

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69009; File No. SR-NSX-2013-07)

February 28, 2013

Self-Regulatory Organizations; National Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Adopt a New Order Type Called the Midpoint-Seeker Order and Amend Rule 11.3(c) Regarding Rounding of Sub-Penny Midpoint Executions

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 27, 2013, National Stock Exchange, Inc. (“NSX[®]” or the “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 comment 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 is proposing to amend: (1) NSX Rule 11.3(c) to clarify how the NSX System may execute certain types of undisplayed orders that are pegged to the midpoint between the Protected BBO in subpennies; and (2) NSX Rule 11.11(c), entitled “Orders and Modifiers” to adopt a new order type called a Midpoint-Seeker Order. The text of the proposed rule change is available on the Exchange’s website 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

The Exchange is proposing to amend: (1) NSX Rule 11.3(c) to clarify how the NSX System may execute certain types of undisplayed orders that are pegged to the midpoint between the Protected Best Bid or Offer ("BBO")³ in subpennies; and (2) NSX Rule 11.11(c), entitled "Orders and Modifiers" to adopt a new order type called a Midpoint-Seeker Order.

Rounding of Midpoint Orders

The Exchange proposes to amend NSX Rule 11.3(c) to clarify how the NSX System may execute certain types of Zero Display Reserve Orders⁴ that are pegged to the midpoint between the Protected BBO in subpennies. NSX Rule 11.3(c) provides that a Zero Display Reserve Order that is pegged at the midpoint of the Protected BBO may be executed in subpennies, if necessary, to obtain a midpoint price. The Exchange is proposing to amend Rule 11.3(c) in order to clarify how the System rounds executions in securities priced less than \$1.00 per share resulting from a Zero Display Reserve Order pegged at the midpoint to the nearest permissible trading increment.⁵ The System rounds the execution price up when the Zero Display Reserve Order

³ Exchange Rule 1.5. "Protected BBO" is defined as "the better of the following: (a) [t]he Protected NBBO or (b) [t]he displayed Top of Book."

⁴ Under Exchange Rule 11.11(c)(2)(A), a "Zero Display Reserve Order" is a "Reserve Order with zero display quantity."

⁵ Under Exchange Rule 11.3(a), the minimum pricing increments are to be no smaller than \$0.01 if priced equal to or greater than \$1.00 per share or \$0.0001 if priced less than \$1.00 per share.

pegged at the midpoint posted to the NSX Book is on the buy-side, and rounds the execution price down when the Zero Display Reserve Order pegged at the midpoint posted on the NSX Book is on the sell-side. For example, the Protected BBO is 0.8731 by 0.9998, and there is a buy order on the NSX Book which is a Zero Display Reserve Order pegged at the midpoint, which is 0.93645, an impermissible trading increment. An incoming order to sell will execute against the Zero Display Reserve Order at 0.9365 because the System will round the execution price from 0.93645 up to nearest permissible trading increment.

This clarifying amendment will provide ETP Holders with additional information on how the System rounds the execution price for Zero Display Reserve Orders that are pegged to the midpoint between the Protected BBO.

Proposed Midpoint-Seeker Order

The proposed Midpoint-Seeker Order is an Immediate-or-Cancel (“IOC”)⁶ order that would allow Equity Trading Permit (“ETP”)⁷ Holders the ability to execute against undisplayed orders that are posted on the NSX Book⁸ at a price equal to or better than the midpoint between the Protected BBO. A Midpoint-Seeker Order will only execute through the Exchange’s automatic execution mode (“Auto-Ex”)⁹ against undisplayed orders posted on the NSX Book

⁶ Under Exchange Rule 11.11(b)(1), an “Immediate-or-Cancel Order” is a “limit order that is to be executed in whole or in part as soon as such order is received, and the portion not so executed” is to be cancelled.

⁷ In sum, Exchange Rule 1.5 defines the term “ETP” as an Equity Trading Permit issued by the Exchange for effecting approved securities transactions on the Exchange’s Trading Facilities.

⁸ Exchange Rule 1.5. “NSX Book” is defined as “System’s electronic file of orders.”

⁹ NSX trading rules provide for a price-time priority market with two modes of order interaction: (1) Auto-Ex, and (2) Order Delivery. The Exchange’s two modes of order interaction are described in NSX Rule 11.13(b).

priced equal to or better than the midpoint between the Protected BBO. The undisplayed orders against which the Midpoint-Seeker Order will execute include the: (i) Zero Display Reserve Order¹⁰ entered with a limit price, (ii) Market Peg Zero Display Reserve Order;¹¹ and (iii) Midpoint Peg Zero Display Reserve Order.¹² A Midpoint Seeker order may include an optional limit price cap beyond which the order shall not execute (i.e., an execution at a price lower for an order to sell or higher for an order to buy than a specified price). Under no circumstances will a Midpoint-Seeker Order execute against a displayed order or an order that is at a price which is inferior to the midpoint between the Protected BBO.

The System will execute a Midpoint-Seeker Order at the midpoint between the Protected BBO in \$0.005 increments if the security is priced at or above \$1¹³ and \$0.0001 increments if the security is priced below \$1.¹⁴ As explained above under the proposed changes to Rule 11.3(c), if interest resting on the NSX Book at the midpoint between the Protected BBO is not at a tradable

¹⁰ Under Exchange Rule 11.11(c)(2), a “Reserve Order” is a limit order with a portion of the quantity displayed with a reserve portion of the quantity that is not displayed.” Exchange Rule 11.11(c)(2)(A), defines a “Zero Display Reserve Order” as a Reserve Order with zero display quantity.

¹¹ Under Exchange Rule 11.11(c)(2)(A), a “Market Peg Zero Display Reserve Order” is a “pegged Zero Display Reserve Order which tracks the opposite side of the market” (e.g., the buy-side of the Protected BBO for a sell order or the sell-side of the Protected BBO for a buy order).

¹² Under Exchange Rule 11.11(c)(2)(A), a “Midpoint Peg Zero Display Reserve Order” is a “pegged Zero Display Reserve Order that tracks the midpoint” of the Protected BBO.”

¹³ See Exchange Rule 11.3(a)(i) which prohibits, in sum, minimum pricing increments smaller than \$0.01 for bids, offers, orders, or indications of interest priced equal to or greater than \$1.00 per share. Under 11.3(c), an undisplayed order that is pegged to the midpoint of the Protected BBO in accordance with Rule 11.11(c)(2) may be executed in sub-pennies if necessary to obtain a midpoint price.

¹⁴ See Exchange Rule 11.3(a)(ii) which prohibits, in sum, minimum pricing increments smaller than \$0.0001 for bids, offers, orders, or indications of interest priced less than \$1.00 per share.

increment, the Exchange will either round up for a Midpoint-Seeker Order to sell or round down for a Midpoint-Seeker Order to buy to the nearest tradable increment. The Midpoint-Seeker Order will execute against undisplaced posted orders on the NSX Book that are priced at or better than the midpoint between the Protected BBO. As an IOC order, the Midpoint-Seeker Order will execute only against the number of shares of undisplaced liquidity available on the NSX Book. Shares of an undisplaced posted order that remain after interacting with a Midpoint-Seeker Order will remain on the NSX Book. As an IOC order, any unexecuted portion of a Midpoint-Seeker Order will be treated as cancelled (i) after interacting with available undisplaced posted orders or (ii) when there are no undisplaced posted orders priced equal to or better than the midpoint between the Protected BBO.

Like other IOC orders, a Midpoint-Seeker Order will never be routed to an away market. A Midpoint-Seeker Order will also be treated as cancelled when the Protected BBO is locked or crossed. A Midpoint-Seeker Order cannot be combined with any other order type or order type modifier offered by the Exchange.

The below examples illustrate the functionality of the Midpoint-Seeker Order. All orders posted on the NSX Book are undisplaced.

Example 1

The Protected NBBO¹⁵ is 10.00 by 11.00 and the Exchange has received a Midpoint-Seeker Order to sell 300 shares. NSX Book contains no undisplaced orders.

Result: The System will cancel the incoming Midpoint-Seeker Order to sell 300 shares in its entirety because there are no undisplaced posted orders on the NSX Book priced equal to or better than the midpoint between the Protected BBO.

¹⁵ Exchange Rule 1.5. "Protected NBBO" is defined as "the national best bid or offer that is a protected quotation."

Example 2

The Protected BBO is 10.00 by 11.00 and the Exchange has received a Midpoint-Seeker Order to sell 300 shares.

Buy Orders Resting on NSX Book	Order Type
11.00 (100 shares)	Market Peg Zero Display Reserve Order
10.70 (100 shares)	Zero Display Reserve Order with Limit Price
10.50 (100 shares)	Midpoint Peg Zero Display Reserve Order

There are no sell orders posted to the NSX Book priced at the Protected BBO or better that could execute against the Market Peg Zero Display Reserve Order at 11.00.

Result: The incoming Midpoint-Seeker Order to sell 300 shares will execute against the Market Peg Zero Display Order at 11.00, the Zero Display Reserve Order at 10.70 and the Midpoint Peg Zero Display Order at 10.50. These executions are subject to the Exchange Rule 11.14(a) regarding price/time priority.

Example 3

The Protected BBO is 10.00 by 11.00 and the Exchange has received a Midpoint-Seeker Order to sell 300 shares.

Buy Orders Resting on NSX Book	Order Type
11.00 (100 shares)	Market Peg Zero Display Reserve Order
10.50 (100 shares)	Midpoint Peg Zero Display Reserve Order
10.40 (100 shares)	Zero Display Reserve Order with Limit Price

There are no sell orders posted to the NSX Book priced at the Protected BBO or better that could execute against the Market Peg Zero Display Reserve Order at 11.00.

Result: The incoming Midpoint-Seeker Order to sell 300 shares will execute against the Market Peg Zero Display Order at 11.00 and the Midpoint Peg Zero Display Order at 10.50. The System will cancel the remaining 100 shares of the Midpoint-Seeker because the Zero Display Reserve order at 10.40 is at a price inferior to the midpoint between the Protected BBO and last in price priority pursuant to Exchange Rule 11.14(a).

Example 4: Sub-Dollar Security

The Protected BBO is 0.8731 by 0.9998. The midpoint between the Protected BBO is 0.93645. For purposes of this example, the only interest posted to the NSX Book is a Midpoint Peg Zero Display Order to buy. A Midpoint-Seeker Order to sell is submitted. As discussed above under the proposed changes to Exchange Rule 11.3(c), the System rounds the price of the Midpoint Peg Zero Display Order to buy up to the nearest permissible trading increment of 0.9365. The Midpoint-Seeker Order will execute against the Midpoint Peg Zero Display order at 0.9365.

Example 5: Sub-Dollar Security

The Protected BBO is 0.8731 by 0.9998. The midpoint between the Protected BBO is 0.93645. For purposes of this example, the only interest posted to the NSX Book is a Midpoint Peg Zero Display Order to sell. A Midpoint-Seeker Order to buy is submitted. As discussed above under the proposed changes to Exchange Rule 11.3(c), the System rounds the Midpoint Peg Zero Display Order to sell down to the nearest permissible trading increment of 0.9364. The Midpoint-Seeker Order executes against the Midpoint Peg Zero Display Order at 0.9364.

2. Statutory Basis

The Exchange believes that the proposed clarification to Exchange Rule 11.3(c) is consistent with the provisions of Section 6(b) of the Act,¹⁶ in general, and Section 6(b)(5) of the Act,¹⁷ in particular, in that it is designed to promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of, a free and open market and a national market system. The amendments to NSX Rule 11.3(c) do not alter the Exchange's current rounding methodology. They simply clarify for ETP Holders how the Exchange's System may round an execution price resulting from a Zero Display Reserve Order that is pegged to the midpoint between the Protected BBO that results in an impermissible trading increment, thereby enhancing market transparency thereby promoting just and equitable principles of trade, removing impediments to, and perfecting the mechanism of, a free and open market and a national market system.

The Exchange also believes the proposed Midpoint-Seeker Order is consistent with Section 6(b) of the Exchange Act¹⁸ and furthers the objective of Section 6(b)(5) of the Exchange Act¹⁹ because it is to designed promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest. The Midpoint-Seeker Order will enable ETP Holders to enter an order that is not displayed publicly but is to be executed at the midpoint between the Protected BBO or better and only take liquidity. The Exchange

¹⁶ 15 U.S.C. 78f(b).

¹⁷ 15 U.S.C. 78f(b)(5).

¹⁸ 15 U.S.C. 78f(b).

¹⁹ 15 U.S.C 78f(b)(5).

believes this order type will enhance order execution opportunities on the NSX and help provide ETP Holders with flexibility in executing transactions that meet the specific requirements of the order type. The Midpoint-Seeker Order will allow for additional opportunities for investors to interact with orders priced at or better than the midpoint between the BBO which promotes just and equitable principles of trade and removes impediments to and perfects the mechanism of a free and open market and national market system.

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 Exchange Act. The Exchange believes the proposed Midpoint-Seeker Order will enhance order execution opportunities for ETP Holders on the NSX. The Exchange does not believe the proposed rule change will impose a burden on competition amongst ETP Holders that use Auto-Ex and those that use the Exchange's Order Delivery mode of interaction ("Order Delivery Users").²⁰ ETP Holders may use the Midpoint-Seeker Order to remove liquidity on the NSX Book at the midpoint of the Protected BBO or better. Orders entered via Auto-Ex that are posted to the NSX Book execute immediately when matched against a marketable incoming contra-side Midpoint-Seeker Orders entered via Auto-Ex. Conversely, Order Delivery Users only add liquidity to the NSX Book through the use of "Post Only" orders, which is not a liquidity taker. The NSX System rejects marketable "Post Only" orders, and will not route them away. Therefore, an Order Delivery User would not utilize the proposed Midpoint Seeker Order. In addition, an Order Delivery User is prohibited from posting an undisplayed midpoint order on the NSX Book, and, as a result, could not be matched against an incoming contra-side Midpoint-Seeker

²⁰ See NSX Rule 11.13(b).

Order entered via Auto-Ex. Nonetheless, an Order Deliver User is able to submit orders via Auto-Ex, including the proposed Midpoint-Seeker, but not in their capacity as an Order Delivery User. Furthermore, the Exchange believes the Midpoint Seeker order should enhance competition between it and other exchanges that currently offer similar order types by offer investors another option to access liquidity at the Midpoint between the Protected BBO or better. Therefore, 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 Exchange Act.

Lastly, the amendments to Exchange Rule 11.3(c) merely clarify for ETP Holder the Exchange's current rounding methodology. Therefore, the Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or in furtherance of the Exchange Act.

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 Act²¹ and

²¹ 15 U.S.C. 78s(b)(3)(A).

Rule 19b-4(f)(6)(iii) thereunder.²²

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. Such waiver would allow the Exchange to offer an order type that is similar to other exchanges without delay. The Commission notes that the rule change to adopt the Midpoint-Seeker is based on and similar to CBSX Rule 51.8(g)(13).²³ For this reason, the Commission waives the operative delay and designates the proposed rule change to be operative upon filing.²⁴

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. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)²⁵ of the Act to determine whether the proposed rule change should be approved or disapproved.

²² 17 CFR 240.19b-4(f)(6)(iii). 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 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.

²³ See SR-NSX-2013-07, Item 7.

²⁴ 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).

²⁵ 15 U.S.C. 78s(b)(2)(B).

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-NSX-2013-07 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-2013-07. 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 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 offices 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-2013-07, 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.²⁶

Kevin M. O'Neill
Deputy Secretary

²⁶ 17 CFR 200.30-3(a)(12).