

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-64425; File No. SR-NSX-2011-06)

May 6, 2011

Self-Regulatory Organizations; National Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change to Amend its Rules to Extend a Pilot Program Regarding Trading Pauses in Individual Securities Due to Extraordinary Market Volatility To All NMS Stocks and to Make Conforming Changes to Market Maker Quoting Obligations

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 May 4, 2011, the National Stock Exchange, Inc. (“Exchange” or “NSX”) 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 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

National Stock Exchange, Inc. (“NSX®” or “Exchange”) is proposing to amend Rule 11.20B to include additional securities in the pilot by which such rule operates and amend Rule 11.8 to simplify certain aspects of the text while also conforming certain of the percentages thereunder to the proposed changes to Rule 11.20B.

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

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

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

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. 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

With this rule change, the Exchange is proposing to amend Rule 11.20B to include additional securities in the pilot by which such rule operates and amend Rule 11.8 to simplify certain aspects of the text while also conforming certain of the percentages thereunder to the proposed changes to Rule 11.20B.

NSX Rule 11.20B (Trading Pauses in Individual Securities Due to Extraordinary Market Volatility) was approved by the Securities and Exchange Commission (the “Commission”) on June 10, 2010 on a pilot basis (“Pilot”) to end on December 10, 2010.<sup>3</sup> The Pilot end date was subsequently extended until August 11, 2011 or to coincide, if applicable, with the earlier implementation date of the limit up/limit down mechanism.<sup>4</sup> Similar rule changes were adopted by other markets in the national market system in a coordinated manner.

As the Exchange noted in its filing to adopt NSX Rule 11.20B, during the Pilot period, the Exchange, in conjunction with other markets in the national market system, would continue to assess whether additional securities need to be added and whether the parameters of the rule

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<sup>3</sup> See Securities Exchange Act Release No. 62252 (June 10, 2010), 75 FR 34186 (June 16, 2010) (SR-NSX-2010-05).

<sup>4</sup> See Securities Exchange Act Release No. 63512 (December 9, 2010), 75 FR 78786 (December 16, 2010) (SR-NSX-2010-17); and Securities Exchange Act Release No. 64213 (April 6, 2011), 76 FR 20409 (April 12, 2011) (SR-NSX-2011-04).

would need to be modified to accommodate trading characteristics of different securities. When initially adopted on June 10, 2010, the pilot included all securities included within the S&P 500® Index. On September 10, 2010 NSX Rule 11.20B was expanded to securities included in the Russell 1000® Index (“Russell 1000”) and specified Exchange Traded Products (“ETPs”).<sup>5</sup>

The Exchange has continued to assess whether additional securities need to be added to the Pilot and whether the parameters of Rule 11.20B need to be modified to accommodate trading characteristics of different securities. In consultation with other markets and the staff of the Commission, the Exchange proposes to include all NMS stocks within the Pilot that are not already included therein. In addition, a wider Threshold Move percentage would apply to the newly added securities. Because the proposed additional stocks are those not currently included in the S&P 500 Index, Russell 1000 Index, or specified ETPs, and therefore are more likely to be less liquid securities or securities with lower trading volume, the Exchange believes that broader Threshold Move percentages would be appropriate. Similarly, because leveraged ETPs trade at a ratio against the associated index, a broader Threshold Move percentage would also be appropriate for leveraged ETPs. Securities priced below \$1 are proposed to have a higher Threshold Move than higher priced securities because lower-priced securities may tend to be more volatile, and price movements of lower-priced securities equate to a higher percentage move than a similar price change for a higher-priced security.

Accordingly, the Exchange proposes to expand the definition of the term “Circuit Breaker Securities” set forth in Commentary .05 to Rule 11.20 to include all NMS stocks. The Exchange proposes that the Threshold Move required to trigger a Trading Pause for the proposed new securities be 30% or more for such securities priced at \$1 or higher and 50% or more for

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<sup>5</sup> See Securities Exchange Act Release No. 62884 (September 10, 2010), 75 FR 56618 (September 16, 2010) (SR-NSX-2010-08).

such securities priced less than \$1.<sup>6</sup> The Exchange believes that these percentages are commensurate with the characteristics shared by the proposed new securities within these price ranges and would promote the objectives of the Pilot to reduce the negative impacts of unanticipated price movements in a security. The Exchange proposes to include new subsections 11.20B(a)(1), (2) and (3) to reflect the distinction between the applicable Threshold Move percentages for current Pilot securities and the proposed new securities to be included within the Pilot.<sup>7</sup> The Exchange is not proposing any other changes to the text of Rule 11.20B or the operation of the Pilot, and will continue to assess whether the parameters for invoking a Trading Pause continue to be appropriate and whether the parameters should be modified.

The proposed changes to the Pilot, if approved, would require that the text of Rule 11.8(a)(1)(B)(iv) and (v), which pertains to the pricing obligations that Market Makers are required to adhere to, be amended to correct the cross-references therein to Rule 11.20B and the Threshold Move thereunder. Specifically, the Exchange proposes to remove any text from Rule 11.8(a)(1)(B)(iv) and (v) addressing NMS stocks that are not subject to the Pilot because no such securities would exist and such text would therefore be unnecessary. The Exchange also proposes to simplify Rule 11.8(a)(1)(B)(iv) and (v) by explicitly stating the percentages that are applicable thereunder and the times during the trading day when Rule 11.20B is not in effect. The Exchange notes that part of this proposed change would be substantive, in that the percentages under Rule 11.8(a)(1)(B)(iv) and (v) would decrease slightly for the proposed new

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<sup>6</sup> Under the proposed rule change, the price of a security would be 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.

<sup>7</sup> The Exchange is not proposing a change to the Threshold Move percentage applicable to securities currently included within the current Pilot. However, the changes proposed herein requires that certain rule text pertaining to the Threshold Move for the existing Pilot securities be reorganized within Rule 11.20B(a).

securities priced at \$1 or greater. The Exchange believes that this proposed substantive change would not have a significant impact on Market Maker pricing obligations and is reasonable because it would ensure that the designated quoting percentages in Rule 11.8(a)(1)(B) are within a narrower range than the percentages necessary to trigger a Trading Pause.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6(b) of the Act,<sup>8</sup> in general, and Section 6(b)(5) of the Act,<sup>9</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>10</sup> of the Act in that it seeks to ensure fair competition among brokers and dealers and among exchange markets. The Exchange believes that the proposed rule meets these requirements because it expands the scope of the Pilot to cover all NMS stocks while adjusting the parameters of the rule for different securities in a manner that will promote uniformity across markets concerning decisions to pause trading in a security when there are significant price movements. Additionally, the proposed changes would ensure that the designated quoting percentages in Rule 11.8(a)(1)(B) are within a narrower range than the percentages necessary to trigger a Trading Pause.

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

<sup>9</sup> 15 U.S.C. 78f(b)(5).

<sup>10</sup> 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 inappropriate burden on competition.

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

The Exchange has neither solicited nor received written comments on 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 (i) as the Commission may designate up to 90 days of such date 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:

(A) By order approve or disapprove such 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 e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NSX-2011-06 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-2011-06. 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 NSX. 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-NSX-2011-06 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>11</sup>

Elizabeth M. Murphy  
Secretary

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<sup>11</sup> 17 CFR 200.30-3(a)(12).