

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-69874; File No. SR-NSX-2013-13)

June 27, 2013

Self-Regulatory Organizations; National Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending Exchange Rule 11.11 to Automatically Prevent Entry of Zero Display Reserve Orders Marked “Sell Short.”

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 26, 2013, National Stock Exchange, Inc. (“NSX<sup>®</sup>” 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 comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of the Substance of the Proposed Rule Change

The Exchange proposes to amend Exchange Rule 11.11 (Orders and Modifiers) to add new subparagraph (c)(2)(E), which addresses the manner in which the Exchange’s Trading System (the “System”) will handle a sell short Zero Display Reserve Order<sup>3</sup> entered by an Exchange User<sup>4</sup> in a security that subsequently becomes subject to a short sale price

---

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

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

<sup>3</sup> Under Exchange Rule 11.11(c)(2), a Reserve Order is defined as a limit order with a portion of the quantity displayed (“display quantity”) and with a reserve portion of the quantity (“reserve quantity”) that is not displayed. Rule 11.11(c)(2)(A) provides, in relevant part, that a Reserve Order can be entered with a display quantity of zero, in which case the Reserve Order will be known as a “Zero Display Reserve Order.”

<sup>4</sup> NSX Rule 1.5 defines the term “User” as any ETP Holder or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.9.

test restriction under Rule 201 of Regulation SHO<sup>5</sup> of the Act. The rule amendment and accompanying technology change address a System limitation that causes a sell short Zero Display Reserve Order to be executed at or below the national best bid during a period that the security is subject to the short sale price test restriction. Accordingly, the Exchange has determined to amend Rule 11.11 by adding new subparagraph(c)(2)(E) which will provide that the Exchange's System will automatically reject the entry of a Zero Display Reserve Order marked as "sell short." The Exchange has stated that the present rule amendment is a temporary measure intended to address Rule 201 Regulation SHO compliance with regard to Zero Display Reserve Orders. The Exchange has further stated that it intends to make subsequent permanent modifications to the System that will eliminate the need to automatically reject all Zero Display Reserve Orders marked "sell short." Accordingly, the Exchange will seek Commission approval of a proposal to replace subparagraph (c)(2)(E) by August 30, 2013, the date by which the Exchange anticipates the permanent modifications to the System will be ready to implement, and to propose any other rule amendments necessary to further address the Exchange's Rule 201 Regulation SHO compliance.

The text of the proposed rule change is available on the Exchange's website at [www.nsx.com](http://www.nsx.com), at the Exchange's principal office, and at the Commission's Public Reference Room.

---

<sup>5</sup> 17 CFR 242.201. See Securities Exchange Act Release No. 61595 (February 26, 2010), 75 FR 11232 (March 10, 2010) ("Rule 201 Adopting Release") and Securities Exchange Act Release No. 63247 (Nov. 4, 2010), 75 FR 68702 (Nov. 9, 2010). See also Division of Trading and Markets: Responses to Frequently Asked Questions Concerning Rule 201 of Regulation SHO, January 20, 2011 at <http://www.sec.gov/divisions/marketreg/mrfaqregsho1204.htm> ("Rule 201 FAQs"). Rule 201 applies to any "trading center" as defined in Rule 201(a)(9) of Regulation SHO that executes or displays a short sale order in a covered security.

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 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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange is proposing to amend Rule 11.11 to add new subparagraph (c)(2)(E), which will provide that the Exchange will automatically block the entry by Users of Zero Display Reserve Orders marked “sell short.” All such orders will be rejected back to the entering User. The rule amendment and accompanying changes to the System will automatically reject the entry of such orders and thereby prevent a subsequent execution of such orders at or below the national best bid during a time period that the security is the subject of a short sale price test restriction.

Rule 201(b)(1)(i) of Regulation SHO requires trading centers,<sup>6</sup> including the Exchange, to establish, maintain and enforce written policies and procedures reasonably designed to prevent the execution or display of a short sale order of a covered security at a price that is less

---

<sup>6</sup> For purposes of Regulation SHO, the term “trading center” has the same meaning as in Rule 600(b)(78) of Regulation NMS, which defines a “trading center” as “...a national securities exchange or national securities association that operates an SRO trading facility, an alternative trading system, an exchange market maker, an OTC market maker, or any other broker or dealer that executes orders internally by trading as principal or crossing orders as agent.”

than or equal to the current national best bid if the price of that covered security decreases by 10% or more from such security's closing price on the listing market at the close of regular trading hours on the prior day. Rule 201(b)(1)(ii) of Regulation SHO provides that trading centers must establish, maintain and enforce written policies and procedure reasonably designed to enforce the short sale price test restriction for the remainder of the trading day and the following day, when a national best bid for the covered security is calculated and disseminated on a current and continuing basis by a plan processor pursuant to an effective national market system plan.

Rule 201(b)(1)(iii)(A) of Regulation SHO provides that a trading center's written policies and procedures must be reasonably designed to permit the execution of a displayed short sale order of a covered security by a trading center if, at the time of initial display of the short sale order, the order was at a price above the current national best bid.<sup>7</sup>

Exchange Rule 11.11(c)(2)(A) provides that a User may enter a Reserve Order with a display quantity of zero, in which case the Reserve Order will be known as a Zero Display Reserve Order. Because no order designated by a User as a Zero Display Reserve Order ever becomes displayed, any such order marked "sell short" does not qualify for the exception under Rule 201(b)(1)(iii)(A) of Regulation SHO.

Recently, the Exchange became aware of a System limitation that permits the execution of a sell short Zero Display Reserve Order at or below the national best bid while the covered

---

<sup>7</sup> The second exception, not relevant for purposes of this filing, requires the trading center to have policies and procedures permitting the execution of an order in a covered security marked "short exempt" without regard to whether the order is at a price that is less than or equal to the current national best bid.

security was in a short sale price test restriction. The operation of the System in these circumstances is not consistent with Rule 201(b) of Regulation SHO.

Accordingly, the Exchange has determined to amend Rule 11.11 by adding new subparagraph(c)(2)(E) which will provide that the Exchange's System will automatically reject the entry of a Zero Display Reserve Order marked as "sell short." The Exchange has stated that the present rule amendment is a temporary measure intended to address Rule 201 Regulation SHO compliance with regard to Zero Display Reserve Orders. The Exchange has further stated that it intends to make subsequent permanent modifications to the System that will eliminate the need to automatically reject all Zero Display Reserve Orders marked "sell short." Accordingly, the Exchange will seek Commission approval of a proposal to replace subparagraph (c)(2)(E) by August 30, 2013, the date by which the Exchange anticipates the permanent modifications to the System will be ready to implement, and to propose any other rule amendments necessary to further address the Exchange's Rule 201 Regulation SHO compliance.

## 2. Statutory Basis

The proposed rule change to provide that the System will automatically reject the entry of Zero Display Reserve orders marked "sell short" is consistent with Section 6(b)<sup>8</sup> of the Act and, specifically with Rule 201 of Regulation SHO. Because such orders are not displayed, they are not within the exception under Rule 201(b)(1)(iii)(A) discussed above. The rule amendment will address Rule 201 of Regulation SHO compliance by preventing the execution or display of a short sale order of a covered security at an impermissible price when the short sale price restriction is in effect. In this regard, the amendment will further the purposes of the Act and specifically Rule 201 of Regulation SHO.

---

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

### 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 for the furtherance of the Act. The Exchange plans to issue written notification of the rule amendment to all Users, advising them that all Zero Display Reserve Orders marked "sell short" will be rejected by the System. Users can assess the impact of the rule amendment on their order entry strategies and practices, and determine whether to send orders to another execution venue.

### 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

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>9</sup> and Rule 19b-4(f)(6) thereunder.<sup>10</sup> The proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6)(iii) thereunder because the proposed rule change (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) does not become operative prior to 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.

---

<sup>9</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>10</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) 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 requested a waiver of this requirement.

A proposed rule change filed under Rule 19b-4(f)(6)<sup>11</sup> normally does not become operative prior to 30 days from the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>12</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 requested the Commission to waive the 30-day operative delay, as well as the 5-day pre-filing requirement, so that the proposed rule change may become effective and operative upon filing. The Commission believes that waiving the 30-day operative delay and the 5-day pre-filing requirement is consistent with the protection of investors and the public interest. The Exchange, as a trading center, is required under Regulation SHO to establish, maintain and enforce written policies and procedures reasonably designed to prevent the execution of sell short orders of covered securities subject to the short sale price test restriction at or below the current national best bid. Because the rule amendment is designed to address this requirement under Rule 201, the Commission agrees to waive the operative delay and pre-filing requirement. Accordingly, the Commission grants the Exchange's request and designates the proposal effective upon filing.<sup>13</sup>

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 Act.

---

<sup>11</sup> Id.

<sup>12</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>13</sup> For purposes of only 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).

#### 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-2013-13 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, D.C. 20549-1090.

All submissions should refer to File No. SR-NSX-2013-13. This file number should be included in the subject line if e-mail is used. To help the Commission process and review 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 a.m. and 3 p.m. eastern time. Copies of such filings will also 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-2013-13 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 the delegated authority.<sup>14</sup>

Kevin M. O'Neill  
Deputy Secretary

---

<sup>14</sup> 17 CFR 200.30-3(a)(12).