

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-60354; File No. SR-NASDAQ-2009-065]

### Self-Regulatory Organizations; the NASDAQ Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change, as Modified by Amendment Nos. 1 and 2 Thereto, To Modify Routing of Orders From NASDAQ Options Market to an Affiliate Exchange

July 21, 2009.

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 29, 2009, The NASDAQ Stock Market LLC (“Nasdaq”) 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 Nasdaq. On July 17, 2009, Nasdaq filed Amendment No. 1 to the proposed rule change. On July 17, 2009, Nasdaq filed Amendment No. 2 to the proposed rule change.<sup>3</sup> Nasdaq has designated the proposed rule change as constituting a non-controversial rule change under Rule 19b-4(f)(6) under the Act,<sup>4</sup> which renders the proposal effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

#### I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

Nasdaq proposes to amend Chapter VI, Sections 1(e)(7) and 11(b) of the Rules of the NASDAQ Options Market (“NOM”) to modify the restriction on routing of certain orders to a facility of an exchange that is an affiliate of NOM.

The text of the proposed rule change is below. Proposed new language is *italicized*; proposed deletions are in brackets.

#### Options Rules

#### Chapter VI Trading System

\* \* \* \* \*

#### Sec. 1 Definitions

The following definitions apply to Chapter VI for the trading of options listed on NOM.

(a)–(d) No change.

(e) The term “Order Type” shall mean the unique processing prescribed for designated orders that are eligible for entry into the System, and shall include:

(1)–(6) No change.

(7) “Exchange Direct Orders” are orders that are directed to an exchange other than NOM as directed by the entering party without checking the NOM book. If unexecuted, the order (or unexecuted portion thereof) shall be returned to the entering party. This order type may only be used for orders with time-in-force parameters of IOC.

Directed Orders may not be directed to a facility of an exchange that is an affiliate of Nasdaq *other than the Boston Options Exchange*.

(f)–(h) No change.

#### Sec. 11 Order Routing

(a) No change.

(b) For Non-System securities, the order routing process shall be available to Participants from 9:30 a.m. Eastern Time until market close and shall route orders based on the participant’s instructions. Notwithstanding the foregoing, the order routing process will not be available to route Non-System Securities to a facility of an exchange that is an affiliate of Nasdaq *other than the Boston Options Exchange*.

(c)–(e) No change.

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

In its filing with the Commission, Nasdaq 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. Nasdaq 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

##### a. Background

The NASDAQ OMX Group, Inc. (“NASDAQ OMX”), a Delaware corporation, acquired the Boston Stock Exchange (“BSE”) in August 2008. Prior to the acquisition, BSE owned a 21.87% interest in Boston Options Exchange Group, LLC, the operator of the Boston Options Exchange facility (“BOX”). Boston Options Exchange Regulation, LLC (“BOXR”) was a wholly-owned

subsidiary of BSE, to which BSE was delegated, pursuant to a delegation plan, certain self-regulatory responsibilities related to BOX.

In connection with the closing of the acquisition by NASDAQ OMX, BSE transferred its interest in Boston Options Exchange Group to MX US, a wholly-owned subsidiary of the Montreal Exchange Inc. NASDAQ OMX renamed BSE as NASDAQ OMX BX, Inc. (“BX”) and relaunched its equity trading market as the NASDAQ OMX BX Equities Market in January 2009. Although BX no longer holds an ownership interest in Boston Options Exchange Group, it continues to hold self-regulatory obligations with respect to BOX, a facility of BX. BX, together with BOXR, retains regulatory control over BOX and BX, as the SRO, remains responsible for ensuring compliance with the federal securities laws and all applicable rules and regulations.

NASDAQ OMX also currently indirectly owns NASDAQ Options Services, LLC (“NOS” or the “Routing Facility”), a registered broker-dealer and a BOX market participant. Thus, NOS is deemed an affiliate of BX, BOX and BOXR.

##### b. Affiliation and Order Routing

Nasdaq is proposing that NOS be permitted to route Exchange Direct Orders in System Securities<sup>5</sup> to BOX without checking the NOM book prior to routing. Exchange Direct Orders are orders that route directly to other options markets on an immediate-or-cancel basis without first checking the NOM book for liquidity.<sup>6</sup> In addition, the proposed rule change would permit the routing by NOS of orders (including Exchange Direct Orders) in Non-System Securities from NOM to BOX.

NOS is the approved outbound routing facility of Nasdaq for NOM. Under NOM Rule Chapter VI, Section 11: (1) NOM routes orders in options via NOS, which serves as the sole “Routing Facility” of NOM; (2) the sole function of the Routing Facility is to route orders in options to away markets pursuant to NOM rules, solely on behalf of NOM; (3) NOS is a member of an unaffiliated self-regulatory organization, which is the designated examining authority for the broker-dealer; (4) the Routing Facility is subject to regulation as a facility of Nasdaq, including the requirement to file proposed rule changes under Section 19 of the Act; (5) NOM must establish and maintain procedures and

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

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

<sup>3</sup> In Amendment Nos. 1 and 2, Nasdaq made minor non-substantive corrections to the rule text.

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

<sup>5</sup> Pursuant to Chapter VI, Section 1(b), “System Securities” are all options that are currently trading on NOM pursuant to Chapter IV of the NOM rules. All other options are “Non-System Securities.”

<sup>6</sup> Chapter VI, Section (1)(e)(7) of the NOM Rules.

internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between Nasdaq and its facilities (including the Routing Facility), and any other entity; and (6) the books, records, premises, officers, directors, agents, and employees of the Routing Facility, as a facility of Nasdaq, shall be deemed to be the books, records, premises, officers, directors, agents, and employees of Nasdaq for purposes of and subject to oversight pursuant to the Act, and the books and records of the Routing Facility, as a facility of Nasdaq, shall be subject at all times to inspection and copying by Nasdaq and the Commission.

The Commission has approved NOS's affiliation with BX subject to the conditions that: (1) NOS remains a facility of Nasdaq; (2) use of NOS's routing function by Nasdaq members continues to be optional<sup>7</sup> and (3) NOS does not provide routing of orders in options from NOM to BX or any trading facilities thereof, unless such orders first attempt to access any liquidity on the NOM book.<sup>8</sup>

In order to modify the conditions noted above regarding the operation of NOS and allow NOS to route Exchange Direct Orders directly to BOX, Nasdaq is proposing to amend the restriction in Chapter VI, Section (1)(e)(7) of the NOM Rules that prohibit the routing of Exchange Direct Orders to a facility of an exchange that is an affiliate of Nasdaq. Under the proposed rule change, an Options Participant could enter an order into NOM designated as an "Exchange Direct Order" with instructions to route that order directly to BOX without first checking the NOM book.

In addition, Nasdaq is proposing to amend Chapter VI, Section 11(b) of the NOM Rules to permit the routing of orders in Non-System Securities via NOS from NOM to BOX. As a result, orders in Non-System Securities that are routed to away markets under normal procedures could be routed to BOX, as well as those that are entered as Exchange Direct Orders with instructions to route directly to BOX.

Other exchanges previously have adopted rules that permit exchanges to accept routing of inbound orders from affiliates, subject to certain limitations and conditions intended to address the Commission's concerns regarding affiliation.<sup>9</sup> In the orders approving these rule changes, the Commission noted its concerns about potential informational advantages and conflicts of interest between an exchange's self-regulatory obligations and its commercial interest when the exchange is affiliated with one of its members, but determined that the proposed limitations and conditions were sufficient to mitigate its concerns.

With respect to concerns identified by the Commission regarding the potential for informational advantages favoring NOS vis-à-vis other non-affiliated BOX market participants, these concerns are addressed by existing NOM Rule Chapter VI, Section 11(e) which requires NOS to establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between Nasdaq and its facilities (including NOS) and any other entity.

In addition, BX is proposing a rule change and certain undertakings intended to manage the flow of confidential and proprietary information between NOS and BOX and to minimize potential conflicts of interest.<sup>10</sup>

## 2. Statutory Basis

Nasdaq believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>11</sup> in general, and with Section 6(b)(5) of the Act,<sup>12</sup> in particular, in that the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market

and a national market system, and, in general, to protect investors and the public interest. The proposed rule change would permit routing of Exchange Direct Orders from NOM to BOX through NOS while minimizing the potential for conflicts of interest and informational advantages involved where a broker-dealer is affiliated with an exchange facility to which it is routing orders.

## B. Self-Regulatory Organization's Statement on Burden on Competition

Nasdaq does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended.

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

Written comments were neither solicited nor received.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>13</sup> and Rule 19b-4(f)(6)<sup>14</sup> thereunder in that it effects a change that: (i) Does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

In its recent guidance on the proposed rules of Self-Regulatory Organizations ("SROs"),<sup>15</sup> the Commission concluded that filings based on the rules of another SRO already approved by the Commission are eligible for immediate effectiveness under Rule 19b-4(f)(6). The Commission noted that "a proposed rule change appropriately may be filed as an immediately effective rule so long as it is based on and similar to another SRO's rule and each policy issue raised by the proposed rule (i) has been considered previously by the Commission when the Commission approved another exchange's rule (that was subject to notice and comment), and (ii) the rule change resolves such policy issue in a manner consistent with

<sup>7</sup> Because only Nasdaq members who are Options Participants may enter orders into NOM, it also follows that routing by NOS is available only to Nasdaq members who are Options Participants. Pursuant to Chapter I, Section 1(a)(40) of the NOM Rules, the term "Options Participant" means a firm, or organization that is registered with Nasdaq for purposes of participating in options trading on NOM as a "Nasdaq Options Order Entry Firm" or "Nasdaq Options Market Maker".

<sup>8</sup> See Securities Exchange Act Release No. 58324 (August 7, 2008), 73 FR 46936 (August 12, 2008) (SR-BSE-2008-02; SR-BSE-2008-23; SR-BSE-2008-25; SR-BSECC-2008-01).

<sup>9</sup> See Securities Exchange Act Release Nos. 59153 (December 23, 2008), 73 FR 80485 (December 31, 2008) (SR-NASDAQ-2008-098); 59154 (December 23, 2008), 73 FR 80468 (December 31, 2008) (SR-BSE-2008-48); 59010 (November 24, 2008), 73 FR 73373 (December 2, 2008) (SR-NYSEArca-2008-130); 58681 (September 29, 2008), 73 FR 58285 (October 6, 2008) (SR-NYSEArca-2008-90); 58680 (September 29, 2008), 73 FR 58283 (October 6, 2008) (SR-NYSE-2008-76); 58673 (September 29, 2008), 73 FR 57707 (October 3, 2008) (SR-Amex-2008-62) (collectively, the "Affiliation Orders").

<sup>10</sup> See SR-BX-2009-35.

<sup>11</sup> 15 U.S.C. 78f.

<sup>12</sup> 15 U.S.C. 78f(b)(5).

<sup>13</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>14</sup> 17 CFR 240.19b-4(f)(6).

<sup>15</sup> Securities Exchange Act Release No. 58092 (July 3, 2008), 73 FR 40144 (July 11, 2008).

such prior approval.”<sup>16</sup> Nasdaq believes the proposed rule change is “based on and similar to” the rule changes recently approved in the Affiliation Orders and furthers efforts to effectively address the concerns previously identified by the Commission regarding the potential for conflicts of interest and informational advantages when an exchange is affiliated with one of its market participants.<sup>17</sup>

At any time within 60 days of the filing of the 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.<sup>18</sup>

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### *Electronic Comments*

- Use the Commission’s Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2009-065 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-NASDAQ-2009-065. 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 inspection and copying in the Commission’s Public Reference Room, 100 F Street, NE., Washington, DC 20549 on official business days between the hours of 10 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of Nasdaq. 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-NASDAQ-2009-065 and should be submitted on or before August 17, 2009.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>19</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

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#### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-60353; File No. SR-CHX-2009-02]

#### Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Order Granting Approval of Proposed Rule Change Relating to the Rejection of Undisplayed Odd-Lot Orders From the Exchange’s Matching System

July 21, 2009.

On June 2, 2009, the Chicago Stock Exchange, Inc. (“CHX” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”), 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> a proposed rule change to: (1) Allow Exchange customers to specify whether odd-lot orders and unexecuted odd-lot remainders, that are not able to be immediately displayed, should remain in, or be rejected from, the Exchange’s Matching System, and (2) add a generic routing rule to clarify how any orders that are rejected from the Exchange’s Matching System, and routed away according to Participant instructions, will be handled. The

proposed rule change was published for comment in the **Federal Register** on June 17, 2009.<sup>3</sup> The Commission received no comments on the proposed rule change. This order approves the proposed rule change.

The Exchange proposes to amend CHX Article 20, Rule 8 to allow Exchange Participants to specify whether odd-lot orders and unexecuted odd-lot remainders, that are not able to be immediately displayed, should remain in, or be rejected from, the Exchange’s Matching System. This preference could be set by the Participant on both a default and order by order basis. Orders remaining in the Matching System will continue to be ranked at the price and time at which they were originally received. Orders that are rejected from the Matching System shall either be sent back to the order sender or be routed to another destination according to each Participant’s instructions <sup>4</sup> or, if designated “do not route,” automatically cancelled. The Exchange also proposes that Participants that elect to have orders routed to another destination pursuant to this rule, or pursuant to Article 20, Rule 5 (“Prevention of Trade-throughs”), agree to be bound by such transactions.

In addition, the Exchange proposes to add a generic routing rule to clarify how any orders that are rejected from the Exchange’s Matching System, and routed away according to Participant instructions, will be handled. The use of routing services is optional and is available only to exchange Participants. In such cases, the Participant will be responsible for ensuring that it has a relationship with its chosen destinations to permit the requested access. The Exchange shall not have responsibility for the handling of the order by the other destination, but will report any execution or cancellation of the order by the other destination to the Participant that submitted the order, will notify the other venue of any cancellations or changes to the order submitted by the order-sending Participant and, if requested by the Participant and its chosen destination, will flip any executions into the Participants account, as necessary, and

<sup>16</sup> *Id.* at 40149.

<sup>17</sup> See the Affiliation Orders, *supra* note 8.

<sup>18</sup> For purposes of calculating the 60-day period within which the Commission may summarily abrogate the proposed rule change under Section 19(b)(3)(C) of the Act, the Commission considers the period to commence on July 17, 2009, the date on which Nasdaq submitted Amendment No. 2. See 15 U.S.C. 78s(b)(3)(C).

<sup>19</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> See Securities Exchange Act Release No. 60083 (June 10, 2009), 74 FR 28739.

<sup>4</sup> The Exchange notes that orders rejected in accordance with this rule will be routed in the same manner as those rejected under the NMS trade-through validation rule (Exchange Article 20, Rule 5, Interpretations and Policies .03), which has already been approved by the Commission.