

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-65815; File No. SR-BX-2011-079)

November 23, 2011

Self-Regulatory Organizations; NASDAQ OMX BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Exclude All Rights and Warrants from the Pilot Rule for Trading Pauses Due to Extraordinary Market Volatility

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 November 18, 2011, NASDAQ OMX BX, Inc. (“BX”), 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 BX. 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

BX proposes to exclude all rights and warrants from the pilot trading pause process under Rule 4120(a)(11) by amending IM-4120-3, which defines what is considered a “Circuit Breaker Security” under Rule 4120(a)(11).

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

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**IM-4120-3. Circuit Breaker Securities Pilot**

The provisions of paragraph (a)(11) of this Rule shall be in effect during a pilot set to end on January 31, 2012. During the pilot, the term “Circuit Breaker Securities” shall mean all NMS stocks except rights and warrants.

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

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

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

In its filing with the Commission, BX 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. BX 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

BX proposes to exclude all rights and warrants from the trading pause process described under Rule 4120(a)(11) by excluding them from the definition of "Circuit Breaker Securities" under IM-4120-3. The Commission approved Rule 4120(a)(11) and IM-4120-3 on a pilot basis on June 10, 2010, together with the analogous rules of other exchanges (collectively with BX, the "Exchanges") and FINRA, to provide for trading pauses in individual securities due to extraordinary market volatility in all securities included within the S&P 500 Index ("S&P 500") (the "Pause Pilot").<sup>3</sup> The Exchanges and FINRA subsequently received approval to add to the Pause Pilot the securities included in the Russell 1000 Index ("Russell 1000") and a specified list of Exchange Traded Products ("ETPs").<sup>4</sup>

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<sup>3</sup> The Commission approved the Pause Pilot for all equities exchanges and FINRA. See Securities Exchange Act Release No. 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 Securities Exchange Act Release No. 62251 (June 10, 2010), 75 FR 34183 (June 16, 2010) (SR-FINRA-2010-025).

<sup>4</sup> The Commission approved the addition to the Pause Pilot of the securities included in the Russell 1000 and ETPs, where applicable, for all equities exchanges and FINRA. See

On June 23, 2011, the Commission approved proposed rule changes of the Exchanges and FINRA to amend their respective rules to expand the Pause Pilot to include all remaining NMS stocks (“Phase III Securities”), which includes rights and warrants.<sup>5</sup> Unlike the original Pause Pilot securities, the amended Pause Pilot applies wider percentage price moves to the Phase III Securities before a trading pause is triggered.<sup>6</sup> The changes to the Pause Pilot became effective on August 8, 2011.

The Exchanges and FINRA have analyzed the nature of trading pauses triggered since adoption of the Pause Pilot and found that over 25% of such pauses have occurred in rights and warrants. Further, the Exchanges and FINRA have experienced a significant increase in trading pauses involving rights and warrants since the implementation of the Phase III Securities, with

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Securities Exchange Act Release No. 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 Securities Exchange Act Release No. 62883 (September 10, 2010), 75 FR 56608 (September 16, 2010) (SR-FINRA-2010-033). BX submitted a proposed rule change shortly after the addition of the Russell 1000 securities and ETPs to extend the operation of the Pause Pilot, which was set to expire on December 10, 2010, until April 11, 2011. See Securities Exchange Act Release No. 63527 (December 10, 2010), 75 FR 78781 (December 16, 2010) (SR-BX-2010-088). On March 31, 2011, BX submitted a proposed rule change to further extend the Pause Pilot until the earlier of August 11, 2011 or the date on which a limit up / limit down mechanism to address extraordinary market volatility, if adopted, applies. See Securities Exchange Act Release No. 64176 (April 4, 2011), 76 FR 19821 (April 8, 2011) (SR-BX-2011-018). On August 8, 2011, BX submitted a proposed rule change to further extend the Pause Pilot until January 31, 2012. See Securities Exchange Act Release No. 65093 (August 10, 2011), 76 FR 50781 (August 16, 2011) (SR-BX-2011-055).

<sup>5</sup> See Securities Exchange Act Release No. 64735 (June 23, 2011), 76 FR 38243 (June 29, 2011) (SR-BX-2011-025, et al.).

<sup>6</sup> Under the amended Pause Pilot, a pause is triggered by a 30% or more price move in a Phase III Security priced at \$1 or higher, and by a 50% or more price move to such a security priced less than \$1. The price of a security is based on the closing price on the previous trading day, or, if no closing price exists, the last sale reported to the Consolidated Tape on the previous trading day.

such pauses representing approximately 52% [sic] all trading pauses occurring through the end of August 2011. Rights and warrants trade on equity exchanges, but are closely related to call options. Rights and warrants entitle owners to purchase shares of stock at predetermined prices subject to various timing and other conditions. Like options, the price of rights and warrants are affected by the price of the underlying stock as well as other factors, particularly the volatility of the stock. As a consequence, the prices of rights and warrants may move more dramatically than the prices of the underlying stocks even when the rights and warrants (and the underlying stock) are trading in an orderly manner. This difference in trading behavior may result in rights and warrants triggering the circuit breaker under the Pause Pilot and being subject to a trading pause, even while the underlying stock continues to trade. This can be particularly true of rights and warrants that have low prices. As such, the Exchanges and FINRA have determined to exclude rights and warrants from the Pause Pilot, and accordingly, BX is proposing to amend IM-4120-3 to exclude rights and warrants from the Pause Pilot under Rule 4120(a)(11).

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act,<sup>7</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>8</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 facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system. The proposed rule change also is designed to support the principles of Section 11A(a)(1)<sup>9</sup> of the Act in that it seeks to ensure fair competition among

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<sup>7</sup> 15 U.S.C. 78f(b).

<sup>8</sup> 15 U.S.C. 78f(b)(5).

<sup>9</sup> 15 U.S.C. 78k-1(a)(1).

brokers and dealers and among exchange markets. BX believes that the proposed rule meets these requirements because it excludes certain securities from the rule's coverage that are prone to triggering pauses because of their unique characteristics. These securities are unique in that they may move more dramatically than the prices of the underlying stocks to which they are related even when both securities are trading in an orderly manner. As such, the securities that are subject to this proposal may trigger a Pause Pilot circuit breaker and be subject to a trading pause, even while the underlying security continues to trade. Although there is little benefit in pausing trading in these securities, such pauses sequester regulatory resources that are better applied to the review of trading pauses in other securities that have a greater impact on the national market system.

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

BX does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

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

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>10</sup> and Rule 19b-4(f)(6) thereunder.<sup>11</sup> 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 prior to 30 days from the date on which it was

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<sup>10</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>11</sup> 17 CFR 240.19b-4(f)(6).

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)(iii) thereunder.<sup>13</sup>

A proposed rule change filed under Rule 19b-4(f)(6)<sup>14</sup> normally does not become operative for 30 days after the date of filing. However, pursuant to Rule 19b-4(f)(6)(iii)<sup>15</sup> the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. 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. Including rights and warrants in the pilot program which may trigger a circuit breaker and be subject to a trading pause, even while the underlying security continues to trade, provides little benefit and has the potential to create confusion among investors. Excluding rights and warrants from the pilot program should minimize investor confusion that could result from temporary trading pauses in these securities. For this reason, the Commission designates the proposed rule change as operative upon the date of this Notice.<sup>16</sup>

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

<sup>13</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires the Exchange to give the Commission written notice of the Exchange's 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 date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

<sup>14</sup> 17 CFR 240.19b-4(f)(6).

<sup>15</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>16</sup> For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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](mailto:rule-comments@sec.gov). Please include File No. SR-BX-2011-079 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-BX-2011-079. 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 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 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-BX-2011-079 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.<sup>17</sup>

Kevin M. O'Neill  
Deputy Secretary

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