consistent with the protection of investors.

The Commission believes that the Exchange’s proposal raises such a case. As described above, under the current market structure, few marketable retail orders in equity securities are routed to exchanges. The vast majority of marketable retail orders are internalized by OTC market makers, who typically pay retail brokers for their order flow. Retail investors can benefit from such arrangements to the extent that OTC market makers offer them price improvement over the NBBO. Price improvement is typically offered in sub-penny amounts. An internalizing broker-dealer can offer sub-penny executions, provided that such executions do not result from impermissible sub-penny orders or quotations. Accordingly, OTC market makers typically select a sub-penny price for a trade without quoting at that exact amount or accepting orders from retail customers seeking that exact price. Exchanges—and exchange member firms that submit orders and quotations to exchanges—cannot compete for marketable retail order flow on the same basis, because it would be impractical for exchange electronic systems to generate sub-penny executions without exchange liquidity providers or retail brokerage firms having first submitted sub-penny orders or quotations, which the Sub-Penny Rule expressly prohibits. The limited exemption granted today should promote competition between exchanges and OTC market makers in a manner that is reasonably designed to minimize the problems that the Commission identified when adopting the Sub-Penny Rule. Under the Program, sub-penny prices will not be disseminated through the consolidated quotation data stream, which should avoid quote flickering and its reduced depth at the inside quotation. Furthermore, while the Commission remains concerned about providing enough incentives for market participants to display limit orders, the Commission does not believe that granting this exemption (and approving the accompanying proposed rule change) will reduce such incentives. Market participants that display limit orders currently are not able to interact with marketable retail order flow because it is almost entirely routed to internalizing OTC market makers that offer sub-penny executions. Consequently, enabling the Exchanges to compete for this retail order flow through the Program should not materially detract from the current incentives to display limit orders, while potentially resulting in greater order interaction and price improvement for marketable retail orders. To the extent that the Program may raise Manning and best execution issues for broker-dealers, these issues are already presented by the existing practices of OTC market makers.

The exemption being granted today is limited to a one-year pilot. The Exchange has stated that “sub-penny trading and pricing could potentially result in undesirable market behavior,” and, therefore, it will “monitor the Program in an effort to identify and address any such behavior.”

Furthermore, the Exchange has represented that it “will produce data throughout the pilot, which will include statistics about participation, the frequency and level of price improvement provided by the Program, and any effects on the broader market structure.”

The Commission expects to review the data and observations of the Exchange before determining whether and, if so, how to extend the exemption from the Sub-Penny Rule.

VI. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR–BYX–2012–019), as modified by Amendment No. 2, be and hereby is, approved on a one-year pilot basis.

It is also hereby ordered that, pursuant to Rule 612(c) of Regulation NMS, the Exchange is given a limited exemption from Rule 612 of Regulation NMS allowing it to accept and rank orders priced equal to or greater than $1.00 per share in increments of $0.001, in the manner described in the proposed rule change above, on a one-year pilot basis coterminal with the effectiveness of the proposed rule change.

SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations: New York Stock Exchange LLC: Notice of Filing and Immediate Effectiveness of Proposed Rule Change Moving the Rule Text That Provides for Pegging on the Exchange From Supplementary Material .26 of NYSE Rule 70 to NYSE Rule 13 and Amending Such Text to (i) Permit Designated Market Maker Interest To Be Set as Pegging Interest; (ii) Change References From National Best Bid, National Best Offer and National Best Bid or Offer to Best Protected Bid, Best Protected Offer and Best Protected Bid or Offer, Respectively; (iii) Permit Pegging Interest To Peg to the Opposite Side of the Market; and (iv) Provide for An Offset Value To Be Specified for Pegging Interest

November 27, 2012.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”), and Rule 19b–4 thereunder, notice is hereby given that on November 13, 2012, New York Stock Exchange LLC (the “Exchange” or “NYSE”) 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 Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(i) of the Act and Rule 19b–4(f)(6) thereunder. 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 move the rule text that provides for pegging on the Exchange from Supplementary Material .26 of NYSE Rule 70 ("Rule 714
The Exchange adopted Rule 70.26 as part of its Hybrid Market initiative to provide the ability for Floor brokers to add pegging instructions to e-Quotes. Since its original adoption, the pegging functionality has been amended a number of times to, among other things, include d-Quotes and change the pegging functionality from pegging to the Exchange best bid or offer to peg to the NBBO. As set forth in Rule 70.26(i), e-Quotes, other than tick-sensitive e-Quotes, may be set to peg to the NBBO (for pegging interest to buy) or to the NBO (for pegging interest to sell) as the NBBO changes, so long as the NBBO is at or within the limit price. Rule 70.26(ii) specifies that d-Quotes may also employ pegging. Rule 70.26(iii) provides that pegging is active only when auto-quoting is active and that Exchange systems will reject e-Quotes that employ pegging that are entered 10 seconds or less before the scheduled close of trading. Rule 70.26(iv) provides that pegging e-Quotes and d-Quotes trade on parity with other interest at the NBBO after interest entitled to priority is executed, and Rule 70.26(vi) provides that a pegging e-Quote or d-Quote that sets the Exchange best bid or offer is entitled to priority. Rule 70.26(v) provides that pegging is reactive, and that an e-Quote or d-Quote will not establish the NBBO as a result of pegging. Rule 70.26(vii) provides that pegging e-Quotes will only peg to non-pegging interest that is within the pegging range selected by the Floor broker, and that such non-pegging interest may be available on the Exchange or be a protected bid or offer on an away market. Rule 70.26(viii) provides that an e-Quote or d-Quote will not sustain the NBBO as a result of pegging if there is no other non-pegged interest at that price, and such price is not the e-Quote’s or d-Quote’s limit price. Rule 70.26(viii)(A) and (B) provide that if a buy (sell) pegging e-Quote reaches its lowest (highest) quoted price and it is the NBB (NBO), such interest will remain displayed at the NBB (NBO) even if all other interest at that price cancels. Rule 70.26(ix) further provides detail of definitions of the price range that a Floor broker may designate for pegging e-Quotes, which is a price range that a Floor broker can add that is in addition to the limit price for the pegging e-Quote, provided that it is not inconsistent with the order’s limit price. Rule 70.26(x) provides that pegging interest will join the NBB or NBO provided that it is within the e-Quote’s pegging range. As noted in Rule 70.26(x)(A), a pegging e-Quote will not join the NBBO if it is locking or crossing the Exchange best bid or offer, in which case the pegging e-Quote would peg to the next available best-priced non-pegging interest. Rule 70.26(x)(B) further provides that if the NBBO is not within the price range specified for the pegging e-Quote, it will peg to the next available best-priced non-pegging interest within the price range selected by the Floor broker. Rule 70.26(xi) also provides that if a pegging range has not been included, the pegging e-Quote will peg to the NBBO so long as the NBBO is within the limit price of the e-Quote. Rule 70.26(xii) provides that the discretionary price range of a d-Quote will move with a pegging d-Quote, subject to any floor or ceiling set by the Floor broker. Rule 70.26(xii)(i)(A)–(C) then set forth that if the NBBO moves out of the range of the pegging e-Quote, the pegging e-Quote will remain at the best price to which there may be non-pegging interest to peg, and that once the NBBO returns to within the price range designated for the pegging e-Quote, it will once again peg to the NBBO. Finally, Rule 70.26(xiii) provides that a Floor broker may establish a minimum size of same-side volume to which the e-Quote or d-Quote will peg.

**Summary of Proposed Rule Changes**

As noted above, the Exchange proposes to permit DMM interest to be set as pegging interest. Because pegging for DMM interest would generally be the same as pegging for e-Quotes and d-Quotes, the Exchange proposes to amend the existing text, as described in more detail below, to define the term “pegging interest” to include e-Quotes, d-Quotes, and DMM interest. The Exchange believes that it is appropriate to expand the availability of pegging interest to DMM interest because it will assist DMMs in meeting their obligations pursuant to NYSE Rule 104(a)1 to maintain a continuous, two-sided quote at or near the NBBO throughout the trading day.

In particular, the Exchange notes that other markets have recently been approved to provide market makers with pegging order functionality so that pegging interest could be set for DMM interest.
market makers may automatically track the NBBO in compliance with the market-wide market maker quoting requirements. The rules adopted or proposed by those market sets the pegging functionality to automatically track the designated percentages set forth in the market-wide quoting rule (i.e., NYSE Rule 104(a)(1)(B)(iii) designated percentages). While the Exchange’s expansion of pegging functionality to DMMs would not include those set percentages, the Exchange believes that providing DMMs with the flexibility to engage in same-side or opposite-side pegging with offset values of their own choosing, as discussed in more detail below, will enable DMMs to set their market-making quoting interest to automatically track the NBBO at a tighter ratio than the quoting requirements contemplated by NYSE Rule 104(a)(1)(B).

The Exchange also proposes to change references to NBB, NBO and NBBO pegging interest text of Rule 13. Because an offset value would be required for Market Pegging Interest, the adjusted pegging interest to buy (sell) pegs to the PBB (PBO), would be renamed in the rule as a “Primary Pegging Interest.” The Exchange notes that unlike Primary Pegging Interest, which currently cannot establish or sustain the PBO as a result of pegging, Market Pegging Interest can establish or sustain a PBB or PBO.

Throughout Rule 70.26 to PBB, PBO and PBB, respectively. The Exchange believes that these changes are more consistent with the requirements of the Regulation NMS Order Protection Rule and the related definition of protected bid and offer, as set forth in Regulation NMS Rule 600(b)(57), which defines a protected bid or protected offer as a quote in an NMS stock that is (i) displayed by an automated trading center; (ii) disseminated pursuant to an effective national market system plan; and (iii) an automated quotation that is the best bid or best offer of a national stock exchange or a national securities association. Exchange systems monitor the PBB to purposes of the Order Protection Rule and, in this respect, Exchange systems also move pegging interest based on moves to the PBB, not the NBBO. The Exchange further proposes to expand the pegging functionality to permit pegging to the opposite side of the market. The existing functionality, for which pegging interest to buy (sell) pegs to the PBB (PBO), would be renamed in the rule as a “Primary Pegging Interest.” The proposed new functionality, whereby pegging interest would peg to the opposite side of the market (buy [sell] pegs to the PBO) pegging interest to the opposite side of the market with an offset of $0.015 would be priced at $1.98 (i.e., $2.00 PBB minus $0.015 offset). Pegging interest to sell that is set to peg to the opposite side of the market with an offset of $0.015 would be priced at $2.05 (i.e., $2.00 PBO plus $0.05 offset). In contrast, pegging interest to buy that is set to peg to the opposite side of the market with an offset of $0.015 would be priced at $2.00 (i.e., $2.05 PBO minus $0.05 offset). Pegging interest to sell that is set to peg to the opposite side of the market with an offset of $0.015 would be priced at $2.05 (i.e., $2.00 PBO plus $0.05 offset). Pegging interest to sell that is set to peg to the opposite side of the market with an offset of $0.015 would be priced at $2.00 (i.e., $2.05 PBO minus $0.05 offset). Pegging interest to sell that is set to peg to the opposite side of the market with an offset of $0.015 would be priced at $2.05 (i.e., $2.00 PBO plus $0.05 offset).

10 Member organizations are responsible for determining whether their trading activity qualifies as bona fide market making for purposes of the “locate” exception and close-out requirements of Regulation SHO under the Exchange Act. Compliance with the quoting requirements of NYSE Rule 104(a)(1)(B), or any other rules of the Exchange, does not necessarily mean that the DMM, or other form of Exchange-registered market maker, is engaged in bona fide market making for purposes of Regulation SHO. See 17 CFR 242.203(b)(2)(iii); 17 CFR 240.605; 17 CFR 240.606(h); 17 CFR 242.203(b)(2)(iii)(II), which establishes a “Market Maker Peg Order”; and 67755 (Aug. 29, 2012), 77 FR 54633 (Sept. 5, 2012) (SR–BATS–2012–026) (approving The BATS Exchange, Inc. (“BATS”) Pegging Interest to sell that is set to peg to the opposite side of the market with an offset of $0.015 would be priced at $2.05 (i.e., $2.00 PBO plus $0.05 offset). In contrast, pegging interest to buy that is set to peg to the opposite side of the market with an offset of $0.015 would be priced at $2.00 (i.e., $2.05 PBO plus $0.05 offset). Pegging interest to sell that is set to peg to the opposite side of the market with an offset of $0.015 would be priced at $2.05 (i.e., $2.00 PBO plus $0.05 offset).

11 In most instances, the PBBO and the NBBO are the same. However, if the NBBO is based on a quote that is no longer protected, i.e., a stale quote, the PBO may change before the NBBO changes. In this regard, the Exchange notes that current Rule 70.26(vii) already specifies that pegging interest to buy (sell) pegs to the same side of the market with an offset of $0.015 would be priced at $2.05 (i.e., $2.00 PBB plus $0.05 offset). Pegging interest to sell that is set to peg to the opposite side of the market with an offset of $0.015 would be priced at $2.00 (i.e., $2.05 PBO plus $0.05 offset). In contrast, pegging interest to buy that is set to peg to the opposite side of the market with an offset of $0.015 would be priced at $2.00 (i.e., $2.05 PBO plus $0.05 offset). In contrast, pegging interest to buy that is set to peg to the opposite side of the market with an offset of $0.015 would be priced at $2.00 (i.e., $2.05 PBO plus $0.05 offset).

12 Pegging interest to sell that is set to peg to the opposite side of the market with an offset of $0.015 would be priced at $2.05 (i.e., $2.00 PBO plus $0.05 offset). In contrast, pegging interest to buy that is set to peg to the opposite side of the market with an offset of $0.015 would be priced at $2.00 (i.e., $2.05 PBO plus $0.05 offset). In contrast, pegging interest to buy that is set to peg to the opposite side of the market with an offset of $0.015 would be priced at $2.00 (i.e., $2.05 PBO plus $0.05 offset).
Proposed Specific Rule Changes

As noted above, the Exchange proposes to delete Rule 70.26 in its entirety and move the text that provides for pegging to Rule 13. Because pegging interest is being expanded to include DMM interest, the Exchange believes that Rule 70, which concerns Floor broker interest only, is no longer the proper rule within which to provide for pegging. Rather, because pegging is a type of modifier, the Exchange believes it is more appropriate to provide for pegging within Rule 13 as a defined term referred to as “pegging interest.” The Exchange notes that Rule 13 is currently titled “Definition of Orders.” However, Rule 13 currently provides for orders and order modifiers.24 Accordingly, the Exchange proposes to change the title of Rule 13 to “Orders and Modifiers.”

As proposed, the new pegging interest section of Rule 13 would replace the existing text of Rule 70.26, with numerous non-substantive changes, as well as add new rule text to incorporate the elements proposed above, i.e., permitting DMM interest to be set as pegging interest, changing NBBO to PBBO, adding the Market Pegging Interest functionality, and providing for an offset value to be specified. The Exchange believes that the proposed changes to the rule text, as incorporated in Rule 13, result in a more streamlined rule that eliminates redundancy in the current rule while also incorporating the new elements in a logical and comprehensive manner. For example, rather than referring to “pegging e-Quotes” or “pegging d-Quotes” throughout the rule, the Exchange proposes to use the term “pegging interest,” unless the rule is specific only to a particular type of interest. In addition, the Exchange proposes to combine concepts that are currently addressed separately or in multiple locations within Rule 70.26, but that can be logically combined into streamlined rule text (e.g., the text discussing the permissible price range and how it impacts pegging).

The following sets forth the proposed rule changes (all references to proposed paragraphs are to the proposed new pegging interest text of Rule 13):

• Proposed paragraph (a)(1) provides that pegging interest means "displayable or non-displayable interest to buy or sell at a price set to track the PBB or PBO as the PBBO changes. The proposed rule text would replace the general description of pegging in Rule 70.26(i), with certain changes. As discussed above, from a substantive perspective, the Exchange proposes to replace references to the NBB, NBO, and NBBO with references to the PBB, PBO, and PBBO. The Exchange proposes to delete the reference to the limit price of an e-Quote as that concept will now be part of proposed paragraph (a)(4), relating to the specified price range of pegging interest. In addition, the Exchange proposes a clarifying rule change to add that pegging interest may be for displayable or non-displayable interest. The current pegging functionality is available for all e-Quotes and d-Quotes, whether intended for display or not, and the Exchange proposes a clarifying rule change to make clear that pegging interest is available for both displayable and non-displayable interest.

• Proposed paragraph (a)(1)(A) provides that pegging interest may not include a sell “plus” or buy “minus” instruction, which replaces without any substantive change the current text in Rule 70.26(i) that a tick-sensitive e-Quote is not permitted to peg. A “tick sensitive” e-Quote is one that includes a sell “plus” or buy “minus” instruction, which are existing defined terms in Rule 13. Therefore, the Exchange proposes to use the sell “plus” or buy “minus” terminology instead of the current “tick sensitive” language, which is not a defined term in Exchange rules.23

• Proposed paragraph (a)(1)(B) would replace without any substantive change the second sentence of Rule 70.26(iii), which provides that Exchange systems shall reject a pegging e-Quote or d-Quote that is entered 10 seconds or less before the scheduled close of trading.24 The Exchange notes that the rationale for excluding pegging e-Quotes and d-Quotes 10 seconds prior to the close is to assist the DMM with arranging the close, and because the DMM is aware of DMM interest, this prohibition is not necessary for DMM interest. The Exchange notes that this does not confer any additional benefit to the DMM because the DMM may be required to supply additional liquidity as needed as part of the closing transaction in order to meet the obligation set forth in Rule 104(a)(3) to facilitate the close of trading for each of the securities in which the DMM is registered.

• Proposed paragraph (a)(1)(C) would replace without any substantive change Rule 70.26(xii) by specifying that discretionery instructions associated with a pegging d-Quote would move as the d-Quote pegs to the PBBO, subject to any price range and limit price that may be specified. The Exchange does not propose to include the reference to e-Quote that is currently in Rule 70.26(xii) because a d-Quote is an e-Quote with discretionery instructions.25 Also, the Exchange proposes to refer to the specified price range instead of the current reference to floor or ceiling price in Rule 70.26(xii). Finally, the Exchange proposes to include a reference to the pegging interest’s limit price. The Exchange notes that the textual differences between proposed paragraph (a)(1)(C) and current Rule 70.26(xii) do not make any substantive changes to the rule.

• Proposed paragraph (a)(2) would replace without any substantive change the first sentence of Rule 70.26(iii), by specifying that pegging is only active when auto-quoting is active.

• Proposed paragraph (a)(3) would replace the rule text in Rule 70.26(vii) by specifying that pegging interest shall peg to a price that is based on either (A) a protected bid or offer, which may be available on the Exchange or an away market, or (B) interest that establishes a price on the Exchange, which may include Primary or Market Pegging Interest that has established a price as a result of an offset value. The current rule provides that pegging interest only pegs to other non-pegging interest, which may be available on the Exchange or a protected bid or offer on an away market. The proposed rule text modifies the existing rule text to take into consideration the possibility that either Primary Pegging Interest or Market Pegging Interest may establish a price on the Exchange and therefore pegging interest may peg to other pegging interest.26 The circumstances where pegging interest may establish a price is as a result of the proposed new offset function, which is why the Exchange

24 For example, a sell “plus” or buy “minus” order is not an order type per se, but is instead an order modifier.
25 This change does not alter the meaning of the current rule text.
26 The current rule text only refers to e-Quotes, but since d-Quotes are a subset of e-Quotes, Exchange systems currently reject both pegging e-Quotes and d-Quotes that are entered 10 seconds or less before the scheduled close of trading.
proposes to change this aspect of the rule.

**Example 1:** Assume that the Exchange best bid and offer, also the PBBO, is $10.05–$10.07, and there is buy Market Pegging Interest pegged to the PBBO with an offset value of $0.01, such Market Pegging Interest would establish a new NBBO and Exchange best bid of $10.06. Because the Market Pegging Interest established a new PBBO, Primary Pegging Interest to buy could peg to that $10.06 price and therefore would be pegging to pegging interest.

**Example 2:** Assume again that the Exchange best bid or offer, which is also the PBBO, is $10.05–$10.07, with 100 shares at the bid, and there is buy Primary Pegging Interest “A” of 500 shares with an offset of $0.01, which would be at a priced at $10.04, and that is the only Exchange interest priced at $10.04. Assume further there is buy Primary Pegging Interest “B” that will only peg if there is minimum same-side volume of 500 shares. Because the Exchange best bid is only 100 shares, Primary Pegging Interest “B” would peg to the price that meets the minimum size requirement, which in this case would be established by the Primary Pegging Interest “A” at $10.04. In this scenario, because of the offset value associated with Primary Pegging Interest “A”, that interest has established a price and as a result, Primary Pegging Interest “B” is pegging to pegging interest.

**Proposed paragraph (a)(4) provides that pegging interest shall peg only within the specified price range for the pegging interest.** The Exchange notes that while the proposed language is new rule text, the proposed paragraph does not make any substantive changes to the current rule, but rather consolidates rule text from separate parts of the existing rule in a streamlined format. In particular, the proposed rule would replace the remaining text in Rules 70.26(i) that pegging interest must be within the specified price range, 70.26(vii) that pegging interest pegs to interest within the price range selected by the Floor broker, and 70.26(ix), including (A) through (D) of that subsection, by replacing the detailed “price range” discussion within current Rule 70.26(ix) by specifying instead that pegging interest shall peg only within the specified price range for the pegging interest. For example, Rule 70.26(ix)(D) currently specifies that the price to which pegging interest pegs cannot be higher (lower) than the limit price of the buy (sell) pegging interest, which is also currently covered in Rule 70.26(i).28

In this regard, the Exchange proposes not to include the text of current Rule 70.26(ix)(A), (B) and (C), which refer to the “quote price,” “ceiling price” and “floor price,” respectively, of pegging interest. The Exchange does not consider these terms necessary and believes that proposed paragraph (a)(4) is clearer and more streamlined without their inclusion.29

- Proposed paragraph (a)(4)(A) specifies that if the PBBO, combined with any offset value, is not within the specified price range, the pegging interest would instead peg to the next available best-priced interest that is within the specified price range. Other than addressing how the offset value impacts the pegging interest, the reference to NBBO changing to PBBO, replacing the phrase “the price range selected by the Floor broker” with “the specified price range,” this text is substantively the same and replaces current Rule 70.26(x)(B).30

- Proposed paragraph (a)(4)(B) would replace without any substantive change the current Rule 70.26(xii)(A), (B) and (C) by specifying that pegging interest that has reached its specified price range will remain at that price if the PBBO goes beyond such price range and that if the PBBO returns to a price within the specified price range, it shall resume pegging. The Exchange notes that this text is substantively the same as in current Rule 70.26(xii)(A), (B), and (C), albeit in a streamlined format. The Exchange further notes that the proposed rule text replaces without any substantive change set forth in Rule 70.26(x)(A) that pegging interest will peg to the NBBO so long as it is in the specified price range) and 70.26(xii) (pegging interest without a specified price range will peg based on the limit price of the order).

- Proposed paragraph (b) defines the “offset value,” as discussed in more detail above.

- Proposed paragraph (c) defines the term “Primary Pegging Interest,” as discussed in more detail above.

- Proposed paragraph (c)(1) would replace Rule 70.26(x)(A) by specifying that Primary Pegging Interest shall not peg to a price that is locking or crossing the Exchange best offer (bid), but instead would peg to the next available best-priced interest that would not lock or cross the Exchange best offer (bid). In moving the text from Rule 70.26(x)(A), the Exchange proposes two minor changes: to change the reference from the NBB (NBO) to the term “price” and to delete the term “non-pegging interest.” The Exchange proposes these modifications because, as discussed above in connection with proposed paragraph (a)(3), there may be circumstances where because of the offset value, pegging interest may peg to a price established by pegging interest, which in some cases, may not be the PBBO.

- Proposed paragraph (c)(2) would replace without substantive change Rules 70.26(v), (viii)(A), and (viii)(B) by specifying that Primary Pegging Interest will not establish a PBBO (PBO) or sustain a PBBO (PBO) as a result of pegging.31

- Proposed paragraph (c)(3) would replace without any substantive change Rule 70.26(vi) by specifying that Primary Pegging Interest may establish an Exchange best bid or offer. The Exchange proposes to replace the rule text set forth in Rule 70.26(vi) that pegging interest that sets the Exchange best bid or offer is entitled to priority by adding to Rule 72 that pegging interest may have priority interest.32

- Proposed paragraph (c)(4) provides that Primary Pegging Interest may include an offset value for which the adjusted price for buy (sell) pegging interest shall be the PBB (PBO) minus (plus) the offset value, which is new rule text, as discussed in greater detail above.

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27 See proposed paragraph (c)(5) of the pegging interest text of Rule 13.
28 This addition would not result in a substantive change to pegging. Also, the Exchange notes that Rule 70.26(ix)(C) currently says that the price may not be “inconsistent with” the limit price. The Exchange believes that using “specified price range” would be clearer than the current “inconsistent with” text because the specified price range concept is broad enough to include the limit price of the order as well as any other pricing instructions that may be included with the pegging interest.
29 The Exchange considers it inherent that a price “range” will have upper and lower bounds and therefore does not consider these terms necessary.
30 The Exchange notes that Rule 70.26(x)(B) provides that pegging interest will “join” the interest to which it pegs. The Exchange believes that using “peg to” terminology would be more precise than the current “join” language.
31 The Exchange believes that the proposed rule text “as a result of pegging” clarifies that the only time that Primary Pegging Interest will not establish or sustain the PBBO is if it follows its pegging instructions. When a Primary Pegging Interest is at a price because it is the limit price of the Primary Pegging Interest, such interest will not have established or sustained the PBBO “as a result of pegging” and the Exchange believes that it is no longer necessary to specifically state that pegging interest at its limit price may remain displayed at the PBBO, as currently set forth in Rules 70.26(viii)(A) and (B). In addition, the Exchange proposes not to replace the statement in Rule 70.26(v) that pegging is reactive because that concept was intended to mean that pegging interest cannot create a PBBO or PBO. However, because proposed Market Pegging Interest can establish a new PBBO or PBO, the limitation to “reactive” is no longer relevant and the Exchange believes that the proposed rule text that Primary Pegging Interest cannot establish or sustain the PBBO obviates the need to separately say that pegging is reactive. The Exchange also proposes to delete the term “new” as being redundant of the concept of establishing a PBBO or PBO.
32 The Exchange proposes to further amend Rule 72 to change a reference to current Rule 70.26 to the proposed new pegging interest text within Rule 13 and change a reference to e-Quotes to “pegging interest,” generally.
• Proposed paragraph (c)(5) would replace without any substantive change Rule 70.26(xi) by specifying that Primary Pegging Interest may be designated with a minimum size of same-side volume to which such pegging interest shall peg. Other than the references to NBB and NBO changing to PBB and PBO, respectively, this text is substantively the same as in current Rule 70.26(xiii).

• Proposed paragraph (d) provides for new rule text related to the new Market Pegging Interest, which is discussed in greater detail below. More specifically, proposed paragraph (d)(1) would provide that Market Pegging Interest shall not peg to a price that is locking or crossing the Exchange best offer (bid), but instead shall peg to a price one minimum price variation lower (higher) than the Exchange best bid or offer. This proposed functionality is intended to prevent Market Pegging Interest from locking or crossing the Exchange best bid or offer. Proposed paragraph (d)(2) would provide that Market Pegging Interest to buy may establish or sustain a PBB (PBO). Proposed paragraph (d)(3) would mirror paragraph (c)(3) by specifying that Market Pegging Interest may establish an Exchange best bid or offer. Finally, proposed paragraph (d)(4), would require Market Pegging Interest to include an offset value, as discussed in more detail above.

The Exchange proposes to delete without replacing Rule 70.26(iv), which provides that pegging interest trades on parity with other interest at the NBBO must be entered to priority is executed. The Exchange believes that this text is superfluous, in that pegging interest is not treated differently than non-pegging interest for purposes of determining parity, as set forth in Rule 72, and Rule 72 governs the allocation of executions and priority. The Exchange therefore is not proposing to address this concept in new pegging interest section of Rule 13.

The Exchange further proposes to add new subsection (xi) to Rule 72(c) to codify how Exchange systems treat modifications to orders for purposes of time sequencing. Specifically, if an order is modified solely to reduce the size of the order, Exchange systems accept such a modification without changing the time stamp of original order entry. Accordingly, the Exchange proposes to codify in Rule 72(c)(xii) that an order is modified to reduce the size of the order shall retain the time stamp of original order entry.

Currently, any other modification to an order, including increasing the size of the order or changing the price of the order, results in the order receiving a new time stamp. Accordingly, the Exchange proposes to codify that any other modification of an order, such as increasing the size or changing the price of an order, results in a new time stamp. The Exchange notes that the proposed rule language covers any modification of an order, whether directed by a member organization that entered the order or entered by Exchange systems pursuant to rule. For example, Exchange systems may re-price an order if the interest is being re-priced because it is pegging interest, pursuant to Rule 13, or because it is a short sale order during a Short Sale Period, pursuant to Rule 440B(e).

The proposed changes to Rule 72(c)(xii) will be effective on the

conforming edits to Rule 72(a)(iii)(G) to replace references to Rule 70.26 and e-Quotes with references to Rule 13 and “pegging interest.”

The manner in which a member organization may reduce the size of an order without impacting the time stamp is to submit a partial cancellation message. For example, if a member organization has entered an order for 400 shares to buy at $10.00 and wants to reduce it to 200 shares to buy at $10.00, the member organization would submit a cancel message for 200 shares to buy at $10.00, which would leave the remaining 200 shares of the buy order with the time stamp of original order entry. To change the price of an order or increase the size of an order, a member organization would need to enter a “cancel/replace” message, which serves to cancel the original order and replace it with a new order. The replacement order receives a new time stamp. The “cancel/replace” message can also be used to change the order marking under Regulation SHO of a pending sell order (i.e., from “long” to “short”). For example, if a seller increases the size of a pending sell order, the resulting modified order is considered a new order and must be marked by the broker-dealer to reflect the seller’s new position at the time of order modification pursuant to Rule 200 of Regulation SHO. The Exchange notes that if a member organization uses a “cancel/replace” message to reduce the size of the order, rather than a partial cancellation, because the exchange would be able to select whether to enter Primary Pegging Interest or Market Pegging Interest, and would be able to select the offset value, thereby providing the DMM with the flexibility to track the PBOO at a tighter ratio than contemplated by the rules of other exchanges that offer a market maker pegging functionality.

The Exchange further notes that expanding pegging functionality to DMM interest is not designed to permit unfair discrimination. The Exchange believes that expanding the pegging functionality to DMMs is consistent
with the existing approved rules, as well as consistent with the Act because the expansion is narrowly tailored to offer the functionality to a class of participants that has an affirmative obligation to maintain a quote at or near the NBBO. The Exchange notes that another class of member organizations, Supplemental Liquidity Providers ("SLP"), provide liquidity to the Exchange, and certain SLPs can register as market makers at the Exchange. While the Market Pegging Interest functionality will not be available to SLPs at this time, the Exchange does not believe that this is discriminatory because there is no requirement that a security be assigned to an SLP, and a member organization’s participation in the SLP program is voluntary. By contrast, all securities traded at the Exchange must be assigned to a DMM, and a DMM unit cannot withdraw from registration in securities assigned to it.

As discussed above, rather than adding the concepts for the Market Peg functionality, the offset value, and expansion to DMM interest in Rule 70.26, the Exchange proposes to restructure the text of Rule 70.26 and move it to Rule 13. The Exchange believes that this will more appropriately address how pegging operates and consolidates rule text relating to orders and modifiers in single location in the rules. In this regard, the proposal to change references to NBB, NBO and NBBO to PBB, PBO and PBBO, respectively, would add greater specificity regarding the interest to which pegging interest may peg. The Exchange also believes that these changes are more consistent with the requirements of the Regulation NMS Order Protection Rule and the related definition of protected bid and offer, as set forth in Regulation NMS Rule 600(b)(57). As noted above, Exchange systems monitor the PBBO for purposes of the Order Protection Rule and, in this respect, Exchange systems also move pegging interest based on moves to the PBBO, not the NBBO. The Exchange believes that this increased specificity would perfect the mechanism of a free and open market and a national market system and, in general, would protect investors and the public interest.

Additionally, use of the proposed Market Pegging Interest with an offset value, as well as the proposed offset functionality for Primary Pegging Interest, would provide greater flexibility with respect to the price to which pegging interest may peg and would encourage tighter spreads that move as the PBBO moves. The Exchange believes that this would remove impediments to, and perfect the mechanism of, a free and open market and a national market system. Additionally, requiring an offset value to be specified for pegging interest that pegs to the opposite side of the market would prevent fraudulent and manipulative acts and practices, promote just and equitable principles of trade, and foster cooperation and coordination with persons engaged in facilitating transactions in securities by preventing pegging interest from locking or crossing the opposite side of the market. The Exchange further believes that the proposal fosters competition as other markets already offer similar functionality.

The Exchange also believes that the proposed rule change would promote clarity and transparency by adding greater specificity with respect to the interest to which pegging interest may peg. In this regard, the proposed realignment and consolidation of existing rule text would result in a clearer rule, which would benefit all member organizations as well as others that read the rule. The Exchange further believes that the proposed rule change would promote clarity and transparency by removing superfluous rule text that merely describes the manner in which all trading interest is treated, regardless of whether it is pegging interest. For example, removing the text within current Rule 70.26(iv), which provides that pegging interest trades on parity with non-pegging interest, would eliminate potential confusion regarding whether pegging interest is treated differently than non-pegging interest with respect to determining parity.

Finally, the Exchange believes that the proposed change to Rule 72 to codify which modifications to an order that Exchange systems accept and time stamp treatment for such modified orders would promote clarity and transparency and therefore remove impediments to, and perfect the mechanism of, a free and open market and a national market system because the proposed rule change makes clear when a modification to an order results in a new time stamp for that order.

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 Act.

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

No written comments were solicited or received with respect to the proposed rule change.

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

Because the foregoing proposed rule 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, provided that the self-regulatory organization has given 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, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b–4(f)(6) thereunder.

At any time within 60 days of the filing of such 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 email to rule-comments@sec.gov. Please include File Number SR–NYSE–2012–65 on the subject line.

Paper Comments

• Send paper comments in triplicate to Elizabeth M. Murphy, Secretary,

40 See NYSE Rule 104(a)(1)(A).
41 See NYSE Rule 107B.
42 See supra note 10.
43 See supra note 11.
44 See supra note 12.

SUMMARY: This is an amendment of the Presidential declaration of a major disaster for the State of Connecticut (FEMA—4087—DR), dated 10/30/2012. Incident: Hurricane Sandy. Incident Period: 10/27/2012 through 11/08/2012.

Supplementary Information: The notice of the President’s major disaster declaration for the State of Connecticut, dated 10/30/2012 is hereby amended to establish the incident period for this disaster as beginning 10/27/2012 and continuing through 11/08/2012. All other information in the original declaration remains unchanged.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.47

Kevin M. O’Neill,
Deputy Secretary.

[FR Doc. 2012–29077 Filed 11–30–12; 8:45 am]

BILLY CODE 8011–01–P

SMALL BUSINESS ADMINISTRATION
[Disaster Declaration #13369 and #13370]

Connecticut Disaster Number CT–00028

AGENCY: U.S. Small Business Administration.

ACTION: Amendment 1.

SUMMARY: This is an amendment of the Presidential declaration of a major disaster for the State of New Jersey (FEMA—4086—DR), dated 10/30/2012. Incident: Hurricane Sandy. Incident Period: 10/26/2012 through 11/08/2012.

Effective Date: 11/23/2012.

Physical Loan Application Deadline Date: 12/31/2012.

EIDL Loan Application Deadline Date: 07/31/2013.

ADDRESSES: Submit completed loan applications to: U.S. Small Business Administration, 409 3rd Street SW., Suite 6050, Washington, DC 20416.


SUPPLEMENTARY INFORMATION: Notice is hereby given that as a result of the President’s major disaster declaration on 11/23/2012, private non-profit organizations that provide essential services of governmental nature may file disaster loan applications at the address listed above or other locally announced locations.

The following areas have been determined to be adversely affected by the disaster:


The Interest Rates are:

<table>
<thead>
<tr>
<th>For Physical Damage:</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Profit Organizations With Credit Available Elsewhere ...</td>
<td>3.125</td>
</tr>
<tr>
<td>Non-Profit Organizations Without Credit Available Elsewhere</td>
<td>3.000</td>
</tr>
</tbody>
</table>

For Economic Injury:

| Non-Profit Organizations Without Credit Available Elsewhere | 3.000 |

The number assigned to this disaster for physical damage is 133968 and for economic injury is 133978.

(Catalog of Federal Domestic Assistance Numbers 59002 and 59008)

Joseph P. Loddo,
Acting Associate Administrator for Disaster Assistance.

[FR Doc. 2012–29156 Filed 11–30–12; 8:45 am]

BILLY CODE 8025–01–P

SMALL BUSINESS ADMINISTRATION
[Disaster Declaration #13367 and #13368]

New Jersey Disaster Number NJ–00033

AGENCY: U.S. Small Business Administration.

ACTION: Amendment 3.

SUMMARY: This is an amendment of the Presidential declaration of a major disaster for the State of New Jersey (FEMA—4086—DR), dated 10/30/2012. Incident: Hurricane Sandy. Incident Period: 10/26/2012 through 11/08/2012.

Effective Date: 11/23/2012.

Bilings 8025–01–P

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.47

Kevin M. O’Neill,
Deputy Secretary.

[FR Doc. 2012–29156 Filed 11–30–12; 8:45 am]

BILLY CODE 8025–01–P

SMALL BUSINESS ADMINISTRATION
[Disaster Declaration #13369 and #13370]

Connecticut Disaster Number CT–00028

AGENCY: U.S. Small Business Administration.

ACTION: Amendment 1.


Effective Date: 11/23/2012.

Physical Loan Application Deadline Date: 01/22/2013.

EIDL Loan Application Deadline Date: 08/23/2013.

ADDRESSES: Submit completed loan applications to: U.S. Small Business Administration, Processing and Disbursement Center, 14925 Kingsport Road, Fort Worth, TX 76155.


SUPPLEMENTARY INFORMATION: Notice is hereby given that as a result of the President’s major disaster declaration on 11/23/2012, private non-profit organizations that provide essential services of governmental nature may file disaster loan applications at the address listed above or other locally announced locations.

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(Catalog of Federal Domestic Assistance Numbers 59002 and 59008)

Joseph P. Loddo,
Acting Associate Administrator for Disaster Assistance.

[FR Doc. 2012–29156 Filed 11–30–12; 8:45 am]

BILLY CODE 8025–01–P

SMALL BUSINESS ADMINISTRATION
[Disaster Declaration #13367 and #13368]

New Jersey Disaster Number NJ–00033

AGENCY: U.S. Small Business Administration.

ACTION: Amendment 3.

SUMMARY: This is an amendment of the Presidential declaration of a major disaster for the State of New Jersey (FEMA—4086—DR), dated 10/30/2012. Incident: Hurricane Sandy. Incident Period: 10/26/2012 through 11/08/2012.

Effective Date: 11/23/2012.

Bilings 8025–01–P

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.47

Kevin M. O’Neill,
Deputy Secretary.

[FR Doc. 2012–29156 Filed 11–30–12; 8:45 am]

BILLY CODE 8025–01–P

SMALL BUSINESS ADMINISTRATION
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Connecticut Disaster Number CT–00028

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SMALL BUSINESS ADMINISTRATION
[Disaster Declaration #13367 and #13368]

New Jersey Disaster Number NJ–00033

AGENCY: U.S. Small Business Administration.

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SUMMARY: This is an amendment of the Presidential declaration of a major disaster for the State of New Jersey (FEMA—4086—DR), dated 10/30/2012. Incident: Hurricane Sandy. Incident Period: 10/26/2012 through 11/08/2012.

Effective Date: 11/23/2012.