

*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-OCC-2013-21 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-OCC-2013-21. 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 of submission. 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 Section, 100 F Street NE., Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of OCC and on OCC's Web site at [http://www.theocc.com/components/docs/legal/rules\\_and\\_bylaws/sr\\_occ\\_13\\_21.pdf](http://www.theocc.com/components/docs/legal/rules_and_bylaws/sr_occ_13_21.pdf).

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-OCC-2013-21 and should be submitted on or before December 24, 2013.

For the Commission, by the Division of Trading and Markets, pursuant to delegated Authority.<sup>14</sup>

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

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-70948; File No. SR-CHX-2013-20]

**Self-Regulatory Organizations;  
Chicago Stock Exchange, Inc.; Notice  
of Filing and Immediate Effectiveness  
of a Proposed Rule Change To Adopt  
a Match Trade Prevention Modifier for  
Limit and Market Orders Submitted to  
the Exchange**

November 26, 2013.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup>, and Rule 19b-4<sup>2</sup> thereunder, notice is hereby given that on November 20, 2013, the Chicago Stock Exchange, Inc. ("CHX" or the "Exchange") 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. CHX has filed this proposal pursuant to Exchange Act Rule 19b-4(f)(6)<sup>3</sup> which is effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization's  
Statement of the Terms of Substance of  
the Proposed Rule Change**

CHX proposes to amend Article 1, Rule 1 (Definitions) and Rule 2 (Order Types, Modifiers, and Related Terms) to adopt a Match Trade Prevention order execution modifier for limit and market orders submitted to the CHX Matching System ("Matching System"). The text of this proposed rule change is available on the Exchange's Web site at [www.chx.com](http://www.chx.com), at the principal office of the Exchange, on the Commission's Web site at [www.sec.gov](http://www.sec.gov) and in 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 CHX included statements concerning the purpose of and basis for the proposed rule changes 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 CHX has prepared summaries, set forth in sections A, B and C below, of the

most significant aspects of such statements.

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

**1. Purpose**

The Exchange does not currently offer Match Trade Prevention ("MTP") functionality. The Exchange now proposes to adopt Article 1, Rule 2(b)(3)(F) to offer MTP functionality for limit<sup>4</sup> and market<sup>5</sup> orders that are submitted to the Matching System.<sup>6</sup> In sum, through the use of a proposed MTP order execution modifier, Participants may prevent the execution of marketable contra-side orders that originated from the same group of one or more trading accounts (*i.e.*, MTP Trading Group), but will not prevent an execution if such contra-side orders originated from different subgroups within the same MTP Trading Group. Thus, given that the proposed MTP functionality is based on the interaction between MTP Trading Groups, the Exchange further proposes to adopt Article 1, Rule 1(ll) to define "Trading Account" and Rule 1(mm) to define "MTP Trading Group."

**Trading Accounts and MTP Trading  
Groups**

Before discussing the details of the operation of the proposed MTP functionality, it is important to first outline the interplay between Trading Accounts and MTP Trading Groups. Currently, an order submitted to the Matching System originates from a Trading Account, which is identified by a unique account symbol, under a Trading Permit.<sup>7</sup> A Participant may hold

<sup>4</sup> Article 1, Rule 2(a)(1) defines "limit order," in pertinent part, as "an order to buy or sell a specific amount of a security at a specified price or better if obtainable once the order has been submitted to the market."

<sup>5</sup> Article 1, Rule 2(a)(3) defines "market order," in pertinent part, as "an order to buy or sell a specific amount of a security at the best price available once the order is presented in the market."

<sup>6</sup> The proposed MTP functionality will only be applicable to single-sided orders. The purpose of MTP is obviated if both sides of an order are already identified, as in the case of a cross order. Article 1, Rule 2(a)(2) defines "cross order," in pertinent part, as "an order to buy and sell the same security at a specific price better than the best bid and offer displayed in the Matching System and which would not constitute a trade-through under Regulation NMS (including all applicable exceptions and exemptions)." As such, MTP modifiers may only be applied to limit and market orders.

<sup>7</sup> CHX Article 1, Rule 1(aa) defines "Trading Permit" as "a permit issued by the Exchange, granting the holder a revocable license to execute approved securities transactions through the

Continued

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

no more than one Trading Permit.<sup>8</sup> In practice, but not currently stated in CHX rules, a Participant Trading Permit holder may maintain one or more trading accounts under its Trading Permit. Thus, given that the proposed MTP functionality assumes that all orders sent to the Matching System originate from MTP Trading Groups, it is necessary to define the terms “Trading Account”<sup>9</sup> and “MTP Trading Group.”

Proposed Article 1, Rule 1(l) defines “Trading Account” as an account under a Trading Permit,<sup>10</sup> identified by a unique CHX account symbol, from which orders are sent to the Exchange’s Trading Facilities. Also, a Trading Permit holder may establish more than one Trading Account per Trading Permit.

Proposed Article 1, Rule 1(mm) provides that an “MTP Trading Group” means a group of one or more Trading Accounts that have been aggregated at the request of all Participant Trading Permit holders that control all Trading Accounts within the proposed group for the purpose of enabling Match Trade Prevention functionality, pursuant to proposed Article 1, Rule 2(b)(3)(F)(i). It also states that a Trading Account may not be assigned to more than one MTP Trading Group. Lastly, it provides that any Exchange-approved changes to the composition of an MTP Trading Group shall be effective no earlier than the trading day following the request.

Although the Exchange anticipates that the vast majority of MTP Trading Groups will be composed of Trading Accounts from the same Participant Trading Permit holder, the proposed definition of MTP Trading Groups allows an MTP Trading Group to be comprised of Trading Accounts from *different* Participant Trading Permit holders. This is meant to address a scenario where a customer order sender has “sponsored access” to the Exchange through two different Participant Trading Permit holders (*i.e.*, one customer order sender submitting orders to the Exchange through two Trading Permits).<sup>11</sup> Also, if a Participant Trading

Exchange’s Trading Facilities, or to have those transactions executed on its behalf.” In turn, CHX Article 1, Rule 1(z) defines “Trading Facilities” as “all of the Exchange’s facilities for the trading of equity securities, including any and all electronic or automated order routing, execution and reporting systems provided by the Exchange.”

<sup>8</sup> CHX Article 3, Rule 2(e).

<sup>9</sup> “Trading Accounts” are not currently defined in the CHX rulebook.

<sup>10</sup> See *supra* note 7.

<sup>11</sup> This scenario might occur, for example, where a sponsored access order sender is in the process of transitioning its trading activity from one Trading Account controlled by one Participant Trading

Permit holder wishes to aggregate a Trading Account, which has been assigned to its own MTP Trading Group, with other Trading Accounts, in order to form a new MTP Trading Group, the single Trading Account must only be designated to the new aggregated MTP Trading Group and will no longer be associated with its original MTP Trading Group.

#### Enabling or Disabling MTP

As suggested by the proposed definition of “MTP Trading Group,” the Exchange proposes to require Participants Trading Permit holders to request that the Exchange enable the proposed MTP functionality for specified MTP Trading Groups. This will give the Exchange an opportunity to admonish Participants of the key aspects of the proposed MTP functionality, described in detail below, and will also facilitate the Exchange’s monitoring of the use of MTP. This will further provide an opportunity for the Participant(s) to determine which Trading Accounts will be part of MTP Trading Groups and which Trading Accounts will not be subject to the MTP functionality. Therefore, orders that originate from an MTP Trading Group will always be subject to the proposed MTP functionality.

Thus, proposed Article 1, Rule 2(b)(3)(F)(i) provides that the MTP modifier shall only be available for an order that originated from a Trading Account, as defined under proposed Article 1, Rule 1(l), that has been assigned to an MTP Trading Group, as defined under Article 1, Rule 1(mm).<sup>12</sup> It further states that an order that originated from a Trading Account that is not part of an MTP Trading Group shall not be subject to MTP and any attached MTP modifiers shall be ignored. It further provides that any Exchange-approved changes to the applicability of MTP to a Trading Account shall be effective on the trading

Permit holder to the Trading Account of another Participant Trading Permit holder. In such a case, the sponsored access order sender may wish to use the proposed MTP functionality to prevent executions of orders from the two Trading Accounts during the transition period.

<sup>12</sup> Prior to implementing the proposed MTP functionality, the Exchange will create a form document that will outline key aspects of the proposed MTP functionality, including the fact that the use of MTP modifiers may result in the cancellation of a customer order by an order submitted by or on behalf of another customer. This form document will be given to Participants requesting that the MTP functionality be enabled for designated Trading Accounts. Among other things, the form document will require such Participants to designate Trading Accounts to MTP Trading Groups and to acknowledge receipt of the form document prior to the MTP functionality being enabled.

day following the date of the request to enable or disable MTP.

#### Triggering MTP

Proposed Article 1, Rule 2(b)(3)(F)(ii) provides that an MTP modifier is comprised of a *compulsory* MTP Action, listed under proposed subparagraph (iii), and an *optional* MTP sublevel designation and that the MTP modifier on the incoming order shall control the interaction between the contra-side orders. With respect to the actual functionality, it further states that an incoming limit or market order designated with an MTP modifier *without* an MTP sublevel designation will be prevented from executing against a resting opposite side order from the same MTP Trading Group, as defined under proposed Article 1, Rule 1(mm).<sup>13</sup> If, however, the incoming order is marked by an MTP modifier *with* an MTP sublevel designation,<sup>14</sup> the order will only be prevented from executing against a resting opposite side order from the same MTP Trading Group if the resting order is marked by the same MTP sublevel designation. Moreover, MTP shall only be applicable to marketable contra-side orders that are both principal orders or are both agency orders.

The proposed MTP functionality is based on the interaction between MTP Trading Groups and if applicable, subgroups within the MTP Trading Group, which are created through the use of optional MTP sublevel designations. As discussed above, an incoming order marked with an MTP modifier will not be allowed to execute against a resting opposite side order from the same MTP Trading Group.<sup>15</sup>

<sup>13</sup> Initially, it is important to note the distinction between an incoming order and a resting order. An incoming order is usually an order that has been submitted to the Matching System that has not yet interacted with the CHX book. If and when an incoming order posts to the CHX book, the order becomes a resting order. However, a resting order can become an incoming order if it is being price slid into a new price point, pursuant to a price sliding functionality offered by the Exchange (*e.g.*, CHX Only Price Sliding Processes under Article 1, Rule 2(b)(1)(C)). A discussion of the interplay between the CHX Only Price Sliding Processes and the proposed MTP functionality may be found below. As such, it is inaccurate to characterize the newer order as always being the incoming order and the older order as always being the resting order. The actual distinction between incoming and resting orders is based on the liquidity removing/providing fee structure utilized by the Exchange. See CHX Fee Schedule, Section E. Therefore, an order that *removes* liquidity from the CHX book will always be the incoming order and an order that *provides* liquidity to the CHX book will always be the resting order.

<sup>14</sup> The Exchange proposes to permit sixty-two (62) distinct MTP sublevel designations (*i.e.*, a-z; A-Z; 0-9).

<sup>15</sup> The proposed MTP functionality does not require resting orders subject to the proposed MTP

However, if the MTP modifier of the incoming order indicates an MTP sublevel designation, the order will be considered to have originated from a subgroup within the MTP Trading Group, designated by the sublevel value,<sup>16</sup> and will only be prevented from executing against resting opposite side orders from the same subgroup (*i.e.*, same optional MTP sublevel designation). Consequently, an incoming order that originated from a subgroup will not be prevented from executing against opposite side resting orders from the same MTP Trading Group, so long as the opposite side order is *not* part of the same subgroup (*i.e.*, the resting order is either marked by a different MTP sublevel designation or is not marked by any MTP sublevel designation).<sup>17</sup>

In sum, where the incoming order is marked by an MTP modifier and originates from an MTP Trading Group, the proposed MTP functionality *will* prevent an order execution under the following circumstances:

(1) Both the incoming and resting orders originated from the same MTP Trading Group and neither order is part of a subgroup (*see Example 1*);

(2) Both the incoming and resting orders originated from the same subgroup within an MTP Trading Group (*see Examples 2 and 3*); or

(3) Both the incoming and resting orders are from the same MTP Trading Group, where the incoming order is not part of a subgroup and the resting order is part of any subgroup (*see Example 4*).

In contrast, the proposed MTP functionality *will not* prevent an order execution under the following circumstances:

(1) The incoming order is not marked by an MTP modifier or is marked MTP Inactive;

(2) Both the incoming and resting orders originated from different MTP Trading Groups; or

functionality to be marked by an MTP modifier. Since all orders subject to the MTP functionality will originate from an MTP Trading Group, the specific MTP Trading Group designations of resting orders will be known, regardless of whether or not the order has an MTP modifier attached.

<sup>16</sup> See *supra* note 14.

<sup>17</sup> Although an incoming order may not be prevented from executing against opposite side resting orders by MTP, the incoming order may nevertheless be prevented from executing against resting opposite side orders due to other order modifiers that may be attached to contra-side orders. For example, an incoming Post Only order marked by an MTP modifier would be cancelled if the order would remove liquidity from the CHX book, prior to the Matching System considering the MTP modifier. See Article 1, Rule 2(b)(1)(D). A detailed discussion of the interplay between the proposed MTP functionality and other existing order modifiers may be found below.

(3) Both the incoming and resting orders originated from the same MTP Trading Group, where the incoming order is part of any subgroup and the resting order is not part of a subgroup (*see Example 5*).

*Example 1.* Assume that the CHX book has one resting offer for 100 shares of security XYZ priced at \$10.01/share and no resting bids for security XYZ. Assume that the resting offer originated from Trading Account ZAAA, under the Trading Permit held by Participant Z, which is part of MTP Trading Group Z1. Assume that the resting offer is marked with an MTP modifier,<sup>18</sup> is not marked by an MTP sublevel designation and is a Day<sup>19</sup> limit order.

Assume further that an incoming bid for 100 shares of security XYZ priced at \$10.02/share is received by the Matching System. Assume that the incoming bid originated from Trading Account ZBBB, under a Trading Permit held by Participant Z, which is also part of MTP Trading Group Z1. Assume that the incoming bid is designated with an MTP modifier, is not marked with an MTP sublevel designation and is a Day limit order.

Under this example, MTP would prevent the incoming bid from executing against the resting offer because both orders originated from the same MTP Trading Group Z1, regardless of the fact that the orders originated from different Trading Accounts. As discussed above, only MTP Trading Groups and subgroups are relevant to the proposed MTP functionality.

*Example 2.* Assume the same as Example 1, except that the resting offer and incoming bid are both marked by the same optional MTP sublevel designation of “1.”

Under this example, since both orders are part of the same subgroup Z1-1, MTP would prevent the incoming bid from executing against the resting offer.

*Example 3.* Assume the same as Example 1, except that the resting offer is marked by the MTP sublevel designation of “1” and the incoming bid is marked by another MTP sublevel designation of “2.”

Under this example, since the resting offer and incoming bid are part of different MTP Trading Subgroups (*i.e.*, resting offer is part of subgroup Z1-1 and incoming bid part of subgroup Z1-2), MTP would not prevent the incoming bid from executing against the resting offer.

*Example 4.* Assume the same as Example 1 and the incoming bid is not marked by an MTP sublevel designation. Assume, however, that the resting offer is marked by an MTP sublevel designation of “1.” Since the MTP modifier on the incoming bid controls, the

<sup>18</sup> For the purposes of determining whether or not the proposed MTP functionality is triggered, the type of MTP Action specified in the MTP code is irrelevant. So long as the MTP code contains one of the MTP Actions listed under proposed subparagraph (iii), the incoming order is considered to be “designated with an MTP modifier,” as required by proposed rule.

<sup>19</sup> Article 1, Rule 2(d)(1) defines “Day” as “a modifier that requires an order to be in effect only for the day on which it is submitted to the Exchange.”

fact that the incoming bid is not part of subgroup means that the Matching System will not consider the subgroup of the resting offer.<sup>20</sup>

Thus, similar to Example 1, MTP would prevent the incoming bid from executing against the resting offer because both orders originated from the same MTP Trading Group Z1.

*Example 5.* Assume the same as Example 1 and the resting offer is not marked by an MTP sublevel designation. Assume, however, that the incoming bid is marked by an MTP sublevel designation of “1” and is, thus, part of subgroup Z1-1.

Under this example, the Matching System will consider the subgroup of the resting offer since the incoming bid is part of subgroup Z1-1. Moreover, since the resting offer is not part of a subgroup, the Matching System will treat the resting offer as being part of a different subgroup. Thus, MTP will not prevent the execution of the incoming bid against the resting offer, because the Matching System will treat the orders as being part of different subgroups.<sup>21</sup>

Finally, the Exchange proposes to limit the application of MTP to marketable contra-side orders that are both principal orders or are both agency orders (*i.e.*, principal-principal or agency-agency). The main purpose of this limitation is to prevent an agency top-of-book resting order from being cancelled by an incoming principal order from the same MTP Trading Group and *vice versa*. The Exchange anticipates that the vast majority of Participant Trading Permit holders that may utilize the proposed MTP functionality will be proprietary traders and, as such, all orders that originate from its MTP Trading Group(s) would be principal orders. However, since some of our Participant Trading Permit holders maintain proprietary and agency accounts, this limitation would prevent customer orders from being cancelled by proprietary orders. As such, the Exchange proposes to only permit marketable principal-principal and agency-agency orders from being eligible for the proposed MTP functionality.<sup>22</sup>

<sup>20</sup> The Exchange notes that it is purposely treating the absence of an MTP sublevel designation on the incoming order and presence of an MTP sublevel designation on the resting order one way (*i.e.*, prevent execution) and the absence of an MTP sublevel designation on the resting order and presence of an MTP sublevel designation on the incoming bid another way (*i.e.*, not preventing execution). The two seemingly similar scenarios are treated differently due to the need to implement an MTP scheme that will produce consistent and predictable result, especially where the contra-side orders have different MTP Actions.

<sup>21</sup> *Id.*

<sup>22</sup> In addition to marketable principal-principal orders, the proposed MTP functionality may be

## MTP Order Cancellations

Once MTP is triggered, the next step is to determine which order(s) would be cancelled, if any. To this end, proposed subparagraph (iii) provides that the following MTP Actions may be applied to any incoming limit or market orders at the MTP Trading Group level as a default or at the individual order level *ad hoc*:

(a) *MTP Cancel Incoming* (“N”): An incoming limit or market order marked “N” will not execute against opposite side resting interest originating from the same MTP Trading Group or MTP sublevel, if applicable. Only the incoming order will be cancelled pursuant to MTP.

(b) *MTP Cancel Resting* (“O”): An incoming limit or market order marked “O” will not execute against opposite side resting interest originating from the same MTP Trading Group or MTP sublevel, if applicable. Only the resting order will be cancelled pursuant to MTP.

(c) *MTP Cancel Both* (“B”): An incoming limit or market order marked “B” will not execute against opposite side resting interest originating from the same MTP Trading Group or MTP sublevel, if applicable. The entire size of both orders will be cancelled pursuant to MTP.

Moreover, proposed subparagraph (iv) details the *MTP Inactivate* override function, which provides that an incoming limit or market order marked “I” will inactivate the default MTP action for the incoming order and will not prevent the order from executing against any resting opposite side orders.<sup>23</sup> Also, “I” may only be applied at the individual order level *ad hoc*. Finally, an incoming order marked “I” may be marked by an optional MTP sublevel designation.<sup>24</sup>

utilized where the marketable contra-side orders are both agency orders from the same customer. For instance, an MTP Trading Group may contain one agency account, through which only one customer is submitting orders to the Matching System as a sponsored access order sender. In such a case, the sponsored access order sender could use the proposed MTP functionality to prevent self-execution of its orders.

<sup>23</sup> Where contra-side orders are not prevented from executing due to the incoming order being marked “I,” the orders may execute in spite of MTP being triggered. In contrast, where contra-side orders are not prevented from executing due to the contra-side orders not being part of the same MTP Trading Group or trading subgroup, the orders may execute because MTP has not been triggered.

<sup>24</sup> The purpose of allowing an incoming order marked “I” to rest with an active sublevel designation is to permit an order sender to deactivate the MTP functionality for an incoming order, but to keep the MTP subgroup functionality alive once the order became a resting order.

The following *Examples 1–4* illustrate how each one of the three MTP Actions and the MTP Inactivate would function.

*Example 1.* Assume that an order to buy 100 shares of security XYZ priced at \$10.02/share is received by the Matching System and becomes a resting order on the CHX book. Subsequently, an order to sell 100 shares of security XYZ priced at \$10.02/share is received by the Matching System from the same MTP Trading Group and is marked “N.” Further assume that neither contra-side order is marked by an MTP sublevel designation and that both contra-side orders are Day limit orders.

Under this “N” Example 1, the full size of the incoming offer would be cancelled and the resting bid would remain on the CHX book. If the incoming bid were for 200 shares or 50 shares, the result would remain the same because the “N” MTP Action would require that the full size of the incoming bid be cancelled.

*Example 2.* Assume that an order to buy 100 shares of security XYZ priced at \$10.02/share is received by the Matching System and becomes a resting order on the CHX book. Subsequently, an order to sell 100 shares of security XYZ priced at \$10.02/share is received by the Matching System from the same MTP Trading Group and is marked “O.” Further assume that neither contra-side order is marked by an optional MTP sublevel designation and that both contra-side orders are Day limit orders.

Under this Example 2, the full size of the resting offer would be cancelled and the incoming bid would not be cancelled pursuant to MTP.<sup>25</sup> If the incoming bid were for 200 shares or 50 shares, the result would remain the same because the “O” MTP Action would require that the full size of the resting offer to be cancelled.

*Example 3.* Assume that an order to buy 100 shares of security XYZ priced at \$10.02/share is received by the Matching System and becomes a resting order on the CHX book. Subsequently, an order to sell 100 shares of security XYZ priced at \$10.02/share is received by the Matching System from the same MTP Trading Group and is marked “B.” Further assume that neither contra-side order is marked by an optional MTP sublevel designation and that both contra-side orders are Day limit orders.<sup>26</sup>

Under this Example 3, the full sizes of both the incoming offer and resting bid would be cancelled. If the incoming bid were for 200 shares or 50 shares, the result would remain the same because the “B” MTP Action would require that the full size of both orders be cancelled.

*Example 4.* Assume that an order to buy 100 shares of security XYZ priced at \$10.02/

<sup>25</sup> In this situation, the incoming offer would execute against resting opposite side order, if available, or post the CHX book. As discussed below, since the MTP modifier is not considered by the Matching System until all other modifiers are first considered, an incoming offer marked with an MTP modifier and MTP Action of “O” will execute against other resting opposite side orders, if available, or post the CHX book.

<sup>26</sup> *Id.*

share is received by the Matching System and becomes a resting order on the CHX book. Subsequently, an order to sell 100 shares of security XYZ priced at \$10.02/share is received by the Matching System from the same MTP Trading Group and is marked “I.” Further assume that neither contra-side order is marked by an MTP sublevel designation and that both contra-side orders are Day limit orders.<sup>27</sup> Also assume that the MTP Trading Group from which the contra-side orders originated has a default MTP Action of “N.”

Under this Example 4, the incoming offer would execute against the resting bid because the “I” modifier inactivated the default MTP Action of the MTP Trading Group, namely “N.” In contrast, if the incoming offer were not marked by the “I” modifier, MTP would have prevented the execution of the orders and cancelled the incoming offer. Also, since the MTP modifier on the incoming order always controls the MTP interaction, the fact that the resting order has a MTP modifier with a “N” MTP Action is irrelevant.

## MTP and Other Order Modifiers

The proposed MTP modifier is fully compatible with all order execution,<sup>28</sup> display,<sup>29</sup> and duration modifiers,<sup>30</sup> that are applicable to limit and market orders.<sup>31</sup> This is because the proposed MTP modifier is the only order modifier that requires the Matching System to consider the MTP Trading Group and subgroup of an order. Thus, there are no other modifiers that would directly conflict with the proposed MTP modifier.

If an incoming order marked by an MTP modifier and at least one other modifier is executable against a resting opposite side order, the Matching System will verify the permissibility of the match first against the non-MTP modifiers before considering the MTP Trading Group or subgroup of the contra-side orders as required by the MTP modifier. That is, the MTP modifier will always be considered last. Thus, if such an incoming order is to be cancelled for reasons other than the MTP designation, the incoming order would be cancelled before the Matching System would have the opportunity to consider the MTP Trading Groups or subgroups of the contra-side orders. This priority scheme ensures that the

<sup>27</sup> *Id.*

<sup>28</sup> See Article 1, Rule 2(b)(1) and (3).

<sup>29</sup> See Article 1, Rule 2(c).

<sup>30</sup> See Article 1, Rule 2(d).

<sup>31</sup> This rule filing will only address the interplay between the MTP modifier and other order modifiers. However, the Exchange notes that certain order modifiers are not compatible with other modifiers. Such incompatibilities are noted in Article 1, Rule 2 and in recent Rule 19b-4 rule filings that have dealt with order types and modifiers. See Securities Exchange Act Release No. 69538 (May 8, 2013), 78 FR 28671 (May 15, 2013) (SR-CHX-2013-10); see also Securities Exchange Act Release No. 69075 (March 8, 2013), 78 FR 16311 (March 14, 2013) (SR-CHX-2013-07).

proposed MTP modifier can only be triggered once all of the other order modifiers attached to an order have been considered. The following examples illustrate how this order modifier priority scheme would work when the proposed MTP modifier is paired with the “Immediate Or Cancel” (“IOC”),<sup>32</sup> “Post Only,”<sup>33</sup> or “CHX Only”<sup>34</sup> order modifiers.

*Example 1.* Assume that the Matching System receives an incoming limit buy order (“Bid A”) for 1,000 shares of security XYZ priced at \$10.10/share that originated from MTP Trading Group D1 and is marked IOC and MTP, with an MTP Action of “O” and no MTP sublevel designation. Assume that the CHX book for security XYZ contains no resting bids, but does have two resting offers (“Offers A and B”). Assume that Offer A originated from MTP Trading Group C1 and is for 200 shares priced at \$10.09/share. Assume that Offer B originated from MTP Trading Group D1 and is for 200 shares priced at \$10.10/share. Assume also that the Offer A is the only Protected Quotation of any market at the National Best Offer (“NBO”) for security XYZ.

Under this Example 1, since Bid A is immediately executable against Offer A at

<sup>32</sup> Article 1, Rule 2(d)(4) defines “Immediate Or Cancel,” in pertinent part, as “a modifier that requires an order to be executed, either in whole or in part and for limit orders, at or better than its limit price, as soon as the order is received by the Matching System, with any unexecuted balance of the order to be immediately cancelled.”

<sup>33</sup> Article 1, Rule 2(b)(2)(D) defines “Post Only” as follows (emphasis added):

“Post Only”: a limit order modifier that requires an order to be posted on the Exchange and not routed away to another trading center.

A limit order marked Post Only shall be deemed to have been received “Do Not Route,” as defined under paragraph (b)(3)(A), which cannot be overridden by the order sender.

A Post Only order will be immediately cancelled under the following circumstances:

(i) The Post Only order would remove liquidity from the CHX book; or

(ii) At the time of order entry, the Post Only order would lock or cross a Protected Quotation of an external market; provided, however, that if the Post Only order is marked “CHX Only” and is eligible for the CHX Only Price Sliding Processes, pursuant to Article 1, Rule 2(b)(1)(C), the Post Only order that would lock or cross a Protected Quotation of an external market shall be subject to the CHX Only Price Sliding Processes or Limit Up-Limit Down Price Sliding, pursuant to Article 20, Rule 2A(b), whichever is applicable, and shall not be immediately cancelled.”

<sup>34</sup> “CHX Only” is a limit order modifier that requires an order (1) to be ranked and executed on the Exchange without routing away and (2) to be eligible for the CHX Only Price Sliding Processes. The CHX Only Price Sliding Processes will reprice, re-rank and/or re-display certain CHX Only orders multiple times depending on changes to the National Best Bid and Offer (“NBBO”) (the repricing of CHX Only sell short orders subject to Rule 201 of Regulation SHO is dependent solely on declines to the National Best Bid (“NBB”), so long as the order can be ranked and displayed in an increment consistent with the provisions of Regulation NMS and Rule 201 of Regulation SHO, until the order is executed, cancelled or the original limit price is reached. See Article 1, Rule 2(b)(1)(C).

\$10.09, the IOC designation would not cancel Bid A. The Matching System would then consider the MTP Trading Groups of Bid A and Offer A because Bid A is marked “MTP.” Since Bid A and Offer A are from different MTP Trading Groups, MTP would not prevent an execution and Bid A would execute against Offer A at the full size of Offer A priced at \$10.09/share. In turn, Bid A would be decremented by 200 shares and would have 800 unexecuted shares remaining.

The Matching System will then go through the same process with respect to Offer B. Since Offer B is at the limit price of Bid A, the IOC designation would not cancel Bid A. However, since Bid A and Offer B both originated from the same MTP Trading Group D1, the MTP functionality would prevent an execution and the MTP Action of “O” would require Offer B to be cancelled because it is the resting order. Consequently, the Matching System will go through the attached order modifiers once again to determine what to do with the unexecuted balance of Bid A. Since the CHX book no longer has any resting opposite side orders for security XYZ, the IOC designation would require the unexecuted balance of Bid A to be cancelled.

If Bid A instead had an MTP Action of “N,” the triggering of the MTP Action would have resulted in the unexecuted balance of Bid A (i.e., 800 shares) being cancelled and Offer B remaining on the CHX book.

*Example 2.* Assume that the Matching System receives an incoming limit buy order (“Bid A”) for 1,000 shares of security XYZ priced at \$10.10/share that originated from MTP Trading Group D1 and is marked Day, Post Only, and MTP, with an MTP Action of “B” and no MTP sublevel designation.

Assume that the CHX book for security XYZ contains no resting bids, but does have one resting offer (“Offer A”) originated from MTP Trading Group D1 and is for 200 shares priced at \$10.09/share. Assume also that the Offer A is the only Protected Quotation of any market at the NBO for security XYZ.

Under this Example 2, the Matching System would first determine the permissibility of the match against the Post Only modifier. Since Post Only orders cannot “remove liquidity from the CHX book,” Bid A would be cancelled because Bid A is an incoming order that would remove liquidity from the CHX book. Thus, Bid A would be cancelled before the Matching System would be able to consider the MTP Trading Groups of the contra-side orders.

*Example 3.* Assume that the Matching System receives a fully-displayable incoming limit buy order (“Bid A”) for 1,000 shares of security XYZ priced at \$10.10/share that originated from MTP Trading Group D1 and is marked Day, CHX Only, and MTP, with an MTP Action of “O” and no MTP sublevel designation. Assume that the CHX book for security XYZ is empty. Assume also that the National Best Bid and Offer (“NBBO”) for security XYZ is \$10.07 × \$10.09 and the short sale price test restriction of Regulation SHO is not in effect.

Since the CHX book is empty with respect to security XYZ and the display of Bid A at \$10.10 would cross the NBO at \$10.09, the CHX Only Price Sliding Processes,

specifically NMS Price Sliding,<sup>35</sup> would price slide Bid A to be ranked at \$10.09 (i.e., the NBB locking price) and displayed at \$10.08 (i.e., one price increment below the NBO). The new NBBO for security XYZ would be \$10.08 × \$10.09, with Bid A being the NBB. Once Bid A is price slid and posted to the CHX book, Bid A becomes a resting order.

If a subsequent incoming offer were to execute against Bid A, Bid A would receive the liquidity providing credit and the opposite side offer would pay the liquidity removing fee. Moreover, since there is no resting opposite side order to match against Bid A, the Matching System would not consider the MTP modifier and thus, MTP would not prevent an execution.

*Example 4.* Assume the same as Example 3 and the CHX book contains only Bid A and no other bids or offers. Assume that after Bid A was price slid, the Matching System receives an incoming limit sell order (“Offer A”) for 2,000 shares of security XYZ priced at \$10.10/share that originated from MTP Trading Group D1 that is marked “Do Not Display,”<sup>36</sup> but is not marked by an MTP modifier. Thus, the CHX book as to security XYZ is now \$10.08 × \$10.10. Assume further that after Offer A posts to the CHX book, the NBO (which is not on CHX) moves away to \$10.10 and thus, the NBBO for security XYZ changes from \$10.08 × \$10.09 to \$10.08 × \$10.10.

Pursuant to NMS Price Sliding, since the NBO moved away to \$10.10, resting Bid A would be permitted to be ranked at its original limit price of \$10.10 and displayed at \$10.09. Since Offer A is resting undisplayed at \$10.10, Bid A would be price slid into a price point that is already occupied by Offer A. Thus, Bid A would become an incoming order and, if executable against Offer A, would take liquidity from the CHX book. The Matching System would then verify the permissibility of the order execution against the order modifiers of the contra-side orders. Offer A has no order modifiers that would prevent an execution. On the opposite side, the CHX Only designation of Bid A would not prevent an execution. However, since Bid A is marked “MTP” and both contra-side orders originated from MTP Trading Group D1, MTP would be triggered. Moreover, since Bid A has an MTP Action of “O,” the resting order would be cancelled. Thus, Offer A would be cancelled and Bid A would be ranked at \$10.10 and displayed at \$10.09. Consequently, the new NBBO for security XYZ would be \$10.09 × \$10.10, where Bid A becomes the NBB.

*Example 5.* Assume the same as Example 4, except that Bid A was also marked Post Only. Thus, Bid A was marked Day, CHX Only, Post Only, and MTP, with an MTP Action of “O” and no MTP sublevel designation. Since a Post Only order will be immediately cancelled if the order is price slid into a price point already occupied by

<sup>35</sup> See Article 1, Rule 2(b)(1)(C)(i).

<sup>36</sup> Article 1, Rule 2(c)(2) provides that “Do Not Display” is “a modifier, for orders of at least 1,000 shares when entered, that requires the order not be displayed in whole or in part.”

an opposite side order, unlike Example 4, Bid A would be cancelled pursuant to the Post Only modifier before the Matching System would consider the MTP modifier. Thus, under this Example 5, price slid Bid A would be cancelled and Offer A would remain on the CHX book undisplaced.

## 2. Statutory Basis

The Exchange submits that the proposed rule changes to adopt an MTP functionality is consistent with Section 6(b) of the Act in general<sup>37</sup> and furthers the objectives of Section 6(b)(5) in particular,<sup>38</sup> because it 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 facilitating transaction in securities, to remove impediments to, and perfect the mechanisms of, a free and open market and, in general, by protecting investors and the public interest. Specifically, the proposed MTP functionality will allow order senders to better manage order flow and prevent undesirable executions against themselves. Additionally, the proposed MTP modifier will streamline certain regulatory functions of the Exchange by reducing false positive results that may occur on Exchange-generated wash trading surveillance reports when orders are executed under the same account symbol. Consequently, the proposed adoption of the MTP functionality will benefit Exchange customers by improving fill rates and promoting competition among market centers offering similar products and services, which is consistent with the aforementioned objectives of Section 6(b)(5).

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

The Exchange does believe that the proposed rule change will have an impact on competition. However, the Exchange does not believe that the proposed rule change will impose a burden on competition that is unnecessary or inappropriate in furtherance of the purposes of the Act. To the contrary, the proposed MTP functionality should act as a positive force for competition by providing an alternative to similar functionality offered by other Exchanges, such as the "Match Trade Prevention Modifiers" offered by BATS.

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

No written comments were either solicited or received.

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

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>39</sup> and Rule 19b-4(f)(6) thereunder.<sup>40</sup> 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 prior to 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 and Rule 19b-4(f)(6)(iii) thereunder.

A proposed rule change filed under Rule 19b-4(f)(6)<sup>41</sup> normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>42</sup> the Commission may 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 so that the proposal may become operative as of December 2, 2013. The Exchange requested such waiver so that it may offer Participants the proposed MTP functionality earlier. The Exchange stated that its proposal does not propose any new policies or provisions that are unique or unproven, as all changes proposed are changes to the Exchange's rules based on the rules of another self-regulatory organization, BATS Y-Exchange ("BYX"), or modified versions of the corresponding BYX rules, as described in further detail in the filing. According to the Exchange, the proposed MTP functionality and the BATS-Y "Match Trade Prevention Modifiers" are both designed to streamline certain regulatory functions of the Exchange by reducing false positive results that may occur on Exchange-generated wash trading surveillance reports when orders are executed under the same account symbol. Thus, the Exchange believes that it is in the interest of protecting

investors to provide the new functionality at the earliest time possible. Based on the Exchange's statements, the Commission believes that waiving the operative delay as of December 2, 2013 is consistent with the protection of investors and the public interest. Therefore, the Commission designates the proposed rule change to be operative as of December 2, 2013.<sup>43</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)<sup>44</sup> of the Act to determine whether the proposed rule should be approved or disapproved.

## IV. Solicitation of Comments

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

### *Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CHX-2013-20 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-CHX-2013-20. 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

<sup>39</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>40</sup> 17 CFR 240.19b-4(f)(6).

<sup>41</sup> 17 CFR 240.19b-4(f)(6)..

<sup>42</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>43</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).

<sup>44</sup> 15 U.S.C. 78s(b)(2)(B).

<sup>37</sup> 15 U.S.C. 78f(b).

<sup>38</sup> 15 U.S.C. 78f(b)(5).



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 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-CHX-2013-20, and should be submitted on or before December 24, 2013.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>45</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

[FR Doc. 2013-28848 Filed 12-2-13; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-70946; File No. SR-NSCC-2013-12]

### Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change To Provide Its Members With a Risk Management Tool That Would Enable Members To Monitor Trading Activity and Receive Notifications When Pre-Set Trading Limits are Reached

November 26, 2013.

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 November 15, 2013, National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change as described in Item I, II and III below, which Items have been prepared primarily by NSCC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change consist of amendments to the Rules & Procedures ("Rules") of NSCC to provide NSCC Members with a risk management tool that would allow those Members to monitor trading activity and would deliver to them notifications when pre-set trading limits are reached, as more fully described below.

#### II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, NSCC 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. NSCC has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

##### (A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

##### 1. Purpose

##### Introduction

In connection with recent industry-wide efforts to develop tools and strategies to mitigate and address the risks associated with the increasingly complex, interconnected, and automated market technology,<sup>3</sup> NSCC has developed a risk management tool, called "DTCC Limit Monitoring," that would provide its Members with post-trade surveillance.<sup>4</sup> The proposed DTCC Limit Monitoring would provide NSCC's Members with a tool to monitor the intraday clearing activity of their own trading desks and the intraday clearing activity for their correspondents and clients. The tool would send out alerts to those Members when pre-set trading limits with respect to this clearing activity is being approached and is reached, allowing them to monitor exposure of this trading activity, and providing them with notice when there is an unusual or unexpected spike in trading activity that could indicate a trading error, or that a

<sup>3</sup> While other market participants may be developing additional risk management tools in connection with these recent industry-wide efforts, the proposed DTCC Limit Monitoring would be separate from and would operate completely independently from any such tools.

<sup>4</sup> For the purposes of this proposed rule change, "post-trade" refers to the period in a transaction life cycle after it has been submitted to NSCC for clearing and settlement.

customer is trading outside the limits set by its clearing firm.

##### DTCC Limit Monitoring Proposal Overview

Pursuant to this filing, NSCC proposes to amend its Rules to create DTCC Limit Monitoring, a risk management tool that would enable Members to monitor both their own intraday trading activity and the intraday trading activity of their correspondents and/or clients. DTCC Limit Monitoring would be available to all NSCC Members. The effectiveness of DTCC Limit Monitoring in addressing risk depends on its use by NSCC Members, particularly those Members that clear for other firms, and depends on their inclusion of the tool within their broader risk management strategies. As such, NSCC is proposing to require that the following NSCC Members register for DTCC Limit Monitoring: (1) any NSCC full service Member that clears for others; (2) any NSCC full service Member that submits transactions to NSCC's trade capture system either as a Qualified Special Representative ("QSR") or Special Representative, pursuant to Procedure IV (Special Representative Service); and (3) any NSCC full service Member that has established a 9A/9B relationship in order to allow another NSCC Member (either a QSR or Special Representative) to submit locked in [sic] trade data on its behalf. NSCC Members would incur minimal, if any, cost to implement DTCC Limit Monitoring. The tool would provide NSCC Members with an additional method to monitor the post-trade activity of their own trading desks and the activity of their correspondents and/or clients.

DTCC Limit Monitoring would provide NSCC Members with: (i) post-trade data relating to unsettled equity and fixed income securities trades for a given day that have been compared or recorded through NSCC's trade capture mechanisms on that day ("LM Trade Date Data"), and (ii) other information based upon data the participating Member may itself provide at start of or throughout the day ("LM Member-provided Data"), as provided in the Rules governing DTCC Limit Monitoring (LM Trade Date Data and LM Member-provided Data shall collectively be referred to as "LM Transaction Data"). Members registered for DTCC Limit Monitoring would be permitted to input or load trade information from prior days to the system on their own to supplement their view of overall risk exposure, and to monitor their trading exposure.

<sup>45</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.