

CORRECTED TO CONFORM TO FEDERAL REGISTER VERSION

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-67686; File Nos. SR-NYSE-2012-19; SR-NYSEMKT-2012-13)

August 17, 2012

Self-Regulatory Organizations; New York Stock Exchange LLC; NYSE MKT LLC; Order Granting Approval to Proposed Rule Changes, as Modified by Amendment No. 1, (1) Amending NYSE Rule 13 and NYSE MKT Rule 13 – Equities to Establish New Order Types, (2) Amending NYSE Rule 115A and NYSE MKT Rule 115A-Equities to Delete Obsolete Text and to Clarify and Update the Description of The Allocation of Market and Limit Interest in Opening and Reopening Transactions, (3) Amending NYSE Rule 123C and NYSE MKT Rule 123C – Equities to Include Better-Priced G Orders in The Allocation of Orders in Closing Transactions, and (4) Making Other Technical and Conforming Changes

I. Introduction

On June 15, 2012, New York Stock Exchange LLC (“NYSE”) and NYSE MKT LLC (“NYSE MKT” and together with NYSE, the “Exchanges”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² proposed rule changes to (1) amend NYSE Rule 13 and NYSE MKT Rule 13 – Equities (hereinafter referred to collectively as “Rule 13”) to establish new order types, (2) amend NYSE Rule 115A and NYSE MKT Rule 115A – Equities (hereinafter referred to collectively as “Rule 115A”) to delete obsolete text and to clarify and update the description of the allocation of market and limit interest in opening and reopening transactions, (3) amend NYSE Rule 123C and NYSE MKT Rule 123C – Equities (hereinafter referred to collectively as “Rule 123C”) to include better-priced G orders in the allocation of orders in closing transactions, and (4) make other technical and conforming changes. On June 27, 2012, the Exchanges filed Amendment No. 1 to their proposals. The proposed rule changes, as modified by Amendment No. 1, were published for comment in the Federal Register on July

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

6, 2012.³ The Commission received no comments on the proposals. This order approves the proposed rule changes as modified by Amendment No. 1.

II. Description of the Proposals

The Exchanges propose to (1) amend Rule 13 to establish new order types, (2) amend Rule 115A to delete obsolete text and to clarify and update the description of the allocation of market and limit interest in opening and reopening transactions, (3) amend Rule 123C to include better-priced G orders in the allocation of orders in closing transactions, and (4) make other technical and conforming changes.

Amendments to Order Type Definitions Under Rule 13

The Exchanges propose deleting and replacing two types of opening orders currently defined in Rule 13 to stop opening orders from executing when a security opens on a quote or routing to an away market.

The orders the Exchanges propose to delete are “At the Opening or At the Opening Only” orders. These order types currently are defined in Rule 13 as market or limit orders which are to be executed on the opening trade of the stock on one of the Exchanges, or if one of the Exchanges opens the stock on a quote, the opening trade in the stock on another market center to which such order or part thereof has been routed in compliance with Regulation NMS. Under the current definition, any such order or portion thereof not so executed is to be treated as cancelled. Furthermore, all or part of such orders that seek the possibility of an NYSE- or NYSE MKT-only opening execution, and that are marked as a Regulation NMS-compliant Immediate or Cancel (“IOC”) order, are immediately and automatically cancelled if they are not executed

³ See Securities Exchange Act Release Nos. 67317 (June 29, 2012), 77 FR 40133 (SR-NYSE-2012-19) and 67318 (June 29, 2012), 77 FR 40129 (SR-NYSEMKT-2012-13) (hereinafter referred to collectively as “Notices”).

on the opening trade of the stock on one of the Exchanges or if compliance with Regulation NMS would require all or part of such order to be routed to another market center.

The Exchanges propose to replace “At the Opening or At the Opening Only” orders with two new order types: Market “On-the-Open” (“MOO”) and Limit “On-the-Open” (“LOO”) orders. A MOO order would be defined as a market order in a security that is to be executed in its entirety on the opening or reopening trade of the security on the Exchange; it would be immediately and automatically cancelled if the security opened on a quote or not executed due to tick restrictions. A LOO order would be defined as a limit order in a security that is to be executed on the opening or reopening trade of the security on the Exchange. A LOO order, or a part thereof, would immediately and automatically cancel if by its terms it were not marketable at the opening price, if it were not executed on the opening trade of the security on the Exchange, or if the security opened on a quote. Both MOO and LOO orders could be entered before the open to participate on the opening trade or during a trading halt or pause to participate on a reopening trade.

The Exchanges also propose to add new order type to IOC Orders in Rule 13, the “Immediate or Cancel Minimum Trade Size” order (“IOC MTS order”). As proposed, any IOC order, including an intermarket sweep order, may include a minimum trade size (“MTS”) instruction.⁴ For each incoming IOC-MTS order, Exchange systems will evaluate whether contra-side displayable and non-displayable interest on Exchange systems can meet the MTS instruction and will reject such incoming IOC-MTS order if Exchange contra-side volume cannot satisfy the MTS instruction. An IOC MTS order could result in an execution in an away market.

⁴ A minimum trade size instruction currently is available to Floor brokers for d-quotes under NYSE Rule 70.25(d) and NYSE MKT Rule 70.25(d) – Equities.

The Exchanges would reject any IOC-MTS orders if the security is not open for trading or when auto-execution is suspended.

In conjunction with the substantive amendments described above, the Exchanges propose to make technical and conforming changes to the Immediate or Cancel order definition in Rule 13. The Exchanges would make conforming changes throughout the definition to provide that only an IOC order without an MTS instruction could be entered before the Exchange opening for participation in the opening trade or when auto execution is suspended, which includes during a trading pause or halt. In addition, NYSE proposes to delete existing paragraph (e) from its Immediate or Cancel order definition because the paragraph's references to commitments to trade received on the Floor through the Intermarket Trading System are no longer relevant, as the Intermarket Trading System was decommissioned in 2007.

Lastly, the Exchanges propose to delete several obsolete provisions of Rule 13. They propose to delete the definition of Time Order because this order typically related to a Floor broker order that historically would have been held by the specialist on behalf of the Floor broker and converted to a market or limit order at a specified time. The Exchange notes that this order can no longer be used by Floor brokers. Also, NYSE proposes to delete the definition of Auction Market Order⁵ because this order type was never implemented, and to amend the definition of Auto Ex Order to remove a reference to the Automated Bond System, which is no longer operational.

⁵ See Securities Exchange Act Release No. 53539 (March 22, 2006), 71 FR 16353 (March 31, 2006) (SR-NYSE-2004-05) (Order Approving Proposed Rule Change to Establish a Hybrid Market) (describing the addition of the proposed Auction Market Order type).

Rule 115A – Opening Allocation

The Exchanges propose to amend Rule 115A, which addresses orders at the opening or in unusual situations. In its existing form, the Rule has no main text but has Supplementary Material .10, which addresses queries to the Display Book before an opening; Supplementary Material .20, which addresses the arranging of an opening or price by a Designated Market Maker (“DMM”); and Supplementary Material .30, which addresses certain functions of Exchange systems with respect to orders at the opening.

The Exchanges propose to re-designate what is now Supplementary Material .10 as paragraph (a) as the main text of Rule 115A. The Exchanges further propose to add new paragraph (b) to Rule 115A to address the process of arranging a price and the allocation of orders on opening and reopening trades. Proposed Rule 115A(b) would provide that when arranging an opening or reopening price, except as provided for in proposed Rule 115A(b)(2), which concerns opening a security on a quote and is described below, market interest⁶ would be guaranteed to participate in the opening or reopening transaction and have precedence over (i) limit interest⁷ that is priced equal to the opening or reopening price of a security and (ii) DMM interest.⁸ In addition, G orders that are priced equal to the opening or reopening price of a

⁶ For purposes of the opening or reopening transaction, market interest would include (i) market and MOO orders, (ii) tick-sensitive market and MOO orders to buy (sell) that are priced higher (lower) than the opening or reopening price, (iii) limit interest to buy (sell) that is priced higher (lower) than the opening or reopening price, and (iv) Floor broker interest entered manually by the DMM. See proposed Rule 115A(b)(1)(A).

⁷ For purposes of the opening or reopening transaction, limit interest would include (i) limited-priced interest, including e-Quotes, LOO orders, and G orders; and (ii) tick-sensitive market and MOO orders that are priced equal to the opening or reopening price of a security. See proposed Rule 115A(b)(1)(B).

⁸ Limit interest that is priced equal to the opening or reopening price of a security and DMM interest would not be guaranteed to participate in the opening or reopening transaction. See proposed Rule 115A(b)(1)(C).

security would yield to all other limit interest priced equal to the opening or reopening price of a security except DMM interest.

Proposed Rule 115A(b)(2) would clarify the circumstances surrounding when a security could open on a quote. As proposed, Rule 115A(b)(2) would provide that if the aggregate quantity of MOO and market orders on at least one side of the market equals one round lot or more, the security must open on a trade. If the aggregate quantity of MOO and market orders on each side of the market equals less than one round lot or is zero, the security could open on a quote. If a security opens on a quote, odd-lot market orders would automatically execute in a trade immediately following the open on a quote and odd-lot MOOs would immediately and automatically cancel. MOO and market orders subject to tick restrictions that either cannot participate at an opening or reopening price or are priced equal to the opening or reopening price would not be included in the aggregate quantity of MOO and market orders.

Finally, the Exchanges propose to delete Supplementary Material .20 and .30. The Exchanges state that much of the content of these provisions has been obsolete since the second phase of the New Market Model was launched in 2008.⁹ For instance, the Exchanges note that some of the language in these provisions relates to DMMs holding orders, but DMMs no longer hold orders. Similarly, the Exchanges note that some of the language in Supplementary Material .30 describes systems of the Exchanges that are either outdated or otherwise covered by Rule 15, which deals with Pre-Opening Indications.

The Exchanges point out that to the extent certain concepts in Supplementary Material .20 are still relevant or applicable, they are incorporated into proposed new paragraph 115A(b),

⁹ See Securities Exchange Act Release Nos. 58845 (Oct. 24, 2008), 73 FR 73683 (Oct. 29, 2008) (SR-NYSE-2008-46); 59022 (Nov. 26, 2008), 73 FR 73683 (Dec. 3, 2008) (SR-NYSEALTR-2008-10).

described above. For instance, current paragraphs 2(a), (b), and (c) of Supplementary Material .20 address the allocation and precedence of certain orders in openings and reopenings.

Paragraph 2(a) provides that a limited price order to buy (sell) that is at a higher (lower) price than the security is to be opened or reopened is treated as a market order, and market orders have precedence over limited orders. Substantially similar language appears in proposed paragraph 115A(b)(1)(A)(iii). Paragraph 2(b) provides that when the price on a limited price order is the same as the price at which the stock is to be opened or reopened, it may not be possible to execute a limited price order at such price, and substantially similar language appears in proposed paragraph 115A(b)(1)(C). Paragraph 2(c) requires a DMM to see that each market order the DMM holds participates in the opening transaction, and if the order is for an amount larger than one round lot, the size of the bid that is accepted or the offer that is taken establishing the opening or reopening price is the amount that a market order is entitled to participate in at the opening or reopening. This concept is contained in proposed paragraph 115A(b).

Rule 123C – Closing Allocation and “G orders”

The Exchanges propose to amend Rules 13 and 123C as those rules relate to G orders. First, the Exchanges propose to add the phrase “G orders” as a formal definitional term to an existing order type found in Rule 13. Paragraph (g) of the Auto Ex Order definition in Rule 13 currently describes “an order entered pursuant to Subsection (G) of Section 11(a)(1) of the Securities Exchange Act of 1934.” The Exchanges explain in their Notices that this definition is meant to include proprietary orders of members of the Exchanges when those orders are executed by one of the members’ floor brokers.¹⁰ While the Auto Ex order type described in

¹⁰ In a previous filing, NYSE MKT’s predecessor described G orders as “orders for an Exchange member’s own account where the member meets a business mix test that requires it to be primarily engaged in the business of underwriting and distributing

paragraph (g) was commonly referred to by the Exchanges as a “G order” and referred to as such elsewhere in the Exchanges’ rules, it was not officially defined as such in the Exchanges’ order type rules. The Exchanges now propose to add to the end of paragraph (g) of the Auto Ex Order definition a parenthetical phrase noting that such orders will be officially defined as “G orders.”

The Exchanges also propose to amend Rule 123C to include better-priced G orders in the list of orders that must be allocated in whole or part in closing transactions. Currently, Rule 123C(7)(a) sets forth six order types that must be included in the closing transaction in the following order: (1) MOC orders that do not have tick restrictions, (2) MOC orders that have tick restrictions that limit the execution of the MOC to a price better than the price of the closing transaction, (3) Floor broker interest entered manually by the DMM, (4) limit orders better priced than the closing price, (5) LOC orders that do not have tick restrictions better priced than the closing transaction, and (6) LOC orders better priced than the closing transaction that have tick restrictions that are capable of being executed based on the closing price (“must execute” list). Once all of the “must execute” interest listed in Rule 123C(7)(a) has been satisfied, Rule 123C(7)(b) provides that the following interest may be used to offset a closing imbalance in the following order: (1) limit orders represented in the Display Book with a price equal to the closing price, (2) LOC orders with a price equal to the closing price, (3) MOC orders that have tick restrictions that limit the execution of the MOC to the price of the closing transaction, (4) LOC orders that have tick restrictions that are capable of being executed based on the closing price and the price of such limit order is equal to the price of the closing transaction, (5) G orders, and (6) Closing Only orders (“may execute” list).

securities, selling securities to customers, and/or acting as a broker and provided more than 50% of its gross revenues is derived from such businesses and related activities.”

See Securities Exchange Act Release No. 63972 (Feb. 25, 2011), 76 FR 12202 (Mar. 4, 2011) (SR-NYSEAMEX-2011-09).

The Exchanges propose to amend Rule 123C(7)(a) to add G orders that are priced better than the closing price as the last type of order that must be included in the closing transaction. In conjunction with this change, the Exchanges also propose to make a conforming change to the reference to G orders in paragraph 5 of Rule 123(C)(7)(b) (the “may execute” list of interest). Under the proposals, language would be added to paragraph 5 of Rule 123(C)(7)(b) to make clear that the G orders included in the “may execute” list of interest are those G orders with a price equal to the closing price—to be distinguished from the G orders priced better than the closing price that are being added to the list of “must execute” interest in 123(C)(7)(a).

Finally, the Exchanges propose one more change to the “may execute” list of interest. The Exchanges propose to amend Rule 123C(7)(b)(i) to add that DMM interest, as well as limit orders represented in the Display Book with a price equal to the closing price, are the first types of interest that may be used to offset a closing imbalance. According to the Exchanges, this is intended to be a clarifying change because they have noted before in prior rule filings that DMM interest would be treated in such a manner.¹¹

III. Discussion and Commission’s Findings

After carefully considering the proposed rule changes, as modified by Amendment No.1, the Commission finds that they are consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.¹² In particular, the

¹¹ See, e.g., Securities Exchange Act Release No. 60974 (Nov. 9, 2009) 74 FR 59299 (Nov. 17, 2009) (SR-NYSE-2009-111) (“After the ‘must execute interest’ is satisfied, then any limit orders represented in Display Book at the closing price may be used to offset the remaining imbalance. It should be noted that DMM interest, including better-priced DMM interest entered into the Display Book prior to the closing transaction, eligible to participate in the closing transaction is always included in the hierarchy of execution as if it were interest equal to the price of the closing transaction.”).

¹² In approving the proposal, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

Commission finds that the proposals are consistent with Section 6(b) of the Act.¹³ Specifically, the Commission believes that the proposed rule changes do not impose any burden on competition not necessary or appropriate in furtherance of the Act and are designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, and, in general, to protect investors and the public interest.¹⁴

The Exchanges' proposals to delete "At the Opening or At the Opening Only" orders, and to replace them with MOO and LOO orders, are intended to make clear that such opening orders will not execute when a security opens on a quote, and that they will not be routed to away markets. The Commission finds that the proposed MOO and LOO order type definitions are clear and transparent as to when such orders will be immediately and automatically cancelled; in the case of a MOO order, if the security opens on a quote or if it is not executed due to tick restrictions, and in the case of a LOO order, if it is not marketable at the opening price, it is not executed on the opening trade of a security, or if the security opens on a quote. The Commission notes that the MOO and LOO order types proposed by the Exchanges are variations of Market "At-The-Close" ("MOC") and Limit "At-The-Close" ("LOC") orders already offered by the Exchanges.¹⁵ In addition, the proposed MOO and LOO order types are similar in concept and terminology to orders offered by other exchanges.¹⁶

The Commission finds that the other proposed amendments to Rule 13 are also consistent with the requirements of the Act. The Exchanges' proposed new IOC MTS order type will offer market participants added functionality and additional trading opportunities similar to what is

¹³ 15 U.S.C. 78(f)(b).

¹⁴ 15 U.S.C. 78(f)(b)(5).

¹⁵ See Rule 13.

¹⁶ See, e.g., NYSE Arca Equities Rule 7.31(t)(1) and (2); NASDAQ Rule 4752(a)(3) and (4); and BATS Exchange Rule 11.23(a)(14) and (16).

offered in other trading venues.¹⁷ The Exchanges' proposed non-substantive and technical conforming changes are consistent with the requirements of the Act because they clarify the rule text for ease of reference and delete obsolete language.

In addition, the Commission finds that the Exchanges' proposed revision of Rule 115A is consistent with the requirements of the Act. The proposals would specify how market interest would participate in the opening or reopening transaction and how market interest would have precedence over limit interest priced equal to the opening price or reopening price of a security and DMM interest. The Commission believes that the proposal should ensure that market interest, except as provided in Rule 115A(b)(2), would be guaranteed to participate in openings or reopenings.

The Commission also finds that the proposals would delete duplicative and obsolete language in Rule 115A, which should bring clarity to the Exchanges' rules. Similarly, the Commission finds that amending Rule 123C(7)(b)(i) to expressly provide for the treatment of DMM interest in offsetting a closing imbalance will add transparency and clarity to the Exchange's rules, thereby promoting just and equitable principles of trade.

Lastly, the Commission believes that the Exchanges' proposed changes to Rule 123C are consistent with the requirements of the Act, and in particular Section 11(a) of the Act. Section 11(a)(1) of the Act prohibits a member of a national securities exchange from effecting transactions on that exchange for its own account, the account of an associated person, or any account over which it or an associated person exercises discretion, unless an exception applies. Subsection (G) of Section 11(a)(1) provides an exemption from the general prohibition set forth in Section 11(a)(1) for any transaction for a member's own account, provided that: (i) such

¹⁷ See, e.g., Nasdaq Stock Market Rule 4751(e)(5) (defining "Minimum Quantity Orders").

member is primarily engaged in certain underwriting, distribution, and other activities; and (ii) the transaction is effected in compliance with the rules of the Commission, which, at a minimum, assure that the transaction is not inconsistent with the maintenance of fair and orderly markets and yields priority, parity and precedence in execution to orders for the account of persons who are not members or associated with members of the exchange.¹⁸ In addition, Rule 11a1-1(T) under the Act specifies that a transaction effected on a national securities exchange for the account of a member which meets the requirements of Section 11(a)(1)(G)(i) of the Act is deemed, in accordance with the requirements of Section 11(a)(1)(G)(ii), to be not inconsistent with the maintenance of fair and orderly markets and to yield priority, parity, and precedence in execution to orders for the account of non-members or persons associated with non-members of the exchange, if such transaction is effected in compliance with certain requirements.¹⁹

Under the proposals, the Exchanges would add G orders priced better than the closing price to the list of “must execute” interest to be allocated in whole or part at the close. Only G

¹⁸ See 15 U.S.C. 78k(a)(1)(G).

¹⁹ Rule 11a1-1(T)(a)(1)-(3) provides that each of the following requirements must be met: (1) A member must disclose that a bid or offer for its account is for its account to any member with whom such bid or offer is placed or to whom it is communicated, and any member through whom that bid or offer is communicated must disclose to others participating in effecting the order that it is for the account of a member; (2) immediately before executing the order, a member (other than the specialist in such security) presenting any order for the account of a member on the exchange must clearly announce or otherwise indicate to the specialist and to other members then present for the trading in such security on the exchange that he is presenting an order for the account of a member; and (3) notwithstanding rules of priority, parity, and precedence otherwise applicable, any member presenting for execution a bid or offer for its own account or for the account of another member must grant priority to any bid or offer at the same price for the account of a person who is not, or is not associated with, a member, irrespective of the size of any such bid or offer or the time when entered. See 17 CFR 240.11a1-1(T)(a)(1)-(3).

orders priced better than the closing price would be eligible to execute as part of the “must execute” interest, and then only after execution of all other “must execute” interest.²⁰

The Commission believes that it is consistent with the requirements of the Act for G orders priced better than the closing price to execute before “may execute” interest priced equal to the closing price. Such G orders could offer contra-side interest a chance at price improvement if executed prior to the close. Further, because the rules will require G orders priced better than the closing price to yield to all other eligible orders priced better than the closing price, the Commission believes that the proposal, with respect to such priority, is consistent with Section 11(a)(1)(G) of the Act²¹ and Rule 11a1-1(T)(a)(3) thereunder.²²

²⁰ In its proposal, the Exchanges note that Section 11(a)(1)(G) of the Act does not require better-priced G orders to yield. See Notices, 77 FR at 40135 and 40131. See also 17 CFR 240.11a1-1(T)(a)(3), which requires that a “member presenting for execution a bid or offer for its own account or for the account of another member shall grant priority to any bid or offer at the same price for the account of a person who is not, or is not associated with, a member irrespective of the size of any such bid or offer or the time when entered.” The priority of G orders with a price equal to the closing price in relation to other “may execute” interest will remain unchanged under the proposal.

²¹ 15 U.S.C. 78k(a)(1)(G).

²² 17 CFR 240.11a1-1(T). The Commission notes that this exemption is available only for orders for the account of Exchange members. The Commission also reminds the Exchanges and their members that, in addition to yielding priority to non-member orders at the same price, members submitting “G orders” must also meet the other requirements under section 11(a)(1)(G) and Rule 11a1-1(T) to effect transactions for their own accounts in reliance on this exception (or satisfy the requirements of another exception).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,²³ that the proposed rule changes (SR-NYSE-2012-19 and SR-NYSEMKT-2012-13), as modified by Amendment No. 1, be, and hereby are, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁴

Elizabeth M. Murphy
Secretary

²³ 15 U.S.C. 78s(b)(2).

²⁴ 17 CFR 200.30-3(a)(12).