 15 U.S.C. 78f(b)(5).

investors and the public interest. Specifically, the Exchange believes that the proposed rule change supports the objectives of the Act by addressing an inconsistency in the scienter requirements between NYSE Rule 476(a)(8) on the one hand and NYSE Rule 6140 and FINRA Rule 6140 on the other. Eliminating this inconsistency would provide member firms with better notice of prohibited wash sale activities and promote transparency and clarity with respect to the Exchange’s rules, thereby facilitating FINRA’s enforcement of them. Moreover, the proposed rule change would not result in any material diminution of the Exchange’s overall enforcement authority or any material change in surveillance of potentially problematic trading activity. The Exchange may still bring a disciplinary action in appropriate cases where a market participant engages in a significant amount of trades without change of beneficial ownership, even if such activity does not violate Rule 6140(b) per se because the participant did not act with “purpose,” because such conduct could violate supervision rules, just and equitable principles of trade, or other Exchange rules prohibiting unethical conduct. As such, the Exchange’s rules would continue to protect investors and the public interest.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is not intended to address competitive issues but rather to achieve greater consistency both within NYSE’s rules and between NYSE and FINRA rules.

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

No written comments were solicited or received with respect to the proposed rule change.

## 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 up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

<sup>7</sup> In at least one case, a hearing panel was divided as to whether scienter is required in order to find a violation of the second prong of NYSE Rule 476(a)(8) and adjudged the respondent not guilty. See *In the Matter of X*, NYSE Hearing Panel Decision 92–163 (Oct. 23, 1992).

<sup>8</sup> The Exchange notes that it can bring disciplinary actions under NYSE Rule 476(a)(8) for conduct that occurred prior to the time the rule is deleted. Thus, the proposed rule change would have no impact on ongoing disciplinary actions involving violations of NYSE Rule 476(a)(8).

- (A) By order approve or disapprove the 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 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 No. SR-NYSE-2013-29 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 No. SR-NYSE-2013-29. 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 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 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 No. SR-NYSE-2013-29 and should be submitted on or before May 21, 2013.

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

Elizabeth M. Murphy,  
Secretary.

[FR Doc. 2013-10051 Filed 4-29-13; 8:45 am]

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#### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-69444; File No. SR-NASDAQ-2013-066]

#### Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Establish the Limit Up/Limit Down Band Lookup Add-On Service to TradeInfo and Assess a Related Subscription Fee

April 24, 2013.

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 15, 2013, The NASDAQ Stock Market LLC ("NASDAQ" or the "Exchange") filed with the Securities and Exchange Commission ("Commission") a proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

NASDAQ proposes to establish the Limit Up/Limit Down Band Lookup add-on service to TradeInfo and assess a related subscription fee. The Exchange is proposing to offer the proposed service at no cost to members beginning April 15, 2013<sup>3</sup> and for a monthly fee of \$200 per user beginning May 1, 2013.

The text of the proposed rule change is below. Proposed new language is *italicized*.

\* \* \* \* \*

#### 7015. Access Services

The following charges are assessed by Nasdaq for connectivity to systems operated by NASDAQ, including the Nasdaq Market Center, the FINRA/NASDAQ Reporting Facility, and FINRA's OTCBB Service. The following

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

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

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

<sup>3</sup> But see Securities Exchange Act Release No. 69445 (April 24, 2013) (proposed rule change eliminating the free period for the Limit Up/Limit Down Band Lookup add-on service; NASDAQ will offer the service for \$200 on May 1, 2013).

fees are not applicable to the NASDAQ Options Market LLC. For related options fees for Access Services refer to Chapter XV, Section 3 of the Options Rules.

(a)-(e) No change.

(f) TradeInfo

Members not subscribing to the Nasdaq Workstation using TradeInfo will be charged a fee of \$95 per user per month.

*A member firm that has a TradeInfo user subscription may subscribe to the Limit Up/Limit Down Band Lookup add-on service at no cost beginning April 15, 2013 and for a fee of \$200 per user per month beginning May 1, 2013. The Limit Up/Limit Down Band Lookup add-on service provides a subscribing member firm with intraday and historical limit up/limit down price band information for individual securities that are subject to limit up/limit down price bands.*

(g)-(h) No change.

\* Eligible for 25% discount under the Qualified Market Maker Program during a pilot period expiring on April 30, 2013.

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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, NASDAQ included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

##### 1. Purpose

NASDAQ is proposing to offer member firms a means to review the Limit Up/Limit Down ("LULD") price bands for individual securities. The National Market System Plan to Address Extraordinary Market Volatility<sup>4</sup> (the

<sup>4</sup> On April 5, 2011, the Exchange, together with other self-regulatory organizations, filed with the Commission a national market system plan to adopt a market-wide limit up/limit down system to reduce the negative impacts of sudden, unanticipated price movements in NMS Stocks, like that which was experienced on May 6, 2010. Securities Exchange Act Release No. 64547 (May 25, 2011), 76 FR 31647 (June 1, 2011) (File No. 4-631). The Plan was approved by the Commission on a pilot basis on May 31, 2012. Securities Exchange

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