

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-60762; File No. SR-NSX-2009-05)

October 1, 2009

Self-Regulatory Organizations; National Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend NSX Rule 11.19 Governing Clearly Erroneous Executions

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 September 30, 2009, the National Stock Exchange, Inc. (“Exchange” or “NSX”) 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. NSX has designated the proposed rule change as constituting a rule change under Rule 19b-4(f)(6) under the Act,³ which renders the proposal effective upon filing with the Commission. 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

NSX is proposing to amend NSX Rule 11.19 governing clearly erroneous executions.

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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6).

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 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 proposes to amend NSX Rule 11.19 in order to improve the Exchange's rule regarding clearly erroneous executions. The proposed changes are part of a market-wide effort designed to provide transparency and finality with respect to clearly erroneous executions. This effort seeks to achieve consistent results for participants across U.S. equities exchanges while maintaining a fair and orderly market, protecting investors and protecting the public interest. The proposed changes are more fully discussed below.

Definition

The Exchange will maintain the meaning of the definition of a clearly erroneous execution, but proposes to add clarifying language with respect to cancelled trades. The proposed change identifies that a transaction made in clearly erroneous error and agreed to be canceled by both parties or determined by the Corporation to be clearly erroneous will be

removed “from the Consolidated Tape.”⁴ A trade will only be removed from the Consolidated Tape when the determination is deemed final and any applicable appeals have been exhausted.

ETP Holder Initiated Review Requests

The Exchange proposes to amend NSX Rule 11.19 to update the procedures for requesting a review of a clearly erroneous transaction. First, the proposed rule would require that requests for review be made only by electronic mail (“email”) or other electronic means specified from time to time by the Exchange. Under the current policy, the Exchange also allows requests to be made via telephone and facsimile. Requiring requests for review to be made via email creates a standard format that can easily be logged and tracked. The Exchange will publish the email address or other electronic means to be used for all clearly erroneous filings in a circular distributed to Equity Trading Permit (“ETP”) Holders.⁵

The Exchange further proposes that requests for review must be received by the Exchange within 30 minutes of the execution time for orders initially routed to and executed on the Exchange. The Exchange proposes that ETP Holders submit certain essential identifying information with the request including the time of the transaction(s), security symbol(s), number of shares, price(s), side (bought or sold), and factual basis for believing that the trade is clearly erroneous. The current rule requires requests for review to be received within 15 minutes of the execution and does not specify what information is required. The Exchange believes that 30

⁴ For purposes of this Rule, “removed from the Consolidate Tape” means that a subsequent message will be sent to the Consolidated Tape indicating that a previously executed trade has been cancelled.

⁵ NSX Rule 1.5E defines an “ETP” as an Equity Trading Permit issued by the Exchange for effecting approved securities transactions on the Exchange’s trading facilities. An ETP may be issued to a “sole proprietorship, partnership, corporation, limited liability company or other organization which is a registered broker or dealer pursuant to Section 15 of the Act, and which has been approved by the Exchange.

minutes is an appropriate time frame that offers the requesting party sufficient time to gather and submit all required information.

The proposed rule also requires the Exchange to notify the counterparty to a trade upon receipt of a timely filed request for review that satisfies the numerical guidelines set forth within the Rule (“Numerical Guidelines”). This proposed language eliminates the requirement that counterparties be notified of every request for a ruling and instead requires notice only when a request is filed in a timely manner and satisfies the Numerical Guidelines. This change alleviates the burden on the Exchange of notifying the counterparty when a request for review does not merit a ruling.

The Exchange proposes to amend NSX Rule 11.19 to allow an Officer of the Exchange or such other employee designee (“Officer”) to request additional information from each party to a transaction under review. Parties to the review will have 30 minutes from the time of the request to provide additional supporting information.

Routed Executions

The Exchange proposes to give other market centers an additional 30 minutes from the receipt of their participant’s timely filing to request a ruling, but no longer than 60 minutes from the time of the execution under review. This provision accounts for those executions initially directed to an away market center and subsequently routed by that away market center to the Exchange.

For example, assume an order is initially routed by a participant to Market Center A and subsequently routed to NSX, where the order is executed at a price outside of the Numerical Guidelines. This provision generally requires Market Center A to file with the Exchange within 30 minutes from the time it receives its participant’s timely filed request for review. This

provision caps the filing deadline for an away market center at 60 minutes from the time of the execution under review.

Threshold Factors

Currently, the Exchange's Clearly Erroneous Execution rule does not identify specific numeric guidelines for determining what constitutes a clearly erroneous transaction. The current rule simply provides that "an Officer of the Exchange or such other designee of the Exchange shall review the transaction under dispute and determine whether it is clearly erroneous, with a view toward maintaining a fair and orderly market and the protection of investors and the public interest."⁶ The Exchange proposes adding certain numerical thresholds to the Rule that explicitly state what constitutes a clearly erroneous execution.

Numerical Guidelines

The proposed numerical guidelines state that a transaction executed during Regular Trading Hours⁷ or outside Regular Trading Hours may be found to be clearly erroneous only if the price of the transaction to buy is greater, or less in the case of a sale, than the reference price by an amount that equals or exceeds the numerical guidelines for a particular transaction category. The execution time of the transaction under review determines whether the guidance threshold is Regular Trading Hours or outside Regular Trading Hours. The Reference Price shall be equal to the Consolidated Last Sale immediately prior to the execution(s) under review, unless unusual circumstances are present. The proposed guidelines for sales greater than \$0.00 up to and including \$25.00 are 10% for Regular Trading Hours and 20% for outside Regular Trading Hours. The proposed guidelines for sales greater than \$25.00 up to and including \$50.00 are 5%

⁶ NSX Rule 11.19(b)(i) (prior to the instant rule change).

⁷ Regular Trading Hours begin for each security at "8:30:00 am (Central Time) and conclude at 3:00:00 pm (Central Time)." NSX Rule 1.5R.

for Regular Trading Hours and 10% for outside Regular Trading Hours. The proposed guidelines for sales greater than \$50.00 are 3% for Regular Trading Hours and 6% for outside Regular Trading Hours. A filing involving five or more securities by the same ETP Holder will be aggregated into a single filing called a “Multi-Stock Event.” In the case of a Multi-Stock Event, the proposed guidelines are 10% for Regular Trading Hours and 10% for outside Regular Trading Hours. In the case of Leveraged ETF/ETN securities, the above guidelines are to be multiplied by the leverage multiplier of the security. Executions that do not meet or exceed the Numerical Guidelines will not be eligible for review under this section. The following chart summarizes the proposed Numerical Guidelines:

Reference Price: Consolidated Last Sale	Regular Trading Hours Numerical Guidelines (Subject transaction’s % difference from the Consolidated Last Sale):	Outside Regular Trading Numerical Guidelines (Subject transaction’s % difference from the Consolidated Last Sale):
Greater than \$0.00 up to and including \$25.00	10%	20%
Greater than \$25.00 up to and including \$50.00	5%	10%
Greater than \$50.00	3%	6%
Multi-Stock Event – Filings involving five or more securities by the same ETP Holder	10%	10%

will be aggregated into a single filing		
Leveraged ETF/ETN securities	Core Trading Session Numerical Guidelines multiplied by the leverage multiplier (ie. 2x)	Core Trading Session Numerical Guidelines multiplied by the leverage multiplier (ie. 2x)

Establishing Numerical Guidelines within the Rule brings regulatory transparency and consistency in the application of the rules of the Exchange. These Numerical Guidelines represent the general consensus approach and were developed based on the collective experiences of a market-wide group. The Exchange believes that the Thresholds established are fair and appropriate and apply evenly to all participants.

Unusual Circumstances

NSX further proposes that in Unusual Circumstances the Exchange may, in its discretion and with a view toward maintaining a fair and orderly market and the protection of investors and the public interest, use a Reference Price other than the consolidated last sale. Unusual Circumstances may include periods of extreme market volatility, sustained illiquidity, or widespread system issues. Other Reference Prices that the Exchange may use would include the consolidated inside price, the consolidated opening price, the consolidated prior close, or the consolidated last sale prior to a series of executions.

The following example explains the use of a Reference Price equal to the consolidated last sale prior to a series of executions.

ABC has a consolidated last sale of \$10.00. During Regular Trading Hours, Customer A enters a market order to buy 10,000 shares, although it had intended a market order for 1,000 shares. The size of the order is such that the order sweeps the NSX Book, which reflects 1,000 shares of liquidity offered at each of following prices. Executions occur, moving through the depth of the NSX Book, as follows:

Trade #1 – 1000 shares @ \$10.00 (9000 remaining)

Trade #2 – 1000 shares @ \$10.20 (8000 remaining)

Trade #3 – 1000 shares @ \$10.40 (7000 remaining)

Trade #4 – 1000 shares @ \$10.60 (6000 remaining)

Trade #5 – 1000 shares @ \$10.80 (5000 remaining)

Trade #6 – 1000 shares @ \$11.00 (4000 remaining)

Trade #7 – 1000 shares @ \$11.20 (3000 remaining)

Trade #8 – 1000 shares @ \$11.40 (2000 remaining)

Trade #9 – 1000 shares @ \$11.60 (1000 remaining)

Trade #10 – 1000 shares @ \$11.80 (complete)

Thus, to be eligible for review, a transaction must be at a price that is at least 10% higher than the consolidated last sale prior to the series of executions. Customer A could request a ruling for trades #6 through #10, priced at \$11.00 and above, but trades #1 through #5 would not be eligible for review.

Under the proposed rule the Exchange may also use a higher numerical guideline if, after market participants have been alerted to erroneous activity, the price of the security returns

toward its prior trading range but continues to trade beyond the price it would have normally been broken.

Joint Market Rulings

In the interest of achieving consistency across markets, the Exchange proposes that, in events that involve other markets, the Exchange would have the ability to use a different Reference Price and/or Numerical Guideline. In these instances the Reference Price would be determined based on a consensus among the Exchanges where the transactions occurred. Furthermore, when a ruling is made across markets, the Exchange may determine that the ruling is not eligible for appeal because immediate finality is necessary to maintain a fair and orderly market and to protect investors and the public interest.

Additional Factors

The proposed amendments to NSX Rule 11.19 also enumerate some additional factors that an officer of the Exchange or certain other employee designee may consider when determining whether an execution is clearly erroneous. These factors include, but are not limited to, system malfunctions or disruptions, volume and volatility for the security, derivative securities products that correspond to greater than 100% in the direction of a tracking index, news released for the security, whether trading in the security was recently halted/resumed, whether the security is an IPO, whether the security was subject to a stock-split, reorganization, or other corporate action, overall market conditions, Opening and Late Session executions, validity of the consolidated tapes trades and quotes, consideration of primary market indications, and executions inconsistent with the trading pattern in the stock. Each additional factor shall be considered with a view toward maintaining a fair and orderly market, the protection of investors and the public interest.

Numerical Guidelines Applicable to Volatile Market Opens

The Exchange proposes to give the Exchange the ability to expand the Numerical Guidelines applicable to transactions occurring between 9:30 a.m. and 10:00 a.m. (Eastern Time)⁸ based on the disseminated value of the S & P 500 Futures at 9:15 a.m. When the S & P Futures are up or down from 3% but less than 5% at 9:15 a.m., the Numerical Guidelines are doubled. When the S & P Futures are up or down 5% or more at 9:15 a.m., the Numerical Guidelines are tripled. The Exchange believes that the S&P 500 futures contract is an appropriate and reliable barometer of market activity prior to the market opening due to its broad based market coverage and deep liquidity. Using the S&P 500 Futures disseminated value at 9:15 a.m. as the barometer of market activity, the Exchange is providing a transparent means of offering adjusted guidelines in times of volatile market activity.

Outlier Transactions

The proposed amendments to NSX Rule 11.19 provide that an Officer may consider requests for review received after thirty minutes, but not longer than sixty minutes after the execution in question in the case of an Outlier Transaction. An Outlier Transaction is a transaction where, (1) the execution price of the security is greater than three times the current Numerical Guidelines or (2) the execution price of the security breaches the 52-week high or low, in which case the Exchange may consider Additional Factors to determine if the transaction qualifies for review or if the Corporation shall decline to act.

⁸ All times referenced are Eastern Time (“ET”).

Review Procedures

Initial Determination

The Exchange proposes removing language that currently allows an Officer to modify one or more of the terms of a transaction under review. Under the proposed rule, the Officer will only have the authority to break the trades or rule to let the trades stand. This change attempts to remove the subjectivity from the rule that is necessitated by an adjustment.

The Exchange also proposes adding language stating that a determination shall be made generally within 30 minutes of receipt of the complaint, but in no case later than the start of Core Trading on the following trading day. Rulings made outside of 30 minutes by an Officer will not fail for lack of timeliness. The guideline simply provides participants an appropriate expectation that a ruling will generally be made within 30 minutes, and in no case later than the start of Regular Trading Hours on the following trading day.

Appeals

The Exchange proposes to amend the appeals procedure for trades that are deemed to be clearly erroneous. First, the Exchange will no longer accept appeal requests via facsimile. Similar to the proposed language for an initial request for a ruling, all appeal requests must be made via email.

The current rule provides that the Exchange shall review and render a decision upon an appeal within a timeframe provided by the Exchange. The proposed rule offers more definite guidelines to ensure the expedient resolution of appeals. It requires the Exchange to review appeals as soon as practicable, but generally on the same day as the executions under review. Appeals received between 3:00 ET and the closing of business on the Exchange should be made as soon as practicable, but in no case later than the trading day following the date of the

execution under review. Appeals will not fail for lack of timeliness. This revised provision provides participants a reasonable expectation of when a ruling on appeal will generally be made.

Further, the proposed rule declares that any determination made by an Officer or by the CEE Panel shall be rendered without prejudice as to the right of the parties to the transaction to submit their dispute to arbitration. This provision simply clarifies the fact that nothing in the proposed rule limits or impedes the rights of the parties to arbitrate their dispute.

Notwithstanding anything to the contrary in Chapter X (Adverse Action) of the NSX Rules, the proposed rule provides that all determinations by the CEE Panel shall constitute final action by the Exchange on the matter at issue.

System Disruption and Malfunctions

Currently, within the System Disruptions and Malfunctions section of the rule, after an officer of the Exchange or such other senior level employee designee (“Senior Officer”) determines that a trade was clearly erroneous he may declare the transaction null and void or modify the trade to attempt to achieve an equitable rectification of the error. The proposed Rule eliminates the Exchange’s ability to modify a clearly erroneous execution. The Exchange must either uphold or nullify the execution based upon the findings of the Senior Officer reviewing the execution.

The proposed Rule provides that, in the event of a disruption or a malfunction, a Senior Officer will rely on the proposed numerical guidelines in determining whether an execution is clearly erroneous. However, the Senior Officer may also use a lower Numerical Guideline if necessary to maintain a fair and orderly market, protect investors, and protect the public interest. The proposed rule also adds that actions taken under these circumstances must be taken within

30 minutes of detection of the erroneous transaction in the ordinary case, and by no later than the start of the Core Trading Session on the day following the date of the execution under review when extraordinary circumstances exist.

Officers Acting on Their Own Motion

The Exchange proposes to add a section to the Rule that will grant Senior Officers the ability to act on their own motion to review potentially erroneous executions. Under the current rule, Senior Officers have the ability to act upon their own motion only in the event of a system disruption or malfunction. The proposed rule would allow a Senior Officer to review executions and rely on the Numerical Guidelines, under any circumstance. In extraordinary circumstances a Senior Officer may apply a lower Numerical Guideline if it is determined that such action is necessary to maintain a fair and orderly market or protect investors and the public interest. In some instances the Exchange may detect a single execution that breaches the Numerical Guidelines but is not the subject of a ruling request. This provision gives the Exchange the ability to review such executions. Additionally, in practice, clearly erroneous executions commonly involve multiple parties and multiple executions. In such instances, all affected parties may not request a ruling. The Exchange proposes this provision to permit a Senior Officer to rule on a group of transactions related to the same occurrence or event as a whole, without a formal request for a ruling from every affected party.

Trade Nullification for UTP Securities that are Subject of Initial Public Offerings

The proposed rule also modifies NSX's policy on trade nullification and for UTP securities that are subject to initial public offerings. Under the proposed rule, Senior Officers must either declare an opening transaction null and void or decline to take action, but can no longer be adjusted. Furthermore, the proposed rule requires that, in extraordinary circumstances,

the reviewing Senior Officer may take action by no later than the start of Core Trading on the day following the date of the execution under review.

Effective Date

The Exchange requests that the effective date for the instant rule change be October 5, 2009.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6(b) of the Act,⁹ in general, and furthers the objectives of Section 6(b)(5)¹⁰ 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 provides transparency and finality for participants and creates consistent results across U.S. equities exchanges with respect to clearly erroneous executions. This proposed change further promotes the maintenance of a fair and orderly market, the protection of investors and the protection of the public interest.

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.

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(4).

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

Because the foregoing 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, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹¹ and Rule 19b-4(f)(6) thereunder.¹²

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act¹³ normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)¹⁴ permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the 30-day operative delay so that it may implement the new rule on October 5, 2009, the same date as the other equities exchanges. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because it will allow the Exchange to begin applying the new rule on the same date as the other equities

¹¹ 15 U.S.C. 78s(b)(3)(A).

¹² 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file 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.

¹³ 17 CFR 240.19b-4(f)(6).

¹⁴ 17 CFR 240.19b-4(f)(6).

exchanges.¹⁵ Application of the new rule on this date should help foster transparency and consistency among those exchanges that adopt clearly erroneous execution rules substantially similar to those previously approved by the Commission.¹⁶ For these reasons, the Commission designates that the proposed rule change become operative on October 5, 2009.

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate 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-2009-05 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-2009-05. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your

¹⁵ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹⁶ See Securities Exchange Act Release No. 60706 (September 22, 2009), 74 FR 49416 (September 28, 2009) (NYSEArca-2009-36).

comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<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 inspection and copying 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 publicly available. All submissions should refer to File Number SR-NSX-2009-05 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.¹⁷

Florence E. Harmon
Deputy Secretary

¹⁷ 17 CFR 200.30-3(a)(12).