investors and the public interest. BX has requested that the Commission waive the 30-day operative delay. BX notes that the proposal will allow the Exchange to continue receiving inbound routes of equities orders from NES, in a manner consistent with prior approvals and established protections, while also permitting the Exchange and the Commission to assess the impact of the pilot. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because such waiver would allow the pilot period to be extended without undue delay through January 15, 2011. For this reason, the Commission designates the proposed rule change to be operative upon filing with the Commission.

At any time within 60 days of the filing of such 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–BX–2010–048 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–BX–2010–048. 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 Web site viewing and printing in the Commission’s Public Reference Room on official business days between the hours of 10 a.m. and 3 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–BX–2010–048 and should be submitted on or before August 13, 2010.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority. \(^\text{14}\)

Florence E. Harmon,
Deputy Secretary.

[FR Doc. 2010–18070 Filed 7–22–10; 8:45 am]

BILLING CODE 8010–01–P

SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing of Proposed Rule Change Relating to Modified Rules for Qualified Contingent Cross Orders


Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”), \(^\text{2}\) and Rule 19b–4 thereunder, \(^\text{2}\) notice is hereby given that on July 14, 2010, the International Securities Exchange, LLC (“Exchange” or “ISE”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which items have been prepared by the self-regulatory organization. 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

The Exchange is proposing modified Qualified Contingent Cross Orders. \(^\text{3}\) The text of the proposed rule change is as follows, with deletions in [brackets] and additions in italics:

**Rule 715. Types of Orders**

(a) through (i) no change.

(i) Qualified Contingent Cross Order. A Qualified Contingent Cross Order is comprised of an order to buy or sell at least 1000 contracts that is identified as being part of a qualified contingent trade, as that term is defined in Supplementary Material .01 below, coupled with a contra-side order to buy or sell an equal number of contracts.

(k) through (l) no change.

**Supplementary Material to Rule 715 .01**

A “qualified continent trade” is a transaction consisting of two or more component orders, executed as agent or principal, where:

(a) At least one component is an NMS Stock, as defined in Rule 600 of Regulation NMS under the Exchange Act;

(b) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent;

(c) the execution of one component is contingent upon the execution of all other components at or near the same time;

(d) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed;

(e) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with...
intentions to merge that have been announced or cancelled; and 
(f) the transaction is fully hedged 
(without regard to any prior existing position) as a result of other 
components of the contingent trade.

* * * * *

Rule 721. [Customer Cross] Crossings Orders

(a) Customer Cross Orders are automatically executed upon entry 
provided that the execution is at or 
between the best bid and offer on the 
Exchange and (i) is not at the same price 
as a Public Customer Order on the 
Exchange’s limit order book and (ii) will 
not trade through the NBBO.

[ai] (1) Customer Cross Orders will be 
automatically canceled if they cannot be executed.

[lii] (2) Customer Cross Orders may only 
be entered in the regular trading 
increments applicable to the options 
class under Rule 710.

[ci] (3) Supplemental Material .01 to 
Rule 717 applies to the entry and 
execution of Customer Cross Orders.

(b) Qualified Contingent Cross Orders 
are automatically executed upon entry 
provided that the execution (i) is not at 
the same price as a Priority Customer 
Order on the Exchange’s limit order 
book and (ii) is at or between the NBBO.

(1) Qualified Contingent Cross Orders 
will be automatically canceled if they 
cannot be executed.

(2) Qualified Contingent Cross Orders 
may only be entered in the regular 
trading increments applicable to the 
options class under Rule 710.

* * * * *

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 self-regulatory organization 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 self-regulatory organization has prepared summaries, set forth in sections A, B and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

Purpose—The Exchange proposes to 
adopt modified rules related to 
Qualified Contingent Cross Orders 
(“QCC”). The Exchange first proposed 
the adoption of the QCC in conjunction 
with the effectiveness of the Order 
Protection and Locked/Crossed Market 
Plan (“Distributive Linkage Plan”) and 
the Exchange’s rules to implement the 
distributive linkage (“Distributive 
Linkage Rules”). After a full notice and 
comment period, the Commission’s 
Division of Trading and Markets 
(“Division”) approved the proposal on 
behalf of the Commission by delegated 
authority. However, this approval was 
automatically stay by a petition 
submitted by the Chicago Board Options 
Exchange, Incorporated (“CBOE”) 
requesting review of the filing by the 
full Commission.8

The Exchange has submitted 
extensive support for the approval of 
the QCC by the Division and the 
Commission, and believes that it has 
fully addressed all of the issues raised 
by the commenters and provided the 
basis needed for the Commission to 
affirm the Division’s approval of QCC. 
Nevertheless, the Commission has not 
taken action on the petition, and as a 
result of the stay, the Exchange has been 
at an extreme disadvantage since the 
adoption of the Distributive 
Linkage Rules nearly one year ago.

While the Exchange continues to believe 
QCC as originally approved by the 
Division is consistent with the Exchange 
Act, the Exchange believes this 
modified proposal addresses the two 
primary concerns raised by commenters. 
Specifically, this modified QCC 
proposal does not permit a QCC to be 
executed at the same price as a priority 
customer order on the Exchange and 
increases the required minimum size 
from 500 to 1000 contracts.10

Background

The Distributive Linkage Plan replaced the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage (“Old Linkage Plan”), and the Exchange’s Linkage Rules replaced the existing ISE rules implementing the Old Plan (the “Old Linkage Rules”). The Old Linkage Plan and the Old Linkage Rules provided a limited Trade-Through exemption for “Block Trades,” defined to be trades of 500 or more contracts with a premium 
value of at least $150,000. However, as 
with Regulation NMS, the Distributive 
Linkage Plan did not provide a Block 
Trade exemption. At the time that it 
adopted the Distributive Linkage Rules, 
the Exchange recognized that the loss of the Block Trade exemption would adversely affect the ability of ISE 
members to effect large trades that are 
tied to stock.12 Thus, the Exchange 
proposed the QCC as a limited 
substitute for the Block Trade 
exemption, to be implemented 
contemporaneously with the Linkage 
Rules.13

* * * * *


12 The ISE submitted a letter that addressed 
comments received by the Commission prior to 
the approval of the proposal. Letter from Michael J. Simon, Secretary and General Counsel, ISE, dated 
August 20, 2009. The ISE also submitted two briefs 
in support of a motion to lift the automatic stay 
that was imposed by the petition for review. Brief in 
Support of International Securities Exchange, LLC’s Motion to Lift the Commission Rule 431(e) 
Automatic Stay of Delegated Action Triggered by 
Chicago Board Options Exchange, Incorporated’s 
Notice of Intention to petition for Review, September 11, 2009; and Reply Brief in Support of 
International Securities Exchange, LLC’s Motion to 
Lift the Commission Rule 431(e) Automatic Stay of 
Delegated Action Triggered by Chicago Board 
Options Exchange, Incorporated’s Notice of 
Intention to petition for Review, September 22, 2009. Since denial of the Exchange’s motion to lift 
the automatic stay, the Exchange has submitted 
additional support for QCC. Letters from Michael J. Simon, Secretary and General Counsel, ISE, dated 

13 Under ISE Rule 100(37A), a priority customer 
is a person or entity that (i) is not a broker or dealer 
in securities, and (ii) does not place more than 390 
orders in listed options per day on average during 
a calendar month for its own beneficial account(s). 
Pursuant to ISE Rule 713, priority customer orders 
are executed before other trading interest at the 
same price. See email from Michael Simon, 
Secretary and General Counsel, ISE, dated July 15, 
2010, to Jennifer Colihan, Special Counsel, and 
Arisa Tinaves, Special Counsel, Division of Trading 
and Markets, Commission.

14 Old Plan Sections 2(3) and 8(1)(ii)(C); Old ISE 
Rule 1902(d)(2). See email from Michael Simon, 
Secretary and General Counsel, ISE, dated July 15, 
2010, to Jennifer Colihan, Special Counsel, and 
Arisa Tinaves, Special Counsel, Division of Trading 
and Markets, Commission.

15 Both the Old Plan and the Distributive 
Linkage Plan have a Trade-Through exemption for “Complex 
Trades,” including options trades tied to stock. See 
Old Plan section 7(c)(iii)(C), and Plan section 
5(b)(viii). However, while not free from doubt, 
the common application of that exemption has been 
tied to stock.12 Thus, the Exchange proposed the QCC as a limited 
substitute for the Block Trade 
exemption, to be implemented 
contemporaneously with the Linkage 
Rules.13

16 Old Plan Sections 2(3) and 8(1)(ii)(C); Old ISE 
Rule 1902(d)(2). See email from Michael Simon, 
Secretary and General Counsel, ISE, dated July 15, 
2010, to Jennifer Colihan, Special Counsel, and 
Arisa Tinaves, Special Counsel, Division of Trading 
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Arisa Tinaves, Special Counsel, Division of Trading 
and Markets, Commission.

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Linkage Plan have a Trade-Through exemption for “Complex 
Trades,” including options trades tied to stock. See 
Old Plan section 7(c)(iii)(C), and Plan section 
5(b)(viii). However, while not free from doubt, 
the common application of that exemption has been 
tied to stock.12 Thus, the Exchange proposed the QCC as a limited 
substitute for the Block Trade 
exemption, to be implemented 
contemporaneously with the Linkage 
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a calendar month for its own beneficial account(s). 
Pursuant to ISE Rule 713, priority customer orders 
are executed before other trading interest at the 
same price. See email from Michael Simon, 
Secretary and General Counsel, ISE, dated July 15, 
2010, to Jennifer Colihan, Special Counsel, and 
Arisa Tinaves, Special Counsel, Division of Trading 
and Markets, Commission.
Discussion

While Regulation NMS does not provide a Block Trade exemption from Trade-Through liability, the Commission, by order, has provided Trade-Through relief for “Qualified Contingent Trades” (“QCTs”).\(^\text{14}\) The QCT Release provides an exemption from Trade-Through liability in the equity market for multi-component, fully-hedged trades where one order is contingent on the execution of one or more additional orders. Building on this concept, we propose that when an ISE member effects a QCT trade in a Regulation NMS Stock that the member be permitted to cross the options leg of the trade on the ISE immediately upon entry if the order is for at least 1000 contracts, is part of a QCT,\(^\text{15}\)is executed at a price at least equal to the national best bid or offer (“NBBO”),\(^\text{16}\) and there are no priority customer orders on the Exchange’s book at the same price.

The QCC addresses the dislocation resulting from elimination of the Block Trade exemption by permitting members to provide their customers a net price for the entire trade, and then allowing the members to execute the options leg of the trade on the ISE at a price at least equal to the NBBO while using the QCT exemption to effect the complex order book, they often seek the flexibility to execute the various legs of such orders in different markets, and may seek to execute the options leg alone on the ISE. Under the Distributive Linkage Plan, and without a Block Trade exemption, the Exchange knew it would be extremely difficult for ISE members to effect the execution of the options leg on the ISE. This order could not have been true since the implementation of Distributive Linkage.


\(^\text{15}\) We propose to define a QCC trade substantively identical to the Commission’s definition in the QCT release. A QCT trade must meet the following conditions: (i) at least one component must be an NMS Stock; (ii) all the components must be effected with a product price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent; (iii) the execution of one component must be contingent upon the execution of all other components at or near the same time; (iv) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) must be determined by the time the contingent order is placed; (v) the component orders must bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and (vi) the transaction must be fully hedged (without regard to any prior existing position) as a result of other component trades. Consistent with the QCT Release members must demonstrate that the transaction is fully hedged using reasonable risk-assessment methodologies. See QCT Release, supra note 14, at footnote 9.

While the QCC does not provide exposure for price improvement for the options leg of a stock-option order, the options leg must be executed at the NBBO or better. The Commission has previously approved the execution of transactions with no opportunity for price improvement. See, e.g., ISE Rule 721(a); and CBOE Rule 6.74A, Interpretations and Policies .08.

\(^\text{16}\) For example, assume two parties negotiate a stock-option order to buy 100,000 shares and sell 1,000 calls with a net price of 24.38. Further assume that the NBBO for the option is $0.82 by $0.86, and that the NBBO for the stock is $25.20 by $25.21. The broker sends an order to the ISE to execute the options component at $0.85 and sends the equity component to an NBBO marketplace at $25.33. Note that in this example there is a range of prices at which the price of the components could be executed between the NBBO for the option, e.g., the options component could be executed at $0.83, $0.84 or $0.85, and the equity component could be executed respectively at $25.31, $25.32, or $25.33. Continuing with the example from note 17 above, assume that the NBBO for the option is $0.85 by $0.86. According to the CBOE’s letter, the contingent trade should not be permitted because the spread in the option is at a minimum increment.

\(^\text{17}\) The Commission has previously approved the rejection of crossing transactions when there is a priority customer order on the book at the same price. See, e.g., ISE Rule 721(a); and CBOE Rule 6.74A, Interpretations and Policies .08.

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any

B. Self-Regulatory Organization’s Statement on Burden on Competition

This proposed rule change does not impose any burden on competition. Rather, approval of QCC as modified by the proposed rule change, will address a significant existing burden on competition. In particular, it will permit fair competition between floor-based and all-electronic options exchanges for large-size stock-option orders.\(^\text{21}\)

C. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any
unsolicited written comments from members or other interested parties.22

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(a) By order approve such proposed rule change; or
(b) Institute proceedings to determine whether the proposed rule change should be disapproved.

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 No. SR–ISE–2010–73 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–ISE–2010–73. 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 website viewing and printing in the Commission’s Public Reference Room on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the ISE. 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–ISE–2010–73 and should be submitted by August 9, 2010.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.23
Florence E. Harmon, Deputy Secretary.
[FR Doc. 2010–18069 Filed 7–22–10; 8:45 am]
BILLING CODE 8010–01–P

SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend EDGX Rule 11.14


Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”), 1 and Rule 19b–4 thereunder, 2 notice is hereby given that on July 13, 2010, the EDGX Exchange, Inc. (the “Exchange” or “self-regulatory organization” or the “EDGX”) 3 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 self-regulatory organization. The Exchange has designated the proposed rule change as constituting a “non-controversial” rule change under paragraph (f)(6) of Rule 19b–4 under the Act, 4 which renders the proposal effective upon receipt of this filing by 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

The Exchange proposes to amend EDGX Rule 11.14 regarding Trading Halts Due to Extraordinary Market Volatility to make a technical amendment to the rule text. The text of the proposed rule change is available on the Exchange’s Internet website at http://www.directedge.com, at the principal office of the Exchange, the Commission’s Web site at http://www.sec.gov, 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 self-regulatory organization 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 self-regulatory organization has prepared summaries, set forth in sections A, B and C below, of the most significant aspects 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 recently amended EDGX Rule 11.14 (Trading Halts Due to Extraordinary Market Volatility) to allow the Exchange to pause trading in an individual stock when the primary listing market for such stock issues a trading pause in any Circuit Breaker Securities, as defined in Interpretation and Policy .05 to Rule 11.14. The primary listing markets for U.S. stocks amended their rules so that they may, from time to time, issue a trading pause for an individual security if the price of such security moves 10% or more from a sale in a preceding five-minute period. Amendments to Rule 11.14 were approved by the Commission on June 10, 2010.4 The Exchange subsequently filed to amend Rule 11.14 to add additional Circuit Breaker Securities, including those in the Russell 1000® Index (“Russell 1000”) and specified

22 The Commission received a number of comments with respect to SR–ISE–2009–35, supra note 6, which can be found at http://www.sec.gov/ commentsr/sr-ise-2009-35/ise200935.shtml#order. The Commission also received comments with respect to the petition for full Commission review of SR–ISE–2009–35, supra note 6, which can be found at http://www.sec.gov/rules/other/2009/sr-ise-2009-35/ise200935_statements.shtml. ISE’s responses to these comments, supra note 7, are included at these locations.


