

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 offices 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-2012-042, and should be submitted on or before July 24, 2012.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>9</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-67274; File No. SR-BYX-2012-011]

### Self-Regulatory Organizations; BATS Y-Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Modify Exchange Rule 11.13, Entitled "Order Execution"

June 27, 2012.

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 June 15, 2012, BATS Y-Exchange, Inc. (the "Exchange" or "BYX") 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 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

The Exchange is filing with the Commission a proposal to amend Rule 11.13 entitled "Order Execution" to modify Exchange system functionality when the consolidated market is crossed and to modify the handling of orders that have been rejected after routing away through the Exchange's affiliated broker-dealer.

The text of the proposed rule change is available at the Exchange's Web site at <http://www.batstrading.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 the proposed rule change. The text of these 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

The Exchange is proposing changes to its system functionality to implement a price constraint in the event the Exchange receives a non-routable order and a Protected Bid<sup>3</sup> and a Protected Offer<sup>4</sup> are crossed (a "Crossed Market"). The Exchange is also proposing to provide its Users with the option to avoid any execution when there is a Crossed Market. Finally, the Exchange is proposing a change to the way that it

<sup>3</sup> As defined in BYX Rule 1.5(t), Protected Bid means a bid in a stock that is displayed by an automated trading center, disseminated pursuant to an effective national market system plan, and an automated quotation that is the best bid of a national securities exchange or association.

<sup>4</sup> As defined in BYX Rule 1.5(t), Protected Offer means an offer in a stock that is displayed by an automated trading center, disseminated pursuant to an effective national market system plan, and an automated quotation that is the best offer of a national securities exchange or association.

responds to rejections of orders that were routed to a Protected Quotation.<sup>5</sup>

Under current BYX Rules, for any execution to occur during Regular Trading Hours,<sup>6</sup> the price must be equal to or better than the Protected NBBO,<sup>7</sup> unless the order is marked ISO or unless the execution falls within another exception set forth in Rule 611(b) of Regulation NMS. For any execution to occur during the Pre-Opening Session<sup>8</sup> or the After Hours Trading Session,<sup>9</sup> the price must be equal to or better than the highest Protected Bid or lowest Protected Offer. As noted below, the Exchange also currently allows executions of orders outside of Regular Trading Hours when an order is marked ISO and there is a Crossed Market.

The restrictions on executions described above reflect the Exchange's implementation of the trade-through rule of Regulation NMS, Rule 611, which only applies during Regular Trading Hours; however the Exchange has also implemented trade-through protection outside of Regular Trading Hours in order to promote the handling of orders in a consistent and orderly fashion. Pursuant to the exception of Rule 611(b)(4) during Regular Trading Hours, as well as during the Pre-Opening Session and the After Hours Trading Session, the Exchange does not currently impose trade-through protections when there is a Crossed Market. In order to constrain the price of executions when there is a Crossed Market, in the event that a Protected Bid is crossing a Protected Offer, whether during or outside of Regular Trading Hours, unless an order is marked ISO, the Exchange will not execute any portion of a bid at a price more than the greater of 5 cents or 0.5 percent higher than the lowest Protected Offer or any portion of an offer that is not marked ISO that would execute at a price more than the greater of 5 cents or 0.5 percent lower than the highest Protected Bid. In order to provide an additional option for Users<sup>10</sup> that do not want any orders to

<sup>5</sup> As defined in BYX Rule 1.5(t), Protected Quotation means a quotation that is a Protected Bid or Protected Offer.

<sup>6</sup> As defined in BYX Rule 1.5(w), Regular Trading Hours means the time between 9:30 a.m. and 4:00 p.m. Eastern Time.

<sup>7</sup> As defined in BYX Rule 1.5(s), Protected NBBO means the national best bid or offer that is a Protected Quotation.

<sup>8</sup> As defined in BYX Rule 1.5(r), the Pre-Opening Session means the time between 8:00 a.m. and 9:30 a.m. Eastern Time.

<sup>9</sup> As defined in BYX Rule 1.5(c), the After Hours Trading Session means the time between 4:00 p.m. and 5:00 p.m. Eastern Time.

<sup>10</sup> As defined in BYX Rule 1.5(cc), a User is any Member or Sponsored Participant who is authorized to access the Exchange's system pursuant to Exchange Rules.

<sup>9</sup> 17 CFR 200.30-3(a)(12).

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

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

execute when there is a Crossed Market, upon instruction from a User, the Exchange will not execute any incoming order from such User in the event a Protected Bid is crossing a Protected Offer. The Exchange believes that the thresholds proposed in this rule filing will help avoid executions of orders at prices that are significantly worse than the NBBO.<sup>11</sup>

The following example demonstrates how the Exchange's Crossed Market threshold would operate:

- The NBBO in security ABC is \$5.00 (bid) by \$4.98 (offer), and thus, there is a Crossed Market;
- A User submits a non-routable market order (e.g., designated as a "BATS Only" order) to buy 1,000 shares of ABC;
- The Exchange has liquidity in ABC as follows: 100 shares to sell for \$4.98, 100 shares to sell for \$5.00, 200 shares to sell for \$5.03, and 300 shares to sell for \$5.05.

Under the circumstances described above, the incoming market order to buy would be executed as follows:

- 100 shares executed on the Exchange at the \$4.98 price level;
- 100 shares executed on the Exchange at the \$5.00 price level;
- 200 shares executed on the Exchange at the \$5.03 price level;
- 600 shares cancelled back to the User.

As proposed, with a Crossed Market of \$5.00 by \$4.98, the Exchange will execute any incoming buy orders up to and including \$5.03 and any incoming sell orders down to and including \$4.95 per share. Accordingly, under this example, 400 shares of the incoming buy order would be executed, including 200 shares at the Crossed Market threshold of \$5.03. The remaining 600 shares of the market order would be cancelled back to the User because the liquidity on the Exchange at the \$5.05 price level exceeds the thresholds set forth in proposed Rule 11.13. The Exchange notes that in the event the order was designated as eligible for routing, the Exchange's normal routing strategies would apply, and, to the extent that other market centers have better prices than are available on the BATS Book,<sup>12</sup> the Exchange would route the order away to such other market centers rather than executing solely on the Exchange. Accordingly, the Exchange proposes to add language to Rule 11.13 to make clear that to the extent an incoming order is executable

because a Protected Bid is crossing a Protected Offer but such incoming order is eligible for routing and there is a Protected Bid or Protected Offer available at another Trading Center<sup>13</sup> that is better priced than the bid or offer against which the order would execute on the Exchange, the Exchange will first seek to route the order to such better priced quotation pursuant to Rule 11.13(a)(2).

The Exchange has proposed to exclude ISOs from the proposed pricing threshold because a User is subject to certain specific obligations when pricing and submitting an order as an ISO.<sup>14</sup> The Exchange believes that rejecting an ISO upon receipt due to a Crossed Market is inconsistent with the general notion of an ISO, which allows a User to designate a price at which the Exchange can execute the order without regard to the Exchange's view of the NBBO.

In addition to the implementation of Crossed Market price constraints and the ability to designate orders as ineligible for execution during a Crossed Market, the Exchange is proposing to modify the way that it handles rejections received from other Trading Centers. Currently the Exchange routes all orders through its affiliated broker-dealer, BATS Trading, Inc. ("BATS Trading"). In certain instances, BATS Trading, in turn, routes to certain third party broker-dealers in order to ensure that the Exchange has effective and redundant connections to all other Trading Centers with Protected Quotations. BATS Trading occasionally receives "rejections" of orders either from the Trading Centers to which it routes directly or through the third party broker-dealers through which it routes. Such rejections can be for various reasons, including a technical problem with the order, market access thresholds implemented pursuant to SEC Rule 15c3-5, or other operational thresholds. The Exchange currently handles orders on which it receives rejections by either cancelling the order back to the User or, if the order submitted by the User instructs the

Exchange to do so, by posting the order to the Exchange's order book after subjecting such order to its price sliding process pursuant to Rule 11.9(g) in order to avoid locking any Protected Quotation that it cannot access. Rather than posting an order to its book, the Exchange proposes to cancel all orders for which it has received a rejection due to an inability to access another Trading Center, providing a User with the opportunity to submit a new order or seek another path to the applicable Protected Quotation. The Exchange has also proposed to make clear that such a cancellation will not apply to Protected Quotations published by a Trading Center against which the Exchange has declared self-help pursuant to Exchange Rule 11.13(d). Although a Protected Quotation may be inaccessible to the Exchange, once the Exchange has declared self-help pursuant to Rule 11.13(d), the Exchange disregards, and will continue to execute transactions and route orders without regard to, such Protected Quotations. Notwithstanding the foregoing, however, even after the Exchange has received a rejection from a Trading Center, if there are multiple Trading Centers included in the routing option selected by the User that have Protected Quotations at the NBBO, the System<sup>15</sup> will continue to route the order to the Protected Quotations at other such other Trading Centers at that price level.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.<sup>16</sup> In particular, the proposal is consistent with Section 6(b)(5) of the Act,<sup>17</sup> because it would promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of, a free and open market and a national market system by helping to avoid executions of orders on the Exchange at prices that are significantly worse than the NBB<sup>18</sup> or NBO<sup>19</sup> at the time an order is initially received by the Exchange, even if executions are

<sup>11</sup> As defined in BYX Rule 1.5(o), NBBO shall mean the national best bid or offer.

<sup>12</sup> As defined in BYX Rule 1.5(e), BATS Book means the System's electronic file of orders.

<sup>13</sup> As defined in BYX Rule 2.11, a Trading Center is another securities exchange, facility of a securities exchange, automated trading system, electronic communication network or other broker or dealer.

<sup>14</sup> See 17 CFR 240.600(b)(30) and 611(c); see also BYX Rule 11.9(d)(1), which states that "[t]he Exchange relies on the marking of an order as an ISO order when handling such order, and thus, it is the entering Member's responsibility, not the Exchange's responsibility, to comply with the requirements of Regulation NMS relating to Intermarket Sweep Orders." The Exchange notes that as a self-regulatory organization it conducts regulatory oversight of each Exchange Member's use of Intermarket Sweep Orders on the Exchange.

<sup>15</sup> As defined in BYX Rule 1.5(aa), System means the electronic communications and trading facility designate [sic] by the Board through which securities orders of Users are consolidated for ranking, execution and, when applicable, routing away.

<sup>16</sup> 15 U.S.C. 78f(b).

<sup>17</sup> 15 U.S.C. 78f(b)(5).

<sup>18</sup> As defined in BYX Rule 1.5(o), NBB means the national best bid.

<sup>19</sup> As defined in BYX Rule 1.5(o), NBO means the national best offer.

permissible pursuant to Regulation NMS. The Exchange believes that permitting Users to avoid any execution of an incoming order in a Crossed Market is an additional functionality that is consistent with the protection of investors and the public interest. Although the Exchange does not believe that any other self-regulatory organization has exactly the same Crossed Market threshold in place, the Exchange as well as other market centers have implemented a variety of pricing thresholds to constrain executions and protect market participants.<sup>20</sup> Also, this proposal is consistent with existing Exchange rules that allow for the breaking of trades deemed clearly erroneous by reference to objective thresholds worse than the NBBO.<sup>21</sup> The Exchange believes that the proposed pricing thresholds are reasonable because they are significantly narrower than thresholds in place on the Exchange for market orders received by the Exchange<sup>22</sup> and also narrower than applicable clearly erroneous thresholds. A narrow threshold will protect market participants and their customers from potentially executing at prices away from the NBBO when there is a Crossed Market, which can be an indication of a pricing anomaly in a security or a potential systems issue at another Trading Center. Further, the proposed threshold is consistent with the protection of investors and the public interest because it will help to avoid clearly erroneous executions from occurring in the first place, rather than allowing an execution to occur and breaking the trade based on clearly erroneous rules. Finally, the Exchange believes that the cancellation of all orders that have been rejected by other market centers or third party routers, rather than posting such orders to the Exchange's book will provide Users with more immediate certainty regarding their orders, and will provide Users the ability to modify and re-submit or send their orders via a different path to attempt to access the applicable Protected Quotation. Accordingly, the modifications to BYX Rule 11.13 promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of, a free and open market and a national market system.

<sup>20</sup> See, e.g., BYX Rule 11.9(a)(2), which constrains the executions of a market order on BYX to \$0.50 or 5 percent away from the NBBO at the time the order initially reaches the Exchange; see also NYSE Arca Rule 7.31(a); NASDAQ Rule 4751(f)(13).

<sup>21</sup> See BYX Rule 11.17.

<sup>22</sup> See *supra* note 20.

*(B) Self-Regulatory Organization's Statement on Burden on Competition*

The Exchange does not believe that the proposed rule change imposes any burden on competition.

*(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 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 as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>23</sup> and Rule 19b-4(f)(6) thereunder.<sup>24</sup>

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act<sup>25</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)<sup>26</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay, noting that doing so would allow investors and market participants to benefit immediately from additional protection against certain executions in Crossed Market conditions and from the ability to re-route or re-submit orders that are unable to access, and therefore rejected by, other market centers with Protected Quotations at the NBBO. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest.<sup>27</sup> Therefore, the

<sup>23</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>24</sup> 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change along with a brief description and the text of 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.

<sup>25</sup> 17 CFR 240.19b-4(f)(6).

<sup>26</sup> 17 CFR 240.19b-4(f)(6).

<sup>27</sup> For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

Commission designates the proposal operative upon filing.

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 Exchange 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-BYX-2012-011 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-BYX-2012-011. This file number should be included on the subject line if email 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, 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-BYX-2012-011 and should be submitted on or before July 24, 2012.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>28</sup>

**Kevin M. O'Neill,**  
Deputy Secretary.

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-67283; File No. SR-NYSEArca-2012-64]

**Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change To List and Trade Option Contracts Overlying 10 Shares of a Security**

June 27, 2012.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that, on June 15, 2012, NYSE Arca, Inc. (“Exchange” or “NYSE Arca”) 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 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 list and trade option contracts overlying 10 shares of a security (“mini-options contracts”). The text of the proposed rule change 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.

**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 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*

The Exchange is proposing to list and trade mini-options contracts and implement rule text necessary to integrate mini-options contracts with contracts overlying 100 shares (“standard contracts”). Whereas standard contracts represent a deliverable of 100 shares of an underlying security, mini-options

contracts would represent a deliverable of 10 shares. The Exchange proposes to initially list and trade mini-options contracts overlying 5 high priced securities for which the standard contract overlying the same security exhibits significant liquidity.<sup>3</sup> The Exchange believes that investors would benefit from the availability of mini-options contracts by making options overlying high priced securities more readily available as an investing tool and at more affordable and realistic prices, most notably for the average retail investor.

For example, with Apple Inc. (“AAPL”) trading at \$605.85 on March 21, 2012, (\$60,585 for 100 shares underlying a standard contract), the 605 level call expiring on March 23 is trading at \$7.65. The cost of the standard contract overlying 100 shares would be \$765, which is substantially higher in notional terms than the average equity option price of \$250.89.<sup>4</sup> Proportionately equivalent mini-options contracts on AAPL would provide investors with the ability to manage and hedge their portfolio risk on their underlying investment, at a price of \$76.50 per contract. In addition, investors who hold a position in AAPL at less than the round lot size would still be able to avail themselves of options to manage their portfolio risk. For example, the holder of 50 shares of AAPL could write covered calls for five mini-options contracts. The table below demonstrates the proposed differences between a mini-options contracts [sic] and a standard contract with a strike price of \$125 per share and a bid or offer of \$3.20 per share:

	Standard	Mini
Share Deliverable Upon Exercise .....	100 shares .....	10 shares.
Strike Price .....	125 .....	125.
Bid/Offer .....	3.20 .....	3.20.
Premium Multiplier .....	\$100 .....	\$10.
Total Value of Deliverable .....	\$12,500 .....	\$1,250.
Total Value of Contract .....	\$320 .....	\$32.

The Exchange notes that the Commission has approved an earlier proposal of NYSE Arca to list and trade option contracts overlying a number of

shares other than 100.<sup>5</sup> Moreover, the concept of listing and trading parallel options products of reduced values and sizes on the same underlying security is

not novel. For example, parallel product pairs on a full-value and reduced-value basis are currently listed on the S&P 500 Index (“SPX” and “XSP,” respectively),

<sup>28</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> The Exchange proposes that mini-options contracts would be listed in only five issues, specifically SPDR S&P 500 (SPY), Apple, Inc. (AAPL), SPDR Gold Trust (GLD), Google Inc. (GOOG), and Amazon.com Inc. (AMZN). These issues were selected because they are priced greater

than \$100 and are among the most actively traded issues, in that the standard contract exhibits average daily volume (“ADV”) over the previous three calendar months of at least 45,000 contracts, excluding LEAPS and FLEX series. The Exchange notes that any expansion of the program would require that a subsequent proposed rule change be submitted with the Commission.

<sup>4</sup> A high priced underlying security may have relatively expensive options, because a low

percentage move in the share price may mean a large movement in the options in terms of absolute dollars. Average non-FLEX equity option premium per contract January 1–December 31, 2011. See <http://www.theocc.com/webapps/monthly-volume-reports?reportClass=equity>.

<sup>5</sup> See Securities Exchange Act Release No. 44025 (February 28, 2001), 66 FR 13986 (March 8, 2001) (approving SR-PCX-01-12).