

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-65102; File No. SR-NYSEAmex-2011-60)

August 11, 2011

Self-Regulatory Organizations; NYSE Amex LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending NYSE Amex Equities Rule 128 so that Clearly Erroneous Executions Involving Securities Recently Added to the Individual Security Trading Pause Pilot under NYSE Amex Equities Rule 80C Continue to be Resolved in the Same Manner Before Being Added to the Pilot

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (the “Act”)² and Rule 19b-4 thereunder,³ notice is hereby given that on August 9, 2011, NYSE Amex LLC (the “Exchange” or “NYSE Amex”) 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 amend NYSE Amex Equities Rule 128 so that clearly erroneous executions involving securities recently added to the individual security trading pause pilot under NYSE Amex Equities Rule 80C continue to be resolved in the same manner as they were before being added to the pilot. The text of the proposed rule change is available at the Exchange, the Commission’s Public Reference Room, and www.nyse.com.

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

¹ 15 U.S.C.78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

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 amend NYSE Amex Equities Rule 128 so that clearly erroneous executions involving securities recently added to the individual security trading pause pilot under NYSE Amex Equities Rule 80C continue to be resolved in the same manner as they were before being added to the pilot.

Background

The Exchanges⁴ and the Financial Industry Regulatory Authority, Inc. (“FINRA”), in consultation with the Commission, have made changes to their respective rules in a concerted effort to strengthen the markets after the severe market disruption that occurred on May 6, 2010. One such effort by the Exchanges and FINRA was to adopt a uniform trading pause process during periods of extraordinary market volatility as a pilot in S&P 500 Index stocks (“Pause Pilot”),⁵ approved by the Commission on June 10, 2010.⁶ On September 10, 2010, the

⁴ For purposes of this filing, the term “Exchanges” refers collectively to BATS Exchange, Inc., BATS Y-Exchange, Inc., NASDAQ OMX BX, Inc., Chicago Board Options Exchange, Inc., Chicago Stock Exchange, Inc., EDGA Exchange, Inc., EDGX Exchange, Inc., International Securities Exchange LLC, The NASDAQ Stock Market LLC, New York Stock Exchange LLC, NYSE Amex LLC, NYSE Arca, Inc., National Stock Exchange, Inc., and NASDAQ OMX PHLX LLC.

⁵ See NYSE Amex Equities Rule 80C. The pauses under NYSE Amex Equities Rule 80C occur when a security’s price moves by the applicable percentage within a five minute period between 9:45 a.m. and 3:35 p.m., or in the case of an early scheduled close, 25 minutes before the close of trading. Such pauses last for five minutes. At the conclusion

Commission approved the Exchanges' and FINRA's proposals to add the securities included in the Russell 1000 Index and specified Exchange-Traded Products ("ETPs") to the Pause Pilot.⁷ On September 10, 2010, the Commission also approved changes proposed by the Exchanges to amend certain of their respective rules to set forth clearer standards and curtail their discretion with respect to breaking erroneous trades.⁸ The changes, among other things, provided for uniform treatment of clearly erroneous execution reviews in the event of transactions that result in the issuance of an individual stock trading pause pursuant to the Pause Pilot on the primary listing market and those transactions that occur up to the time the trading pause message is received by the other markets from the single plan processor responsible for consolidation and dissemination of information for the security ("Latency Trades").

As part of the changes to the clearly erroneous process under NYSE Amex Equities Rule 128, the Exchange added new text to NYSE Amex Equities Rule 128(c)(4) to provide clarity in the clearly erroneous process when a Pause Pilot trading pause is triggered. Pursuant to NYSE

of the pause period, the security is opened pursuant to NYSE Amex Equities Rule 80C(b).

⁶ See Securities Exchange Act Release Nos. 62252 (June 10, 2010), 75 FR 34186 (June 16, 2010) (File Nos. SR-BATS-2010-014; SR-EDGA-2010-01; SR-EDGX-2010-01; SR-BX-2010-037; SR-ISE-2010-48; SR-NYSE-2010-39; SR-NYSEAmex-2010-46; SR-NYSEArca-2010-41; SR-NASDAQ-2010-061; SR-CHX-2010-10; SR-NSX-2010-05; and SR-CBOE-2010-047) and 62251 (June 10, 2010), 75 FR 34183 (June 16, 2010) (SR-FINRA-2010-025).

⁷ See, e.g., Securities Exchange Act Release Nos. 62884 (September 10, 2010), 75 FR 56618 (September 16, 2010) (File Nos. SR-BATS-2010-018; SR-BX-2010-044; SR-CBOE-2010-065; SR-CHX-2010-14; SR-EDGA-2010-05; SR-EDGX-2010-05; SR-ISE-2010-66; SR-NASDAQ-2010-079; SR-NYSE-2010-49; SR-NYSEAmex-2010-63; SR-NYSEArca-2010-61; and SR-NSX-2010-08) and 62883 (September 10, 2010), 75 FR 56608 (September 16, 2010) (SR-FINRA-2010-033).

⁸ See Securities Exchange Act Release No. 62886 (September 10, 2010), 75 FR 56613 (September 16, 2010) (File Nos. SR-BATS-2010-016; SR-BX-2010-040; SR-CBOE-2010-056; SR-CHX-2010-13; SR-EDGA-2010-03; SR-EDGX-2010-03; SR-ISE-2010-62; SR-NASDAQ-2010-076; SR-NSX-2010-07; SR-NYSE-2010-47; SR-NYSEAmex-2010-60; and SR-NYSEArca-2010-58).

Amex Equities Rule 128(c)(4), Latency Trades will be broken by the Exchange if they exceed the applicable percentage from the Reference Price, as noted in the table found under NYSE Amex Equities Rule 128(c)(1).⁹ The Reference Price, for purposes of NYSE Amex Equities Rule 128(c)(4), is the price that triggered a trading pause pursuant to the Pause Pilot (the “Trading Pause Trigger Price”). As such, Latency Trades that occur on the Exchange would be broken by the Exchange pursuant to NYSE Amex Equities Rule 128(c)(4) if the transaction occurred at either three, five or ten percent above the Trading Pause Trigger Price.¹⁰

On June 23, 2011, the Commission approved a joint proposal to expand the respective Pause Pilot rules of the Exchanges and FINRA to include all remaining NMS stocks (“Phase III Securities”).¹¹ The new pilot rules, which will be implemented on August 8, 2011, not only expand the application of the Pause Pilot, but also apply larger percentage moves that trigger a pause to the Phase III Securities. The Exchange amended its Pause Pilot rule, NYSE Amex Equities Rule 80C, by adding three new subparagraphs to NYSE Amex Equities Rule 80C(a) to address the treatment of the Phase III Securities. The rule applicable to the original Pause Pilot securities was placed in new NYSE Amex Equities Rule 80C(a)(i). The rules applicable to the Phase III Securities were placed in new NYSE Amex Equities Rule 80C(a)(ii) and (iii). A pause

⁹ Pursuant to NYSE Amex Equities Rule 128(c)(1), during regular trading hours a security with a Reference Price of greater than zero and up to and including \$25 is subject to a 10% threshold; a security with a Reference Price of greater than \$25 and up to and including \$50 is subject to a 5% threshold; and a security with a Reference Price of greater than \$50 is subject to a 3% threshold.

¹⁰ See NYSE Amex Equities Rule 128(c)(4).

¹¹ See Securities Exchange Act Release No. 64735 (June 23, 2011), 76 FR 38243 (June 29, 2011) (File Nos. SR-BATS-2011-016; SR-BYX-2011-011; SR-BX-2011-025; SR-CBOE-2011-049; SR-CHX-2011-09; SR-EDGA-2011-15; SR-EDGX-2011-14; SR-FINRA-2011-023; SR-ISE-2011-028; SR-NASDAQ-2011-067; SR-NYSE-2011-21; SR-NYSEAmex-2011-32; SR-NYSEArca-2011-26; SR-NSX-2011-06; and SR-Phlx-2011-64).

under NYSE Amex Equities Rule 80C(a)(ii) is triggered by a 30 percent price move within a five minute period in a Phase III Security that had a closing price on the previous trading day of \$1 or more. A pause under NYSE Amex Equities Rule 80C(a)(iii) is triggered by a 50 percent price move within a five minute period in a Phase III Security that had a closing price on the previous trading day of less than \$1. If no prior day closing price is available, the last sale reported to the Consolidated Tape on the previous trading day is used.

The Exchange has submitted immediately effective proposed rule changes to the Commission to extend both the Pause Pilot under NYSE Amex Equities Rule 80C and the clearly erroneous execution process pilot under NYSE Amex Equities Rule 128 until January 31, 2012.¹²

The Issue

The recently-approved changes to the Pause Pilot will have the unintended effect of removing the Phase III Securities from the normal clearly erroneous process and potentially result in unfair outcomes in the face of severe volatility in such securities. Phase III Securities are currently subject to the clearly erroneous process under NYSE Amex Equities Rule 128(c)(1)-(3), which applies to all securities except the current Pause Pilot securities subject to a pause. For purposes of transactions in securities not involving Pause Pilot securities, or transactions involving Pause Pilot securities that occur when there is not a pause pursuant to the Pause Pilot, the Reference Price is the consolidated last sale price immediately prior to the execution(s) under review, subject to certain exceptions.¹³ As noted above, the Trading Pause Trigger Price is used as the Reference Price when a Pause Pilot pause is in effect. As a

¹² See NYSEAmex-2011-57 (extending NYSE Amex Equities Rule 80C pilot until January 31, 2012) and NYSEAmex-2011-58 (extending NYSE Amex Equities Rule 128 pilot until January 31, 2012).

¹³ See supra note 9.

consequence, under the current rules a Latency Trade is subject to the clearly erroneous thresholds based on the Trading Pause Trigger Price, which represents a ten percent or greater move in the transacted price of the security in a five minute period.

Under the amended Pause Pilot rule, a Latency Trade in a Phase III Security occurs only after either a 30 or 50 percent (or greater) move in the transacted price of the security in a five minute period. As a result, a member organization that trades in a Phase III Security that triggers a clearly erroneous threshold of three, five or ten percent from the Reference Price, yet falls below the Pause Pilot trigger of either 30 or 50 percent, would be able to avail themselves of a clearly erroneous review. A similarly situated member organization that transacts in the same security as a Latency Trade at a price equal to or greater than the Phase III Security thresholds, yet less than the clearly erroneous thresholds under NYSE Amex Equities Rule 128(c)(1), would not be able to avail themselves of the clearly erroneous process. Another member organization that transacts in the same security as a Latency Trade that exceeds three, five or ten percent from the Trading Pause Trigger Price would automatically receive clearly erroneous relief. The Exchange believes that this would be an inequitable result and an arbitrary application of the clearly erroneous process. Specifically, the Exchange believes that, since the 30 and 50 percent triggers of the Pause Pilot are substantially greater than the 10 percent threshold of the original Pause Pilot, the Phase III Securities should remain under the current clearly erroneous process of NYSE Rule 128(c)(1)-(3).

Applying the clearly erroneous process under NYSE Amex Equities Rule 128(c)(1)-(3) to the Phase III Securities would allow the Exchange to review all transactions that exceed the normal clearly erroneous thresholds and Reference Price, and, importantly, avoid arbitrary selection of “winners” and “losers” in the face of severe volatile moves in a security of 30 or 50

percent over a five minute period. For example, a member organization that trades in a security subject to NYSE Amex Equities Rule 80C(a)(ii) and (iii) that triggers a clearly erroneous threshold of three, five or ten percent, yet falls below the Pause Pilot trigger threshold trading at 29 percent from the prior day's closing price, would be potentially entitled to a clearly erroneous break pursuant NYSE Amex Equities Rule 128(c)(1). Should trading in that same security trigger a trading pause at a price of 30 or 50 percent greater than the prior day's close, the member organization would not be entitled to a clearly erroneous trade break unless that trade exceeded three, five or ten percent beyond the price that triggered the pause. This scenario causes an inequity among a group of member organizations that have transactions in the Phase III Securities falling between the three, five and ten percent thresholds from the Reference Price under the normal NYSE Amex Equities Rule 128(c)(1) clearly erroneous process and the Pause Pilot clearly erroneous triggers of three, five or ten percent away from the Trading Pause Trigger Price. Such member organizations would not be provided relief under the clearly erroneous rules merely due to the imposition of a Pause Pilot halt, notwithstanding that other member organizations with transactions that occur at the same rolling five minute percentage difference. The Exchange believes a better outcome is to afford all member organizations transacting in Phase III Securities the opportunity of having such trades reviewed.

Summary

The expansion of the Pause Pilot to the Phase III Securities will have the unintended consequence of setting the point at which a clearly erroneous transaction occurs once a Pause Pilot pause is initiated far beyond the triggers applied prior to the expansion, which will, in turn, prevent certain market participants from availing themselves of the clearly erroneous rules, notwithstanding that other similarly situated participants are able to do so. The Exchange

believes that this would be an arbitrary application of the clearly erroneous process in a manner that is unfair and not consistent with the spirit and purpose of the rule. Accordingly, the Exchange is proposing to amend NYSE Amex Equities Rule 128(c)(1)-(4) to specify that NYSE Amex Equities Rule 128(c)(4) applies only to the current securities of the Pause Pilot, as found under NYSE Amex Equities Rule 80C(a)(i).¹⁴

2. Statutory Basis

The statutory basis for the proposed rule change is Section 6(b)(5) of the Securities Exchange Act of 1934 (the “Act”),¹⁵ which requires the rules of an exchange to promote just and equitable principles of trade, 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. The proposed rule change also is designed to support the principles of Section 11A(a)(1) of the Act¹⁶ in that it seeks to assure fair competition among brokers and dealers and among exchange markets. The Exchange believes that the proposed rule meets these requirements in that it promotes transparency and uniformity across markets concerning decisions to break erroneous trades, yet also ensures fair application of the process so that similarly situated member organizations are provided the same opportunity of a clearly erroneous review. The Exchange notes that the changes proposed herein will in no way interfere with the operation of the Pause Pilot process, as amended.

¹⁴ NYSE Amex notes that the Exchanges are filing similar proposals to make the changes proposed herein.

¹⁵ 15 U.S.C. 78f(b)(5).

¹⁶ 15 U.S.C. 78k-1(a)(1).

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.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁷ and Rule 19b-4(f)(6)(iii) thereunder.¹⁸ The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because such waiver will allow the clearly erroneous rules to continue to operate as they did prior to the effectiveness of the Pause Pilot expansion to Phase III Securities so that similarly situated member organizations are provided the same opportunity of a clearly erroneous review. Accordingly, the Commission waives the

¹⁷ 15 U.S.C. 78s(b)(3)(A).

¹⁸ 17 CFR 240.19b-4(f)(6)(iii). In addition, Rule 19b-4(f)(6)(iii) requires that a self-regulatory organization submit to the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the filing of the proposed rule change, or such shorter time as designated by the Commission. The Commission is waiving the five day written notice requirement in this case. Therefore, the Commission notes that the Exchange has satisfied this requirement.

30-day operative delay requirement and designates the proposed rule change as operative upon filing with the Commission.¹⁹

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is 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 e-mail to rule-comments@sec.gov. Please include File Number SR-NYSEAmex-2011-60 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-NYSEAmex-2011-60. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies

¹⁹ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of NYSE Amex. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make publicly available. All submissions should refer to File Number SR-NYSEAmex-2011-60 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁰

Elizabeth M. Murphy
Secretary

²⁰ 17 CFR 200.30-3(a)(12).