For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[23]

Florence E. Harmon,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–56564; File No. SR–ISE–2007–74]

Self-Regulatory Organizations; International Securities Exchange, LLC; Order Granting Accelerated Approval to a Proposed Rule Change, as Modified by Amendment No. 1, Relating to an Extension and Expansion of the Penny Pilot Program

September 27, 2007.

I. Introduction

On August 21, 2007, the International Securities Exchange, LLC (''ISE'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b–4 thereunder,[2] a proposed rule change to extend and expand a pilot program to quote certain options in smaller increments (''Pilot Program'' or ''Pilot''). On August 22, 2007, the Exchange filed Amendment No. 1 to the proposed rule change. The proposed rule change, as amended, was published for comment in the **Federal Register** on August 29, 2007.[3] The Commission received one comment letter on the proposed rule change.[4] This order approves the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

II. Description of the Proposal

Currently, the six options exchanges, including ISE, participate in the thirteen class Pilot Program,[5] which is scheduled to expire on September 27, 2007.[6] The Exchange proposes to extend and expand the Pilot Program to include fifty additional classes, in two phases.

Phase One will begin on September 28, 2007 and will continue for six months, until March 27, 2008. Phase One will add the following twenty-two options classes to the Pilot: SPDRs (SPY); Apple, Inc. (AAPL); Altria Group Inc. (MO); Dendreon Corp. (DNDN); Amgen Inc. (AMGN); Yahoo! Inc. (YHOO); QUALCOMM Inc. (QCOM); General Motors Corporation (GM); Energy Select Sector (XLE); DIAMONDS Trust, Series 1 (DIA); Oil Services HOLDRs (OIH); NYSE Euronext, Inc. (NYX); Cisco Systems, Inc. (CSCO); Financial Select Sector SPDR (XLF); AT&T Inc. (T); Citigroup Inc. (C); Amazon.com Inc. (AMZN); Motorola Inc. (MOT); Research in Motion Ltd. (RIMM); Freeport-McMoRan Copper & Gold Inc. (FCX); ConocoPhillips (COP); and Bristol-Myers Squibb Co. (BMY). These twenty-two options classes are among the most actively-traded, multiply-listed options classes, and account, together with the current thirteen Pilot classes, for approximately 35% of total industry trading volume.[7]

Phase Two will begin on March 28, 2008, and will continue for one year, until March 27, 2009. During the second phase, the number of options classes trading in pennies will again increase.[8] The Exchange proposes to add twenty-eight more classes from among the most actively-traded, multiply-listed options classes.[9]

The minimum price variation for all classes to be included in the Pilot Program, except for the QQQQs, will continue to be $0.01 for all quotations in option series that are quoted at less than $3 per contract and $0.05 for all quotations in option series that are quoted at $3 per contract or greater. The QQQQs will continue to be quoted in $0.01 increments for all options series.

During the extended and expanded Pilot Program, the ISE commits to deliver four reports to the Commission. Each report will analyze the impact of penny pricing on market quality and options system capacity. The first report will analyze the penny pilot results from May 1, 2007 through September 27, 2007; the second will analyze the results from September 28, 2007 through January 31, 2008; the third will analyze the results from February 1, 2008 through July 31, 2008; and the fourth and final report will examine the results from August 1, 2008 through January 31, 2009. These reports will be provided to the Commission within thirty days of the conclusion of the reporting period.

III. Discussion

After careful review of the proposal and the comment letter, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.[10] In particular, the Commission finds that the proposal is consistent with section 6(b)(5) of the Act,[11] which requires, among other things, that the rules of an exchange be designed to promote just and equitable principles of trade, 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.

On June 28, 2005, the Pacific Exchange (now known as NYSE Arca) announced its intention to begin quoting and trading all listed options in penny increments.[12] In June 2006, to facilitate the orderly transition to quoting a limited number of options in penny increments, Chairman Cox sent a letter to the six options exchanges urging the exchanges that chose to begin quoting in smaller increments to plan for the implementation of a limited penny pilot program to commence in January 2007.[13] All six of the options exchanges submitted proposals to permit quoting a limited number of classes in smaller increments, and, in January 2007, the Commission approved those proposals to implement the current Pilot Program.[14] The exchanges

[23] 17 CFR 200.30–3(a)(12).

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] *See* Securities Exchange Act Release No. 56306 (August 22, 2007), 72 FR 49753.

[4] *See* letter to Nancy Morris, Secretary, Commission, from John C. Nagel, Director & Associate General Counsel, Citadel, dated September 12, 2007 (''Citadel Letter).

[5] The thirteen option classes currently in the Pilot are: Ishares Russell 2000 (IWM); NASDAQ–100 Index Tracking Stock (QQQQ); SemiConductor Holders Trust (SMH); General Electric Company (GE); Advanced Micro Devices, Inc. (AMD), Microsoft Corporation (MSFT); Intel Corporation (INTC); Caterpillar, Inc. (CAT); Whole Foods Market, Inc. (WFMI); Texas Instruments, Inc. (TXN); Flextronics International Ltd. (FLEX); Sun Microsystems, Inc. (JAVA); and Agilent Technologies, Inc. (A).

[6] The Pilot Program began on January 26, 2007 and is currently set to expire on September 27, 2007. *See* Securities Exchange Act Release No. 56151 (July 26, 2007), 72 FR 42452 (August 2, 2007) (SR-ISE–2007–68). *See also* Securities Exchange Act Release No. 55161 (January 24, 2007), 72 FR 4754 (February 1, 2007) (SR–ISE–2006–62) (''Original Pilot Program Approval Order'').

[7] This volume is based on the Options Clearing Corporation (''OCC'') year-to-date trading volume data through July 16, 2007.

[8] The Exchange has committed to file a proposed rule change under section 19(b)(3)(A) of the Act to identify the options classes to be included in the second expansion.

[9] As proposed in its filing, ISE represents that options trading in penny increments will not be eligible for split pricing, as permitted under ISE Rule 716.

[10] In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. *See* 15 U.S.C. 78c(f).

[11] 15 U.S.C. 78f(b)(5).

[12] PCX News Release, ''Pacific Exchange to Trade Options in Pennies,'' June 28, 2005.

[13] Commission Press Release 2006–91, ''SEC Chairman Cox Urges Options Exchanges to Start Limited Penny Quoting,'' June 7, 2006.

[14] *See* Securities Exchange Act Release Nos. 55161 (January 24, 2007), 72 FR 4754 (February 1, 2007) (SR-ISE–2006–62); 55162 (January 24, 2007),

have now submitted proposals to extend and further expand the Pilot.

The continued operation and phased expansion of the Pilot Program will provide further valuable information to the exchanges, the Commission, and others about the impact of penny quoting in the options market. In particular, extending and expanding the Pilot Program as proposed by ISE will allow further analysis of the impact of penny quoting in the Pilot classes over a longer period of time on, among other things: (1) Spreads; (2) peak quote rates; (3) quote message traffic; (4) displayed size; (5) ''depth of book'' liquidity; and (6) market structure. ISE has committed to provide the Commission with periodic reports, which will analyze the impact of the expanded Pilot Program. The Commission expects the Exchange to include statistical information relating to these factors in its periodic reports.

An analysis of the current Pilot shows that the reduction in the minimum quoting increment has resulted in narrowing the average quoted spreads in all classes in the Pilot.[15] A reduction in quoted spreads means that customers and other market participants may be able to trade options at better prices. The reduction in spreads also has led the exchanges to reduce or eliminate their exchange-sponsored payment-for-order-flow programs.[16] The Commission believes that the proposed rule change is designed to continue the narrowing of spreads.

The Commission notes that, as anticipated, the Pilot has contributed to the increase in quotation message traffic from the options markets. However, while the increase in quotation message traffic is appreciable, it has been manageable by the exchanges and the Options Price Reporting Authority, and the Commission did not receive any reports of disruptions in the dissemination of pricing information as a result of quote capacity restraints. Although the Commission anticipates that the proposed expansion of the Pilot Program may contribute to further increases in quote message traffic, the Commission believes that ISE's proposal is sufficiently limited such that it is unlikely to increase quote message traffic beyond the capacity of market participants' systems and disrupt the timely receipt of quote information. The Commission also notes that ISE has adopted and will continue to utilize quote mitigation strategies that should mitigate the expected increase in quote traffic.[17]

Overall trading activity in the options markets is very concentrated, with a relatively few options classes accounting for a significant share of total options volume. ISE's proposal, which will expand the Pilot to include a limited number of options from among the most actively-traded classes (based on average trading volume), will provide an opportunity for reduced spreads where the greatest amount of trading occurs, thus maximizing the economic benefit of the Pilot while minimizing the impact of increased quote traffic.

The commenter suggests that relative trading volume is the measure that should be used to assess the success of quoting in smaller increments.[18] The commenter reported the percentage change in the relative trading volume before and after the Pilot for each of the thirteen classes.[19] The commenter's data shows an increase in relative trading volume for QQQQ, IWM, SHM, AMD, and SUNW, and a decrease in relative trading volume for MSFT, INTC, GE, TXN, A, CAT, WFMI and FLEX. The commenter believes the data shows that the Pilot works well for index and sector products, but smaller increments caused a decline in the relative trading volume for single stock options. The commenter argues that much of the decrease in relative trading volume in Pilot classes is a symptom of the decrease in displayed size available for those classes. On the basis of a decline in the relative trading volume, the commenter argues that single stock option classes should be removed from the Pilot and replaced with liquid index or sector option classes.

Much of the recent growth in options volume has been in the large index and ETF products, such as the SPX, SPY, and the QQQQ. As their relative trading volume increases, the aggregate relative trading volume of other products necessarily declines (although actual volume levels may increase). For example, the SPX, SPY, QQQQ, and IWM accounted for 16.1% of total options volume in the four months before the pilot and rose to 21.7% of volume in the five months after the pilot.[20] By definition, the relative trading volume of all other classes (Pilot and non-Pilot) falls from 83.9% in the pre-Pilot period to 78.3% in the post-Pilot period. Using the commenter's numerical approach, the relative market share of SPX, SPY, QQQ, and IWM increased by 34.8% ((21.7%/16.1%)–1). In contrast, the relative trading volume of *all* other classes fell by 6.7% (78.3/83.9%)–1) in the post-Pilot period compared to the pre-Pilot period. Thus, in addition to the random variation in relative trading volume that occurs over time, there was an overall decline in the relative trading volume of issues outside the four largest index and ETF options, although their actual aggregate volume levels increased.

More specifically, for the 100 and 500 most active classes,[21] relative trading volume fell for 63% and 56%, respectively, of non-Pilot classes. In the Pilot classes, seven, or 54%, of the thirteen Pilot classes had a decline in market share and seven, or 70%, of the ten single stock option classes had a decline in relative trading volume.[22]

72 FR 4738 (February 1, 2007) (Amex–2006–106); 55155 (January 23, 2007), 72 FR 4741 (February 1, 2007) (SR–BSE–2006–49); 55154 (January 23, 2007), 72 FR 4743 (February 1, 2007) (SR–CBOE–2006–92); 55156 (January 23, 2007), 72 FR 4759 (February 1, 2007) (SR–NYSEArca–2006–73); and 55153 (January 23, 2007), 72 FR 4553 (January 31, 2007) (SR–Phlx–2006–74). As noted above, *supra* note 6 and accompanying text, the current Pilot is scheduled to expire on September 27, 2007.

[15] *See* ISE, Penny Pilot Analysis, May 23, 2007 (''ISE Report''). *See also* Amex, Penny Quoting Pilot Program Report, June 8, 2007 (''Amex Report''); Box, Penny Pilot Data Review, June 18, 2007 (''Box Report''); CBOE, Penny Pilot Report, June 1, 2007 (''CBOE Report''); NYSE Arca Options, Understanding Economic and Capacity Impacts of the Penny Pilot, May 31, 2007 (''NYSE Arca Report''); and Phlx, Options Penny Pricing Pilot Report, May 31, 2007 (''Phlx Report'').

[16] *See* Securities Exchange Act Release Nos. 55328 (February 21, 2007), 72 FR 9050 (February 28, 2007) (SR–Amex–2007–16); 55197 (January 30, 2007), 72 FR 5772 (February 7, 2007) (SR–BSE–2007–02); 55265 (February 9, 2007), 72 FR 7697 (February 16, 2007) (SR–CBOE–2007–11); 55271 (February 12, 2007), 72 FR 7699 (February 16, 2007) (SR–ISE–2007–08); 55223 (February 1, 2007) 72 FR 6306 (February 9, 2007) (SR–NYSEArca–2007–07); and 55290 (February 13, 2007), 72 FR 8051 (February 22, 2007) (SR–Phlx–2007–05).

[17] *See* Securities Exchange Act Release No. 55161 (January 24, 2007), 72 FR 4754 (February 1, 2007) (SR–ISE–2007–62). Further, the Commission notes that the other options exchanges participating in the Pilot also have adopted and will continue to utilize quote mitigation strategies.

[18] *See* Citadel Letter, *supra* note 4.

[19] The commenter measures the relative trading volume of a class as that class' trading volume as a percentage of total OCC volume. The change in relative trading volume is the relative trading volume from date of entrance into the Pilot to August 27, 2007 divided by the relative trading volume from November 1, 2006 through entrance in the Pilot.

[20] The pre-Pilot period consists of the four months before the Pilot commenced (October 1–January 25, 2007) and the post-Pilot period consists of the five months after the Pilot commenced (February 9, 2007–June 30, 2007). The two week period when the Pilot classes were introduced are excluded from the analysis.

[21] All of the thirteen Pilot classes fall into the 500 most actively-traded, and nine are within the 100 most actively-traded group.

[22] The change in relative trading volume for the median stock for the top 500 (100) classes is −8% (−13%), compared to a change of −3% for the thirteen Pilot stocks and a change of −24% for the ten single stock options. The Commission notes that, with a Pilot sample size of thirteen or ten, these statistics will be highly sensitive to the performance of one or two classes.

The Commission does not believe that the data at this time supports the conclusion that a decrease in relative trading volume in the Pilot classes is due to a reduction of the minimum quoting variation. In fact, the data demonstrates that declines in relative trading volume were not limited to stocks included in the Pilot, and substantial declines in relative trading volume, as defined by the commenter, describe a large portion of classes that were not in the Pilot. Therefore, based on the data reviewed to date, the Commission cannot conclude that the Pilot has had an adverse impact on volume in the Pilot securities. Therefore, the Commission believes that ISE's proposal to select additional classes from among the most actively-traded options has a reasonable basis and is consistent with the Act.[23]

The Commission believes that the impact of smaller increments on trading volume is one of the more difficult aspects of the Pilot to assess, and notes that the exchange reports did not show a clear change in trading volume.[24] While some industry participants expressed disappointment that volume had not increased, the bid-ask spread is only one factor that influences volume. Other factors that impact option volume are trading activity in the underlying security and in related products, volatility in the market and in the underlying security, as well as firm and market specific information and events. The Commission believes that the addition of more securities in the next phase will increase the sample size and should help in further analysis of such issues.

The commenter also expressed concern that the quoted size in the Pilot classes is dropping to levels that are ''sub-optimal'' or ''inadequate'' for institutional size orders, and recommended that the Commission carefully evaluate the impact of penny quoting on liquidity before allowing the exchanges to expand the Pilot. The Commission fully agrees that the impact of the Pilot on displayed size, as well as non-displayed ''depth of book,'' and the impact of any decreased size on market and execution quality, is an area that should be carefully analyzed as the Pilot continues. The Commission also recognizes that the exchange reports show there has, in fact, been a reduction in the displayed size available in the Pilot classes.[25] The Commission is not at this time, however, able to conclude that this decrease has caused a decrease in trading volume or relative trading volume, or other harm to the market, as a result of the Pilot Program. The Commission does, however, expect the Exchange to include in its reports an analysis of the market impact of reducing the minimum price increment, particularly on the ability of market participants to effectively execute large-sized orders. The Commission will analyze the information provided in the Exchange's reports, in conjunction with the information provided by other exchanges and market participants, to inform its evaluation and consideration of any exchange's proposed further expansion of the Pilot.

The commenter further noted, to the extent that additional size may be available below the best bid or offer,[26] options market participants discount the value of such liquidity because it is generally not transparent to the market and is not easily accessible even if displayed.[27] The commenter noted that, unlike in the equities markets, market participants cannot quickly sweep multiple markets through multiple price levels to reach such additional liquidity. The Commission encourages the exchanges to consider measures that would facilitate access to depth of book quotes.

Finally, the commenter recommends removing the poorest performing single stock names from the Pilot and replacing them with liquid index or sector products.[28] The Commission agrees that there should be a mechanism for removing option classes from the Pilot. The Commission specifically requested comment in the notice of ISE's proposal on: (1) Whether there are circumstances under which classes included in the Pilot should be removed; (2) if so, what factors should be considered in making the determination to remove a class from the Pilot, specifically whether an objective standard should be used or whether a more subjective analysis should be allowed; (3) what concerns might arise by removing a class from the Pilot, and how could such concerns be ameliorated; (4) how frequently should such an analysis be undertaken, or should the evaluation be automated; and (5) if a class is to be removed from the Pilot, how much notice should be given to market participants that the quoting increment will change, but did not receive any comments. The Commission will continue to consider comments on how to fairly and objectively determine if a class should be removed from the Pilot. Finally, to the extent that the Exchange files a proposed rule change to further expand the Pilot, the Commission urges it to include in any such proposal a methodology for removing classes from the Pilot.

The Commission finds good cause for approving the proposed rule change, as amended, prior to the thirtieth day after publication of the notice in the **Federal Register**.[29] The Commission notes that in this filing the ISE is proposing to participate in an industry-wide extension and expansion of the Penny Pilot, which is scheduled to begin on September 28, 2007. Concurrent with this approval, the Commission also is approving proposed rule changes submitted by the other five options exchanges to extend and expand the Pilot. Accelerating approval of this filing will permit the Exchange to continue its participation in the Pilot without interruption.

Accordingly, the Commission finds good cause, consistent with section 19(b)(2) of the Act,[30] to approve the proposal, as modified by Amendment No. 1, on an accelerated basis. For the reasons discussed above, the Commission believes that the proposed rule change is consistent with the Act.

[23] The Commission notes that the classes the commenter specifically recommends for inclusion in the expanded Pilot—SPY, DIA, OIH, XLF, and XLE—are among classes proposed by ISE to be included in the Pilot Program beginning September 28, 2007.

[24] *See* Amex Report, *supra* note 15, at 6–7; CBOE Report, *supra* note 15, Attachment at pages 5–6; ISE Report, *supra* note 15, at 17–20; and NYSE Arca Report, *supra* note 15, at 15.

[25] *See* Amex Report, *supra* note 15, at 6; BOX Report, *supra* note 15, at 2; CBOE Report, *supra* note 15, at Attachment page 2; ISE Report, *supra* note 15, at 7–8; NYSE Arca Report, *supra* note 15, at 9–10; and Phlx Report, *supra* note 15, at 3–4 and 6–7.

[26] Only two exchanges provided information on ''depth of book'' on their markets in the Pilot classes. *See* NYSE Arca Report at 8–10, *supra* note 15, and ISE Report, *supra* note 15, at 9. ISE reported that the average total size of all quotes on its book at all price levels, weighted for volume, for all thirteen Pilot classes was reduced by 61%. *See* ISE Report, *supra* note 15, at 9. NYSE Arca compared liquidity resident in its book within the legacy minimum price variation to pre-Pilot top of book liquidity and reported that volume weighted liquidity across all thirteen Pilot classes decreased 1%. *See* NYSE Arca Report, *supra* note 15, at 8.

[27] The Commission notes that currently only NYSE Arca makes available quotes and orders on its book below the NBBO. *See http://www.nysedata.com/nysedata/InformationProducts/ArcaBook/tabid/293/Default.aspx*. The Commission anticipates that to the extent this display of information proves to be valuable to the options market as a whole, other exchanges may choose to make this information available as well.

[28] *See supra*, note 23.

[29] The Commission notes that the thirtieth day after publication of notice of this filing in the **Federal Register** is September 28, 2007.

[30] 15 U.S.C. 78s(b)(2).

IV. Conclusion

It is therefore ordered, pursuant to section 19(b)(2) of the Act,[31] that the proposed rule change (SR–ISE–2007–74), as modified by Amendment No. 1, be, and hereby is, approved on an accelerated basis, for a pilot period, which will end on March 27, 2009.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[32]

Florence E. Harmon,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–56551; File No. SR–NYSE–2007–82]

Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to NYSE Rule 124 (Odd-Lot Orders)

September 27, 2007.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b–4 thereunder,[2] notice is hereby given that on September 6, 2007, the New York Stock Exchange LLC (''NYSE'' or ''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 substantially prepared by the NYSE. The Exchange has filed the proposal pursuant to Section 19(b)(3)(A) of the Act,[3] and Rule 19b–4(f)(5) thereunder,[4] which renders the proposal 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

The Exchange proposes to amend Exchange Rule 124 (Odd-Lot Orders) to modify the way in which Exchange systems price and execute certain types of odd-lot orders. The text of the proposed rule change is available on the Exchange's Web site (*http://www.nyse.com*), at the Exchange's Office of the Secretary, and at the Commission's Public Reference Room.

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

In its filing with the Commission, NYSE included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

This filing is submitted to amend Exchange Rule 124 to change the way in which certain odd-lot orders[5] are priced and executed by Exchange systems. The Exchange proposes that buy and sell odd-lot market orders and odd-lot limit orders marketable upon receipt by Exchange systems (collectively referred to herein as ''marketable odd-lot orders'') be paired and executed at the price of the next round-lot transaction, with any imbalance of buy or sell marketable odd-lot orders executed at the price of the national best bid or offer (''NBBO'')[6] pursuant to specific conditions described herein; and under certain circumstances, that non-marketable odd-lot limit orders be executed at their limit price upon becoming marketable.

a. Current Execution of Odd-Lot Orders

Currently, odd-lot orders do not enter the Exchange's auction market but are executed systemically by Exchange systems designated solely for odd-lot orders (the ''odd-lot System'').[7] The odd-lot System executes all odd-lot orders against the specialist as the contra party. Odd-lot market orders are executed in time priority at the price of the next round-lot transaction.[8] Buy and sell odd-lot market orders are, in essence, netted against one another and executed; however, since the specialist is buying the same amount that he or she is selling, there is no economic consequence to the specialist in this type of pairing-off of orders. There is a volume limitation inherent in the execution of odd-lot market orders in that any imbalance of buy or sell odd-lot market orders are executed against the specialist, but only up to the size of the round-lot transaction.[9] Any odd-lot market orders that do not receive an execution because of the volume limitation are executed, in order of time priority, at the price of the next round-lot transaction.[10] An odd-lot market order that is not executed within 30 seconds is executed at the price of the national best bid or offer (''NBBO'').[11] There is no volume limitation for odd-lot market orders that receive an execution after 30 seconds have elapsed. Odd-lot market orders to sell short are executed at the price of the next round-lot transaction that follows the entry of the order that is higher than the last different last round-lot price (a ''plus tick'' or a ''zero plus tick''). There is no volume limitation for odd-lot market orders to sell short.

Odd-lot limit orders to buy or sell are executed at the price of the first round-lot transaction that is at or higher/lower than the limit price of the odd-lot limit order, subject to the volume limitation of the round-lot transaction.[12] Odd-lot limit orders are aggregated with odd-lot market orders for purposes of the volume limitation. Odd-lot limit orders eligible for execution are combined with odd-lot market orders in order to determine time priority. Odd-lot limit orders are similarly aggregated with odd-lot market orders for purposes of the netting provision. As with odd-lot market orders, odd-lot limit orders that would otherwise receive a partial execution will be executed in full. There is no 30-second default execution

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[31] 15 U.S.C. 78s(b)(2).

[32] 17 CFR 200.30–3(a)(12).

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] 15 U.S.C. 78s(b)(3)(A).

[4] 17 CFR 240.19b–4(f)(5).

[5] Odd-lot orders are orders for a size less than the standard unit (round-lot) of trading, which is 100 shares for most stocks, although some stocks trade in 10 share units.

[6] The National best bid or offer is defined by Rule 600 (b)(42) of Regulation NMS under the Act (''Regulation NMS''), 17 CFR 242.600(b)(42).

[7] *See* Exchange Rule 124(a).

[8] *See* Exchange Rule 124(b)(i).

[9] *See* Exchange Rule 124(b)(i). *See also* Exchange Rule 124(b)(ii), which provides that any odd-lot market order that would otherwise receive a partial execution will be executed in full.

[10] *See* Exchange Rule 124(b)(iii).

[11] Exchange Rule 124(b)(iv) provides that any odd-lot market order that is not executed within 30 seconds shall be executed at the price of the ''adjusted ITS offer'' or ''adjusted ITS bid'', as those terms are defined in Exchange Rule 124.60, rather than the NBBO. However, with the elimination of the Intermarket Trading System (''ITS'') Plan on March 5, 2007, (*see* Securities Exchange Act Release No. 55397 (March 5, 2007), 72 FR 11066 (March 12, 2007) (File No. 4–208)), the ability to price such odd-lot orders in terms of the ''adjusted ITS'' bid or offer no longer existed. The Exchange states that, as of March 5, 2007, all odd-lot market orders that remain unexecuted after 30 seconds have been executed at the price of the NBBO, which is in fact the functional equivalent of the adjusted bid or offer. Through this filing, the Exchange, among other things, seeks to remove the concept of ''adjusted ITS bid'' and ''adjusted ITS offer''.

[12] *See* Exchange Rule 124(c).