

TOPAZ EXCHANGE, LLC
60 Broad Street
New York, NY 10004

July 10, 2013

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Re: File No. 10-209: Topaz Exchange, LLC; Notice of Filing of Application for Registration as a National Securities Exchange

Dear Ms. Murphy:

Topaz Exchange, LLC ("Topaz" or "Exchange") appreciates the opportunity to respond to the four comment letters submitted to the Securities and Exchange Commission ("Commission") by the Chicago Board Options Exchange ("CBOE"), NYSE Euronext ("NYSE") and Nasdaq OMX ("Nasdaq") in response to the publication of the above-referenced Form 1 Application.¹

Three of the Comment Letters suggest that a portion of proposed Topaz Rule 712(b) (Submission of Orders and Clearance of Transactions) is ambiguous, vague and unclear. Specifically, Rule 712(b) requires that:

[A]ll transactions made on the Exchange shall be submitted for clearance to the Clearing Corporation, and all such transactions shall be subject to the rules of the Clearing Corporation. Every Clearing Member shall be responsible for the clearance of the Exchange Transactions of such Clearing Member and of each Member who gives up such Clearing Member's name pursuant to a letter of authorization, letter of guarantee or other authorization given by such Clearing Member to such Member, which authorization must be submitted to the Exchange.

Three of the Comment Letters question whether the rule text "or other authorization given by such Clearing Member to such Member, which authorization must be submitted to the Exchange" could be interpreted to include verbal authorization. Topaz assures the Commission, CBOE, NYSE and Nasdaq that

¹ See Letter from Angelo Evangelou, CBOE, to SEC, dated April 23, 2013 ("CBOE Letter"), Letter from Janet McGinness, NYSE, to SEC dated May 10, 2013 and subsequent supplemental letter dated June 20, 2013 ("NYSE Letter" and "NYSE Supplemental Letter", respectively), and Letter from Jeffrey Davis, Nasdaq, to SEC, dated April 25, 2013 ("Nasdaq Letter")(together "Comment Letters").

written authorizations are required by the rule and mere verbal authorization would be deemed insufficient and not in compliance with the requirements of the rule. In the interest of clarity, however, Topaz proposes to modify proposed Rule 712(b) to insert an 'in writing' requirement and to delete the potentially ambiguous clause. Such modification will be made in an amendment to the Form 1 application.

As the CBOE Letter notes, this proposed Topaz Rule is identical to International Securities Exchange, LLC ("ISE") Rule 712(b) which was adopted as part of its initial rule set in conjunction with registering ISE as a national securities exchange on February 24, 2000. Accordingly, ISE has been interpreting and applying this rule for thirteen years as requiring the submission of written letter or clearing authorization or written letter of guarantee. In the event that a Clearing Member is given-up by a member for which it has not provided a written letter of clearing authorization or written letter of guarantee, the Clearing Member can reject the trade, in which case the trade will remain with the executing broker's guaranteeing Clearing Member.² Topaz will issue a Regulatory Information Circular to its membership similar to the Regulatory Information Circular issued by ISE, as described in footnote 2, prior to launch of the Exchange.

The Nasdaq Letter further states "...Nasdaq, as a future trading partner, seeks the protection that a stronger provision affords, such as Chapter VII, Section 8 of NOM's rules, which provides that no market participant shall make any transactions without a letter of guarantee (that has not been revoked) and that the issuing clearing member accepts financial responsibilities for all transactions made pursuant to such letter." Topaz agrees in the necessity of such rule and points Nasdaq to proposed Topaz Rule 808 (Letters of Guarantee) which requires exactly that which Nasdaq suggests is missing from the rules.

Next, the Nasdaq Letter points out two provisions in the rules that are erroneously duplicative. Topaz acknowledges such duplication and proposes to correct it in an amendment to the Form 1 Application.

The Nasdaq letter also questions whether certain provisions of Rule 716 are inconsistent and requests clarity with respect to whether a facilitation order may be executed through the Topaz BBO or the NBBO. Topaz Rule 716(d)(3) provides that, unless there is sufficient size to execute the entire facilitation order at a better price,

² In 2001, the ISE issued Regulatory Information Circular 2001-13 detailing the process for give-ups, which in part reads: "...an EAM will be able to enter any valid clearing number on the electronic order ticket and will be able to utilize a text field to identify the customer. The trade will then be sent to the designated clearing firm. If the clearing firm does not accept the trade, responsibility for clearing the trade will remain with the executing broker. Clearing Members that have executed Letters of Clearing Authorization for EAMs are the guarantors of all the brokers' trades, including give-ups to other clearing firms. These changes will provide EAMs with the same flexibility, subject to the same conditions, that member firms have on the other options exchanges."

when a facilitation order is automatically executed, Priority Customer bids (offers) that are priced higher (lower) than the facilitation price will be executed at the facilitation price. Accordingly, Priority Customer Orders on the opposite side of the market from the order being facilitated are given the benefit of executing at the block price (commonly referred to as the “clean-up” price).

Example 1:

Topaz BBO is 1.00 x 2.00. An order being facilitated arrives to buy 50 @ 1.50. During the facilitation exposure period, a Priority Customer order arrives to sell 50 @ 1.40 and a professional order arrives to sell 10 @ 1.40. The new Topaz BBO will be 1.00 x 1.40. At the end of the exposure period the facilitation order will trade 50 with the Priority Customer sell order @ 1.40.

Example 2:

Topaz BBO is 1.00 x 2.00. An order being facilitated arrives to buy 50 @ 1.50. During the facilitation exposure period, a Priority Customer order arrives to sell 10 @ 1.40. The new Topaz BBO will be 1.00 x 1.40. At the end of the exposure period the facilitation order will trade 10 with the Priority Customer sell order @ 1.50 and the remaining 40 will be traded with the contra side of the facilitation order @ 1.50.

Example 3:

Topaz BBO is 1.00 x 2.00. An order being facilitated arrives to buy 50 @ 1.50. During the facilitation exposure period, a Priority Customer order arrives to sell 10 @ 1.40 and a professional order arrives to sell 10 @ 1.40. The new Topaz BBO will be 1.00 x 1.40. At the end of the exposure period the facilitation order will trade 10 with the professional sell order at 1.40 and will trade 10 with the Priority Customer sell order @ 1.50 and the remaining 30 will be traded with the contra side of the facilitation order @ 1.50.

Topaz Rule 716(d)(3) further states that that a facilitation order will be cancelled at the end of the exposure period if an execution would take place at a price that is inferior to the best bid or offer on Topaz. Topaz is a price priority exchange. As such, the Exchange will never execute a facilitation order at a price that is inferior to the Topaz BBO at the time of execution. Since interest on the opposite side of the facilitation order participates in the execution of the facilitation order as demonstrated in Example 1 above, the circumstance where a facilitation price might be outside of the Topaz BBO can only occur when interest is received during the exposure period on the same side of the market as the facilitation order. If such interest on the same

side of the market as the facilitation order improves the Topaz BBO such that the facilitation price would be outside of the Topaz BBO, the facilitation order is cancelled.

Example 4:

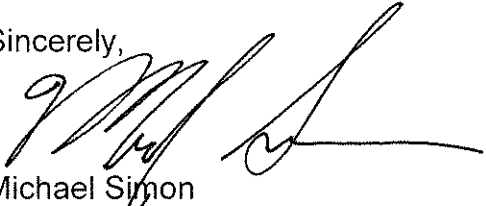
Topaz BBO is 1.00 x 2.00. A facilitation order arrives to buy 50 @ 1.50. During the facilitation exposure period, a Priority Customer order arrives to buy 10 @ 1.60. The new Topaz BBO will be 1.60 x 2.00. At the end of the exposure period, the auction would terminate without any execution because the facilitation order cannot trade @ 1.50 since it would trade-through the Topaz best bid of 1.60.

Finally, Topaz confirms that the execution of facilitation orders complies with the requirements of Topaz Rule 1901, which prohibits members from trading through the NBBO. All facilitation orders are entered with a contra-side order that guarantees that the facilitation order will be executed at the facilitation price or better, and the Topaz System automatically validates that the proposed facilitation price is at or within the NBBO at the time of entry. Pursuant to the provisions of Topaz Rule 1901(b)(8), if the NBBO changes during the exposure period, it is possible that the price of the facilitation transaction will occur outside of the NBBO.

The NYSE Supplemental Letter raises an issue with Rules 716(b), 716(d) and 716(e)'s use of the term "broadcast message." Specifically, the NYSE Supplemental Letter states that the term is not clearly defined and lacks sufficient clarity on what, if any, terms are contained within a broadcast message. In response, the Exchange is amending those sections of the rules to clearly state what information is included in the broadcast.

We trust that this letter sufficiently addresses the issues raised in the Comment Letters, and we respectfully request that the Commission approve the Form 1 Application without delay.

Sincerely,



Michael Simon
General Counsel and Secretary