

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66923; File No. SR-NSX-2012-05)

May 4, 2012

Self-Regulatory Organizations; National Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend its Rules Regarding Routing of Limit Orders

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 26, 2012, National Stock Exchange, Inc. (“NSX” or “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 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 modify the text of NSX Rule 11.15 to harmonize it with current system functionality of routed limit orders.

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 proposed rule change. The text of these statements may be examined at the places specified in

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

NSX Rule 11.15(a)(ii)(A) (Routing to Away Trading Centers) currently provides that, for orders other than sweep orders that are, consistent with the terms of the order, routed to away trading centers, the order will be converted into one or more limit orders, as necessary, to be matched for execution against each protected quotation at the Protected National Best Bid or Offer (“NBBO”) available at away trading centers. With respect to the price of the routed limit order, Rule 11.15(a)(ii)(A) currently provides: “Each such converted limit order shall be priced at the price of the protected quotation that it is to be matched for execution against” (underlining added).

Notwithstanding the text of Rule 11.15(a)(ii)(A), the Exchange’s trading system, NSX BLADE[®] (“Blade”), currently prices each such converted limit order at a price that is one trading increment inside the best bid or offer on the NSX book, but in any case not higher (if a bid) or lower (if an offer) than the limit price specified by the terms of the original order. The proposed edits to Rule 11.15(a)(ii)(A) would conform the text of the rules to current Blade functionality. Specifically, new subsections (1) and (2) are proposed to be added to Rule 11.15(a)(ii)(A). Subsection (1) would address the pricing of routed market orders (the treatment of which remains unchanged, namely, such orders shall be routed at the price of the protected quotation that it is to be matched against for execution). Subsection (2) would address the pricing of converted limit orders, and specifies in clauses (x) and (y) the converted limit price for each a buy and sell order, respectively. In the case of a buy order, the converted limit price shall be the

lower of the limit price of the original order and one increment lower than the lowest offer on the NSX book. In the case of a sell order, the converted limit price shall be the higher of the limit price of the original order and one increment higher than the highest bid on the NSX book.

The proposed pricing methodology benefits ETP Holders by minimizing the risk of non-fills or delayed fills that might arise as a result of the order being routed at the NBBO price. NBBO quotes may flicker and/or be cancelled by the time a routed order arrives at the away destination. Under such circumstances, if priced at the NBBO, a routed limit order may be rejected by the away destination and, upon return to NSX, undergo a re-evaluation within Blade (consistent with Regulation NMS and NSX rules), after which it may be subjected to one or more repeat cycles of the foregoing process (“unfilled routing cycles”). The orders are routed as Immediate or Cancel (“IOC”) orders and thus retain the full protections of Rule 611. By re-pricing routed limit orders as proposed above, the chances are maximized that an ETP Holder’s routed limit order is filled quickly and at the best price available (and never worse than the original order’s limit price), and not at a price that can otherwise be filled against the NSX book.

The following examples reflect both the current functionality of routed limit orders in Blade and also routed limit order pricing under the proposed rules:

Example 1:

<u>Original Order</u>	<u>NSX Best Offer</u>	<u>National Best Offer</u>
Buy Limit @ 10.10	10.05	9.95

Result: The original limit order is converted to a buy limit order at a price of \$10.04 (one increment lower than the lowest offer on the NSX book, which is lower than the original order limit price of \$10.10), and routed to the market displaying the National Best Offer of \$9.95. The order may then be executed at that away market, in whole or in part, subject to the applicable

trading rules of that trading center³. In this example, an execution at the away market would generally be at a price of \$9.95.⁴ Current rule text would price the routed limit order at \$9.95 (the price of the protected quotation against which it is matched for execution). This pricing methodology (which routes the buy order at \$10.04 rather than \$9.95) is beneficial to an ETP Holder because it minimizes the chances of repeated unfilled routing cycles as described above, intends to access the best priced displayed liquidity, and does not route the order at a price that can be filled against the NSX book.

Example 2:

<u>Original Order</u>	<u>NSX Best Offer</u>	<u>National Best Offer</u>
Buy Limit @ 10.00	10.05	9.95

Result: The original limit order is converted to a buy limit order at a price of \$10.00 (the limit price of the original order, which is lower than one increment lower than the lowest offer on the NSX book) and routed to the market displaying the National Best Offer of \$9.95. The order may then be executed at that away market, in whole or in part, subject to the applicable trading rules of that trading center. In this example, an execution at the away market would generally be at a price of \$9.95.⁵ Current rule text would price the routed limit order at \$9.95 (the price of the protected quotation against which it is matched for execution). This pricing methodology (which routes the buy order at \$10.00 rather than \$9.95) is beneficial to an ETP Holder because it minimizes the chances of repeated unfilled routing cycles as described above, intends to access

³ See NSX Rule 11.15(c)(i).

⁴ This predicted result is dependent on the rules of the away market and assumes certain things, including without limitation the absence of an un-displayed, lower priced offer at the away market that would interact at a lower price, and that the away market's displayed NBO of 9.95 has not changed (e.g., been cancelled or improved by a lower priced offer) by the time the routed order is received at the away trading center.

⁵ Id.

the best priced displayed liquidity, and does not route the order at a price higher than the limit price.

Example 3:

<u>Original Order</u>	<u>NSX Best Offer</u>	<u>National Best Offer</u>
Buy Limit @ 9.95	10.05	9.95

Result: The original limit order is converted to a buy limit order at a price of \$9.95 (the limit price of the original order, which is lower than one increment lower than the lowest offer on the NSX book) and routed to the market displaying the National Best Offer of \$9.95. The order may then be executed at that away market, in whole or in part, subject to the applicable trading rules of that trading center. In this example, an execution at the away market would generally be at a price of \$9.95.⁶ Current rule text would likewise price the routed limit order at \$9.95 (the price of the protected quotation against which it is matched for execution).

Example 4:

<u>Original Order</u>	<u>NSX Best Bid</u>	<u>National Best Bid</u>
Sell Limit @ 9.90	9.95	10.05

Result: The original limit order is converted to a sell limit order at a price of \$9.96 (one increment higher than the highest bid on the NSX book, which is higher than the original order limit price of \$9.90) and routed to the market displaying the National Best Bid of \$10.05. The order may then be executed at that away market, in whole or in part, subject to the applicable trading rules of that trading center. In this example, an execution at the away market would generally be at a price of \$10.05.⁷ Current rule text would price the routed limit order at \$10.05

⁶ Id.

⁷ This predicted result is dependent on the rules of the away market and certain things, including without limitation the absence of an un-displayed, higher priced bid at the away

(the price of the protected quotation against which it is matched for execution). This pricing methodology (which routes the sell order at \$9.96 rather than \$10.05) is beneficial to an ETP Holder because it minimizes the chances of repeated unfilled routing cycles as described above, intends to access the best priced displayed liquidity, and does not route the order at a price that can be filled against the NSX book.

Example 5:

<u>Original Order</u>	<u>NSX Best Bid</u>	<u>National Best Bid</u>
Sell Limit @ 10.00	9.95	10.05

Result: The original limit order is converted to a sell limit order at a price of \$10.00 (the limit price of the original order, which is higher than one increment higher than the highest bid on the NSX book) and routed to the market displaying the National Best Bid of \$10.05. The order may then be executed at that away market, in whole or in part, subject to the applicable trading rules of that trading center. In this example, an execution at the away market would generally be at a price of \$10.05.⁸ Current rule text would price the routed limit order at \$10.05 (the price of the protected quotation against which it is matched for execution). This pricing methodology (which routes the sell order at \$10.00 rather than \$10.05) is beneficial to an ETP Holder because it minimizes the chances of repeated unfilled routing cycles as described above, intends to access the best priced displayed liquidity, and does not route the order at a price higher than the limit price.

Example 6:

<u>Original Order</u>	<u>NSX Best Bid</u>	<u>National Best Bid</u>
-----------------------	---------------------	--------------------------

market that would interact at a higher price, and that the away market's displayed NBB of 10.05 has not changed (e.g., been cancelled or improved by a higher priced bid) by the time the routed order is received at the away trading center.

⁸ Id.

Sell Limit @ 10.05

9.95

10.05

Result: The original limit order is converted to a sell limit order at a price of \$10.05 (the limit price of the original order, which is higher than one increment higher than the highest bid on the NSX book) and routed to the market displaying the National Best Bid of \$10.05. The order may then be executed at that away market, in whole or in part, subject to the applicable trading rules of that trading center. In this example, an execution at the away market would generally be at a price of \$10.05.⁹ Current rule text would likewise price the routed limit order at \$10.05 (the price of the protected quotation against which it is matched for execution).

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6 of the Act¹⁰, and the rules and regulations thereunder and, in particular, the requirements of Section 6(b) of the Act¹¹. Specifically, the Exchange believes the modification of Rule 11.15 furthers the objective of Section 6(b)(1) of the Act because it aligns the text of the rule with the actual functionality regarding how limit orders are currently routed. By conforming the text of the Exchange's rules to accurately reflect the method by which the Exchange's system currently re-prices routed limit orders, the proposed rule change harmonizes the Exchange's trading system functionality with the text of NSX rules and thereby promotes clarity and eliminates confusion. In addition, the manner in which limit orders are routed by the Exchange as described herein allows an ETP Holder's routed limit order to be filled more quickly and at the best price available (and never worse than the original order's limit price), and not at a price that can otherwise be filled against the NSX book. The Exchange believes that this manner of pricing

⁹ Id.

¹⁰ 15 U.S.C. 78f.

¹¹ 15 U.S.C. 78f(b).

routed limit orders best serves its ETP Holders. Accordingly, the Exchange believes that the proposed rule change promotes just and equitable principles of trade, removes impediments, and perfects the mechanism of a free and open market and a national market system and, in general, protects investors and the public interest.

The proposed rule change provides transparency and certainty with respect to routed limit orders by providing detail on precisely how Blade prices and routes limit orders to away market centers. In so doing, the proposed rule change promotes the maintenance of a fair and orderly market, the protection of investors and the protection of the public interest, consistent with the Act and the rules promulgated thereunder.

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

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 Act¹² and Rule 19b-

¹² 15 U.S.C. 78s(b)(3)(A).

4(f)(6) thereunder.¹³ At any time within 60 days of the filing of such 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-NSX-2012-05 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-2012-05. 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

¹³ 17 CFR 240.19b-4(f)(6). 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.

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 the 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 Number SR-NSX-2012-05 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.¹⁴

Kevin M. O'Neill
Deputy Secretary

¹⁴ 17 CFR 200.30-3(a)(12).