

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-64158; File No. SR-NSX-2011-03)

March 31, 2011

Self-Regulatory Organizations; National Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Enable the Use of a Replace Message to Modify the Display Quantity of a Reserve Order, and Certain Other Conforming Changes to Exchange Rules

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 March 30, 2011, National Stock Exchange, Inc. filed with the Securities and Exchange Commission (the “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 Substance of the Proposed Rule Change

National Stock Exchange, Inc. (“NSX<sup>®</sup>” or “Exchange”) is proposing to enable a Replace Message to be used to modify the display quantity of a Reserve Order (as defined in Rule 11.11(c)(2)), and proposes certain other conforming changes to its rules.

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.

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

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

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

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

With this rule change, the Exchange is proposing to enable the Replace Message under NSX Rule 11.11(d) to be used to modify the display quantity of a Reserve Order (as defined in Rule 11.11(c)(2)). In addition, certain conforming modifications to the text and interpretation of Rule 11.14(a)(2) are proposed.

The proposed rule change would allow the Exchange's current "Cancel/Replace" order modifier functionality under Rule 11.11(d) to apply to the display quantity of Reserve Orders (such field being Tag 111<sup>3</sup>). Currently, the Cancel/Replace functionality under Rule 11.11(d)(iii) allows only an adjustment to an order's price and quantity. As applied to Reserve Orders, the Exchange's trading system currently allows a Replace Message to be used to adjust only the reserve quantity, but not the display quantity. The proposed rule change would allow ETP Holders the ability to use the Replace Message to also adjust the display quantity of Reserve Orders (the Tag 111 field). Under the proposed rule change, the Replace Message could adjust both the display and non-display portion of a Reserve Order, including where the aggregate size of the order remains unchanged. Accordingly, the instant rule filing proposes to add an explanatory "Interpretation and Policy" to Rule 11.11(d) to clarify that the term "quantity term" in Rule 11.11(d)(iii) shall include either, or both, the display and non-display portion of a Reserve Order, including in cases where the aggregate size of the Reserve Order is not changed.

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<sup>3</sup> Tag 111, also known as Max Floor, is a standard FIX protocol.

The identical use of the Replace Message to adjust the Tag 111 field is similarly offered by at least one other exchange.<sup>4</sup>

The instant rule change also proposes to modify the language of NSX Rule 11.14 (Priority of Orders) with respect to how the use of cancel/replace affects an order's priority. The instant rule filing modifies Rule 11.14(a)(2) to provide that, where the quantity of an order has been reduced pursuant to a Replace Message, such order maintains price/time priority. This constitutes no changes to current Exchange system practice and is consistent with the trading systems of other markets.<sup>5</sup> An Interpretation and Policy is also proposed to be added to rule 11.14 to clarify how a Reserve Order's priority is impacted by quantity adjustments (to either the display or the non-display portion) through use of a Replace Message. Specifically, Interpretation and Policy .01 provides that a Replace Message's size decrement of a Reserve Order's display quantity (Tag 111) will not affect the order's priority only if total order size remains the same or decreases. Similarly, a Replace Message size decrement of a Reserve Order's total quantity will not affect the order's priority only if the display quantity also remains constant or decreases. Any increase in size of either the display portion or the total size of a Reserve Order will result in a new timestamp and cause that order to lose time priority.

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<sup>4</sup> See DirectEdge (EDGA and EDGX) Rule 11.5(e) and DirectEdge FIX Specifications Version 1.11 (<http://www.directedge.com/Portals/0/docs/Direct%20Edge%20Next%20Gen%20FIX%20Manual.pdf>), at section 3.6.2 (providing that the Cancel/Replace functionality may be used to modify tag 111 (the displayed quantity of a Reserve Order)). The Exchange notes that, unlike the text of the cancel/replace rules of DirectEdge, the use of the Replace Message to adjust Tag 111 under the instant rule filing is proposed to be reflected in an Interpretation and Policy to NSX Rule 11.11(e) and not only in the Exchange's FIX specification.

<sup>5</sup> BATS (BZX and BYX) Rule 11.12(a)(3). See also DirectEdge (EDGA and EDGX) Rule 11.8(a)(4); Arca Rule 7.36(a)(3); and CBOE Rule 52.1(e).

The following chart summarizes the above-described impact on a Reserve Order’s time priority, if any, due to the use of a Replace Message to adjust the quantity.

	Display Qty (Tag111) Increases	Display Qty (Tag111) Decreases	Display Qty (Tag111) Same
Total Order Qty Increases	Lose Book Priority	Lose Book Priority	Lose Book Priority
Total Order Qty Decreases	Lose Book Priority	Maintain Book Priority	Maintain Book Priority
Total Order Qty Same	Lose Book Priority	Maintain Book Priority	n/a

The following examples illustrate the effect on a Reserve Order’s time priority, if any, due to the use of a Replace Message to adjust the quantity. Each example assumes ETP Holder A has a first-in-time priority resting Reserve Order to sell 1000 shares total, with a display quantity of 500 (denoted as “1000/500”).

Example 1 (Tag 111 Increases, Total Order Increases):

ETP Holder A submits a Replace Message to adjust quantity to 1100/600.

Example 1 Result: The order loses time priority because display quantity is increased.

Example 2 (Tag 111 Increases, Total Order Decreases):

ETP Holder A submits a Replace Message to adjust quantity to 900/600.

Example 2 Result: The order loses time priority because display quantity is increased, notwithstanding that total quantity is decreased.

Example 3 (Tag 111 Increases, Total Order Remains Same):

ETP Holder A submits a Replace Message to adjust quantity to 1000/600.

Example 3 Result: The order loses time priority because display quantity is increased, notwithstanding that total quantity remains the same.

Example 4 (Tag 111 Decreases, Total Order Increases):

ETP Holder A submits a Replace Message to adjust quantity to 1100/300.

Example 4 Result: The order loses time priority because total quantity is increased, notwithstanding that display quantity is decreased.

Example 5 (Tag 111 Decreases, Total Order Decreases):

ETP Holder A submits a Replace Message to adjust quantity to 800/400.

Example 5 Result: The order's time priority is maintained because display quantity is decreased and total quantity is not increased.

Example 6 (Tag 111 Decreases, Total Order Remains Same):

ETP Holder A submits a Replace Message to adjust quantity to 1000/400.

Example 6 Result: The order's time priority is maintained because display quantity is decreased and total quantity is not increased.

Example 7 (Tag 111 Remains Same, Total Order Increases):

ETP Holder A submits a Replace Message to adjust quantity to 1100/500.

Example 7 Result: The order loses time priority because total quantity is increased, notwithstanding that display quantity remains the same.

Example 8 (Tag 111 Remains Same, Total Order Decreases):

ETP Holder A submits a Replace Message to adjust quantity to 900/500.

Example 8 Result: The order's time priority is maintained because display quantity remains the same and total quantity is decreased.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of

Section 6(b) of the Act<sup>6</sup>, in general, and Section 6(b)(5) of the Act,<sup>7</sup> in particular, in that it is designed, among other things, to promote clarity, transparency and full disclosure, in so doing, to prevent fraudulent and manipulative acts and practices, 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. The proposed rule change advances these objectives by making available to ETP Holders an order modifier that is currently in use elsewhere within the national market system and by clarifying order priority.<sup>8</sup> Moreover, the proposed rule change is not discriminatory in that it applies equally to those ETP Holders that choose to utilize such functionality.

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.

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

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<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

<sup>8</sup> See supra, footnotes 2 and 3 [sic].

as the Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act<sup>9</sup> and Rule 19b-4(f)(6) thereunder.<sup>10</sup>

At any time within 60 days of the filing of the 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 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](mailto:rule-comments@sec.gov). Please include File Number SR-NSX-2011-03 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.

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

<sup>10</sup> 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. NSX has satisfied this requirement.

All submissions should refer to File Number SR-NSX-2011-03. 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 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 10:00 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 available publicly. All submissions should refer to File Number SR-NSX-2011-03 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.<sup>11</sup>

Cathy H. Ahn  
Deputy Secretary

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<sup>11</sup> 17 CFR 200.30-3(a)(12).