

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-60706; File No. SR-NYSEArca-2009-36)

September 22, 2009

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1 Thereto, Relating to NYSE Arca Equities Rule 7.10 Governing Clearly Erroneous Executions

I. Introduction

On April 27, 2009, NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”) 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 a proposed rule change to amend NYSE Arca Equities Rule 7.10 governing clearly erroneous executions. The proposed rule change was published for comment in the Federal Register on May 5, 2009.³ On September 21, 2009, the Exchange submitted Amendment No. 1 to the proposed rule change.⁴ The Commission received no comment letters on the proposal. This order provides notice of filing of Amendment No. 1 to the proposed rule change and grants accelerated approval to the proposed rule change, as modified by Amendment No. 1.

II. Description of the Proposal

The Exchange proposes to amend NYSE Arca Rule 7.10 in order to improve the Exchange’s rule regarding clearly erroneous executions. The proposed changes are part of a

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 59838 (April 28, 2009), 74 FR 20767 (the “Notice”).

⁴ In Amendment No. 1, the Exchange specifies an effective date of October 5, 2009 for the proposed rule change, if the proposed rule change is approved by the Commission, and makes certain other changes as described in Section V, infra. The text of Amendment No. 1 is available on the Exchange’s Web site at www.nyse.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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. A summary of the most significant proposed changes are discussed below. A more detailed description of the proposed changes may be found in the Notice.

A. ETP Holder Initiated Review Requests

1. Requests for Review

The Exchange proposes that requests for review must be received by the Exchange by electronic mail (“email”), or other electronic means specified from time to time by the Exchange, within 30 minutes of the execution time for orders initially routed to and executed on the Exchange.⁵ However, requests for review relating to orders routed from another market center to NYSE Arca will have an additional 30 minutes.⁶ These requests for review must contain certain essential identifying information, 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 proposed rule requires the Exchange to notify the counterparty to a trade only upon receipt of a timely filed request for review that satisfies the numerical guidelines set forth within the Rule. The Exchange also proposes to allow an Officer of the Corporation or such other

⁵ 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.

⁶ Specifically, if an order is initially routed by a participant to Market Center A and subsequently routed to NYSE Arca, the proposed rule will generally require 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 proposed rule caps the filing deadline for an away market center at 60 minutes from the time of the execution at issue.

senior level employee designee (“Officer”) of NYSE Arca 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.

2. Threshold Factors and Numerical Guidelines

Currently, the Exchange does not identify specific numeric guidelines for determining what constitutes a clearly erroneous transaction, but instead provides that “an Officer of the Corporation will review the transaction 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.”⁷ The Exchange proposes adding certain numerical thresholds to the Rule that explicitly state what constitutes a clearly erroneous execution.

Specifically, the proposed numerical guidelines state that a transaction executed during the Core, Opening, or Late Trading Session may be found to be clearly erroneous only if the price of the transaction is greater (for a buy) or less (for a sale) than a reference price (the “Reference Price”) by an amount that equals or exceeds the numerical guidelines for a particular transaction category. The Reference Price will be equal to the Consolidated Last Sale immediately prior to the execution under review, unless unusual circumstances are present. The proposed guidelines for sales greater than \$0.00 up to and including \$25.00 will be 10% for the Core Trading Session and 20% for the Opening and Late Trading Sessions. The proposed guidelines for sales greater than \$25.00 up to an including \$50.00 will be 5% for the Core Trading Session and 10% for Opening and Late Trading Sessions. The proposed guidelines for sales greater than \$50.00 will be 3% for the Core Trading Session and 6% for Opening and Late Trading Sessions. A filing involving five or more securities by the same ETP Holder will be

⁷ See NYSE Arca Rule 7.10(b).

aggregated into a single filing called a “Multi-Stock Event.” In the case of a Multi-Stock Event, the proposed guidelines will be 10% for both the Core Trading Session and the Opening and Late Trading Sessions. In the case of Leveraged ETF/ETN securities, the above guidelines will 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 the proposed rule.

3. Unusual Circumstances

NYSE Arca 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 will include the consolidated inside price, the consolidated opening price, the consolidated prior close, or the consolidated last sale prior to a series of executions.

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 at which it would have normally been broken.

4. Joint Market Rulings

In the interest of achieving consistency across markets, the Exchange proposes that, in events that involve other markets, the Exchange will have the ability to use a different Reference Price and/or Numerical Guideline than those specifically outlined in the proposed rule in an effort to coordinate a Reference Price and/or a Numerical Guideline that is consistent across the Exchanges on which 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.

5. Additional Factors

The proposed rule change enumerates some additional factors that an Officer 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 initial public offering, 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 will be considered with a view toward maintaining a fair and orderly market, and the protection of investors and the public interest.

6. Numerical Guidelines Applicable to Volatile Market Opens

Under the proposed rule change, the Exchange will have the ability to expand the Numerical Guidelines applicable to transactions occurring between 9:30 a.m. and 10:00 a.m. 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 3% to up to but not including 5% at 9:15 a.m., the Numerical Guidelines will be doubled. When the S&P Futures are up or down 5% or greater at 9:15 a.m., the Numerical Guidelines will be tripled.

B. Outlier Transactions

The proposed rule change permits an Officer to consider requests for review received after 30 minutes, but not longer than 60 minutes after the execution in question in the case of an Outlier Transaction. An Outlier Transaction will be 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 will decline to act.

C. Review Procedures

Under the proposed rule, an Officer will only have the authority to break trades or rule to let trades stand. An Officer will no longer be able to modify the terms of an individual transaction.

The Exchange also proposes that an initial determination must 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 in order to provide a time frame in which ruling may be expected.

The Exchange proposes that all appeal requests must be submitted via email. The Exchange also proposes more definite guidelines to ensure the expedient resolution of appeals by requiring 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 close of trading in the Late Trading Session will be made as soon as practicable, but in no case later than the trading day following the date of the execution under review.

D. System Disruption and Malfunctions

The proposed rule provides that, in the event of a disruption or a malfunction, an Officer will rely on the proposed numerical guidelines in determining whether an execution is clearly erroneous. However, the 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 states 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.

In addition, under the proposed rule, an Officer will only have the authority to break trades or rule to let trades stand. An Officer will no longer be able to modify the terms of an individual transaction.

E. Officers Acting on Their Own Motion

The Exchange proposes to grant Officers the ability to act on their own motion to review potentially erroneous executions. Under the current rule, Officers have the ability to act upon their own motion only in the event of a system disruption or malfunction. The proposed rule will allow an Officer to review executions and rely on the Numerical Guidelines with respect to any potentially erroneous executions. In extraordinary circumstances an Officer may apply a lower Numerical Guideline if such action is necessary to maintain a fair and orderly market or protect investors and the public interest.

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

The proposed rule also modifies NYSE Arca's policy on trade nullification and for UTP securities that are subject to initial public offerings. Under the proposed rule, Officers must

either declare an opening transaction null and void or decline to take action. An opening transaction can no longer be adjusted. Furthermore, the proposed rule requires that, in extraordinary circumstances, the reviewing Officer must take action by no later than the start of Core Trading on the day following the date of the execution under review.

III. Discussion and Commission Findings

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.⁸ In particular, it is consistent with Section 6(b)(5) of the Act,⁹ which requires, among other things, that the rules of a national securities exchange be designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest, and not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Commission considers that, under ordinary circumstances, trades that are executed between parties should be honored. On rare occasions, the price of the executed trade indicates that an obvious error may exist, suggesting that it is unrealistic to expect that the parties to the trade had come to a meeting of the minds regarding the terms of the transaction and therefore that a clearly erroneous transaction may have taken place. In the Commission's view, the determination of whether a clearly erroneous trade has occurred should be based on specific and objective criteria and subject to specific and objective procedures.

⁸ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

⁹ 15 U.S.C. 78f(b)(5).

The Commission believes that the proposed rule change sets forth a specific methodology for reviewing potentially erroneous trades and should increase transparency and certainty for participants for transactions executed on NYSE Arca with respect to such trades. Specifically, the proposed rule change sets forth a specified procedure and imposes a timeframe for requesting reviews of potentially clearly erroneous transactions and for appealing clearly erroneous determinations. The proposed rule change also sets forth timeframes for NYSE Arca to make a ruling and to consider an appeal relating to trades that are claimed to be clearly erroneous. In addition, the Commission notes that the establishment of Numerical Guidelines, below which NYSE Arca will not break trades, sets forth a more specific and objective methodology that should provide greater certainty to market participants who are parties to trades that are claimed to be clearly erroneous. The Commission notes that the guidance for Unusual Circumstances provides the Exchange needed flexibility to respond to market conditions and to help facilitate the fair and orderly operation of the markets and protection of investors and the public interest. Further, the Commission believes that the use of enumerated Additional Factors provides the Officers with more transparent standards and procedures when they are called upon to determine whether a transaction that exceeds the Numerical Guidelines is clearly erroneous.

The Commission notes that the joint ruling provision allowing the Exchange to use a different Reference Price and/or Numerical Guideline, determined based on a consensus among the relevant exchanges, is designed to increase the likelihood that that clearly erroneous execution rules will be consistently applied across markets, while also helping to facilitate the fair and orderly operation of the markets and protection of investors and the public interest.

The proposed rule change provides that Officers of NYSE Arca acting on their own motion in the event of a system disruption or malfunction must rely on the Numerical

Guidelines. In addition, the proposed rule change expands the ability of such Officers to act on their own motion, subject to the Numerical Guidelines, to any circumstance in which nullification of the transaction may be necessary for the maintenance of a fair and orderly market or the protection of investors and the public interest. In addition, the rule allows, in extraordinary circumstances, an Officer to 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. The Commission believes that these proposed changes set forth more specific and objective standards and procedures than under the current rule.

Finally, the Commission notes that the proposed rule change eliminates the Exchange's ability to modify or adjust a clearly erroneous execution. Under the proposed rule, the Exchange must either uphold or nullify the execution based upon the determination of the Officer reviewing the execution. The Commission believes that it is reasonable for the Exchange to eliminate the subjectivity in determining the appropriate adjustment amount and that the proposed change is specific and objective.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning Amendment No. 1, including whether Amendment No. 1 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-NYSEArca-2009-36 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-NYSEArca-2009-36. 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 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 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-NYSEArca-2009-36 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

V. Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1

The Commission finds good cause to approve the proposed rule change, as modified by Amendment No. 1, prior to the thirtieth day after publication for comment in the Federal Register.

In Amendment No. 1, the Exchange clarifies that, throughout the rule, the definition of “Officer” encompasses only Officers of the Corporation or such other senior level employee designee of the Corporation. In addition, in the context of rulings in Unusual Circumstances, the Exchange added the protection of investors and the public interest as a basis for using a reference price other than the consolidated last sale.

In the context of the Numerical Guidelines, the Exchange also clarifies that the execution time of the transaction under review determines whether the Numerical Guideline applied is Core Trading Session or Opening and Late Trading Session. In addition, the Exchange corrected a drafting error regarding the sales price at which certain numerical guidelines are applicable. The corrected language, which is reflected in the discussion above, now states that the proposed guidelines for sales greater than \$0.00 up to and including \$25.00 are 10% for the Core Trading Session and 20% for the Opening and Late Trading Sessions, and the proposed guidelines for sales greater than \$25.00 up to and including \$50.00 are 5% for the Core Trading Session and 10% for Opening and Late Trading Sessions.

In addition, as is reflected in the discussion above, the Exchange clarifies the percentage range at which volatility in the S & P 500 Futures would trigger the Exchange’s ability to double or triple the applicable Numerical Guidelines. The Exchange also clarifies that, the context of appeals, in no case will a CEE Panel include a person affiliated with a party to the trade in question.

The changes proposed in Amendment No. 1, discussed above, seek to clarify the operation of the proposed rule and do not differ materially from the proposal as published in the Federal Register on May 5, 2009. Therefore, the Commission finds good cause, consistent with Section 19(b)(2) of the Act,¹⁰ to approve the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

VI. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹¹ that the proposed rule change (SR-NYSEArca-2009-36), as amended, be, and it hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹²

Florence E. Harmon
Deputy Secretary

¹⁰ 15 U.S.C. 78s(b)(2).

¹¹ 15 U.S.C. 78s(b)(2).

¹² 17 CFR 200.30-3(a)(12).