



Number 10-29
June 18, 2010

ATTENTION: CHIEF EXECUTIVE OFFICER, MANAGING PARTNER, CHIEF OPERATIONS OFFICER, OPERATIONS PARTNER AND LEGAL AND COMPLIANCE DEPARTMENTS

TO: MEMBERS AND MEMBER ORGANIZATIONS

SUBJECT: RUSSELL REBALANCING - JUNE 25, 2010

**IMPORTANT – READ IN ENTIRETY
PLEASE SHOW THIS TO YOUR COMPLIANCE OFFICER
AND HEAD OF TRADING OPERATIONS**

I. Purpose of this Information Memo

Following the close of trading on June 25, 2010, the Russell Investment Group will reconstitute certain of its indices, including the Russell 3000[®] Index and the Russell Microcap[®] Index. This reconstitution may significantly affect the volume of trading on the NYSE and NYSE Amex (collectively, the “Exchanges”), particularly leading into the close on June 25.

NYSE Regulation is issuing this Information Memorandum to remind members and member organizations of certain NYSE and NYSE Amex Equities rules and policies regarding:

- entry and cancellation of market-on-close/limit-on-close (“MOC/LOC”) and Closing Offset (“CO”) orders;
- publication of on-the-close imbalances; and
- printing the closing transaction.¹

¹ Effective March 1, 2010, the Exchanges amended Rules 13, 15 and 123C to modify and update the closing process procedures, including entry/cancellation times for MOC/LOC orders and the provision of a new order type, the Closing Offset Order. For more information on the modifications to these rules, see NYSE/NYSE Amex Information Memorandum 10-11 (February 26, 2010) (attached). See also Securities Exchange Act Release Nos. 61233 (December 23, 2009), 74 FR 69169 (December 30, 2009) (SR-NYSE-2009-111); 61244 (December 28, 2009), 75 FR 479 (January 5, 2010) (SR-NYSEAmex-2009-81);

In the interest of preparedness, this memorandum also provides guidance on possible system interruption scenarios and the operation of certain NYSE and NYSE Amex Equities rules and policies in the event that such a scenario occurs.

II. Background

Reconstitution of certain Russell Indexes will take effect after the close of U.S. equity markets on June 25, 2010. On June 11, 2010, the Russell Investment Group published a preliminary list of additions and deletions to the Russell 3000 and Microcap Indices. The Exchanges expect that during the trading day on June 25, and especially at and near the Close, significant trading volume associated with portfolio rebalancing will be initiated based upon those lists. Based on the preliminary list, 135 NYSE-listed stocks and 104 NYSE Amex Equities-listed stocks will be added to or deleted from the indices, though more stocks could be impacted by the reconstitution.

III. NYSE and NYSE Amex Equities Rules and Policies Relating to the Close

A. MOC/LOC and CO Order Entry and Cancellation

Members and member organizations are reminded that the provisions of NYSE and NYSE Amex Equities Rule 123C (Closing Procedures) will apply to the close on June 25, subject to the temporary modifications outlined in this memorandum. In addition, although certain categories of imbalance publications, such as Informational Imbalances, require prior Floor Official approval, because of the number of imbalance publications expected and sensitivity surrounding the Close on June 25, DMMs are encouraged to consult with and receive approval of a **Senior Floor Official or higher**.

Please note that, while the Exchanges expect their systems to operate normally on June 25, in the unlikely event of a systems interruption leading into or at the Close, the Closing Procedures set out in NYSE and NYSE Amex Equities Rule 123C would operate as if the Exchanges had declared a regulatory halt in one or more securities. In the event that one or both of the Exchanges invokes their exemptive powers under Rule 123C(9) (Closing Procedures - Extreme Order Imbalances at or Near the Close), the terms of that rule would govern the handling of orders at the Close.²

In connection with the entry of MOC/LOC and CO orders generally, members should pay particular attention to the following:

- A “published imbalance” is an imbalance that has been disseminated to the Tape. An imbalance that is announced orally or physically posted at the panel is not considered to be a published imbalance. The NYSE/NYSE Amex Order Imbalance Information product, a data feed of real-time order imbalances that accumulate prior to the opening of trading

61614 (March 1, 2010), 75 FR 10535 (March 8, 2010) (SR-NYSEAmex-2010-17); and 61616 (March 1, 2010), 75 FR 10533 (March 8, 2010) (SR-NYSE-2010-12).

² See Section III. D. of this memo for more information on NYSE and NYSE Amex Equities Rule 123C(9).

on the Exchanges and prior to the close of trading on the Exchanges, does not constitute a “published imbalance.”³

- Brokers and traders are reminded that, while they should enter orders as early in the day as possible, all MOC/LOC orders (unless to offset a published imbalance) must be entered by 3:45 p.m.⁴ Entering MOC/LOC orders early provides DMMs with the opportunity to more quickly identify potential order imbalances that might exist at the Close and to disseminate that information. This, in turn, enables brokers and traders to more effectively identify potential offsetting customer interest that could mitigate any imbalance. MOC/LOC and CO orders entered prior to 3:45 p.m. may be canceled or reduced prior to that time for any reason.
- After 3:45 p.m., MOC/LOC orders may be entered only to offset a security’s published imbalance, while CO orders may be entered in any amount on either side of the market. During this time period, MOC/LOC and CO orders may be canceled or reduced in size only to correct a legitimate error.⁵ Please note that Market Surveillance will continue to closely monitor the cancellation of MOC/LOC and CO orders pursuant to the Rules of the Exchanges.
- After 3:58 p.m., MOC/LOC and CO orders may not be cancelled or reduced in size for any reason, except in accordance with NYSE and NYSE Amex Equities 123C(9).
- In the event of a trading halt effective at 3:45 p.m. or later, MOC/LOC orders may be entered only to offset a published imbalance. CO orders, however, may be entered in any amount on either side of the market.⁶

³ See Section III. B. of this memo for more information.

⁴ In March 2009, the Exchanges implemented an enhancement to MOC/LOC functionality to accept only those MOC/LOC orders entered after 3:40 p.m. that are on the contra side of a published regulatory imbalance. The enhanced functionality also enabled Exchange systems to reject all cancel requests sent after 3:50 p.m. for any previously entered MOC/LOC order. When the Exchanges changed the MOC/LOC entry and cancellation times in March 2010 (see footnote 1 above), the times on this reject functionality were changed accordingly.

⁵ A “legitimate error” is an error in the term of an order, such as price, number of shares, buy/sell, or identification of the security. See NYSE and NYSE Amex Equities Rule 123C(1)(c).

⁶ See NYSE and NYSE Amex Equities Rules 123C(2)(c).

B. Imbalance Publications⁷

NYSE and NYSE Amex Equities Rule 123C(5) provides for the publication of order imbalances as described below. In addition, members may refer to the attached quick-reference page for a summary of changes to the Closing process referenced in footnote 1. In the event of a system interruption, the times and requirements listed here and on the quick-reference attachment may change. DMMs are reminded that erroneous imbalance publications must be corrected as soon as practicable.

1. Informational Imbalance Publications between 3:00 p.m. and 3:45 p.m.

Between 3:00 p.m. and 3:45 p.m., DMMs are encouraged to issue Informational Imbalance Publications of any size if they believe that there could be significant price dislocation at the Close. These publications are informational only and do not limit MOC/LOC or CO order entry or cancellation before 3:45 p.m. DMMs who wish to issue Informational Imbalance Publications must obtain prior approval from a Floor Official or qualified Exchange employee (see NYSE and NYSE Amex Equities Rule 46.10) prior to issuance.⁸ As volume may be greater than normal on June 25, 2010, DMMs should issue Informational Imbalance Publications as early as possible.

2. Mandatory MOC/LOC Imbalance Publications at 3:45 p.m.

As soon as practicable after 3:45 p.m., any MOC/LOC imbalance of 50,000 shares or more for NYSE-listed securities, and 25,000 shares or more for NYSE Amex Equities-listed securities will be published. Other significant imbalances of lesser size (e.g., less than 50,000/25,000 shares but significant relative to the average daily trading volume (“ADTV”) of a particular security) may be published by the DMM with Floor Official or qualified Exchange employee approval.⁹

In addition, any Informational Imbalance Publication issued prior to 3:45 p.m. must be updated at 3:45 p.m. An imbalance of 50,000 shares (NYSE), 25,000 shares (NYSE Amex Equities), or more will be published. If there is an imbalance of any lesser size that is significant relative to the ADTV of the stock, it may be published by the DMM with

⁷ Imbalance publications include both MOC and marketable LOC orders (based on the last sale price at the time the publication is made). See NYSE and NYSE Amex Equities Rule 123C(1)(b) and (d), defining “Informational Imbalance Publications” and “Mandatory MOC/LOC Imbalance Publications”. For more information on how imbalance publications are calculated, see NYSE and NYSE Amex Equities Rule 123C(4).

⁸ Floor Official approvals to issue Informational Imbalance Publications should be recorded on the Floor Official Approval form under Item 12 (“Consultation/Other”). Members should state the proposed imbalance information and note any other relevant information (e.g. ADTV, size, degree of impact) in connection with the request.

⁹ As with Informational Imbalance Publications, Floor Official approvals to issue certain Mandatory MOC/LOC Imbalance Publications should be recorded on the Floor Official Approval form under Item 12 (“Consultation/Other”). Members should state the proposed imbalance information and note any other relevant information (e.g. ADTV, size, degree of impact) in connection with the request.

prior Floor Official or qualified Exchange employee approval. If there is no such imbalance, a “no imbalance” indication must be issued by the DMM.

3. Mandatory MOC/LOC Imbalance Publications after a trading halt

If a trading halt is in effect at 3:45 p.m. but is lifted prior to the Close, any MOC/LOC imbalance of 50,000 shares (NYSE), 25,000 shares (NYSE Amex Equities), or more will be published, and any imbalance of lesser size if significant relative to the ADTV may be published by the DMM as soon as possible after trading reopens, subject to prior Floor Official or qualified Exchange employee approval. If the trading halt is not lifted before the Close, there will not be any imbalance publications.

4. Exchange Publication of Order Imbalance Information

In addition to the Informational Imbalance and Mandatory MOC/LOC Imbalance Publications described above, the Exchanges also make available real-time Order Imbalance Information prior to the Close in accordance with NYSE and NYSE Amex Equities Rule 123C(6). These publications take place approximately every five (5) seconds between 3:45 p.m. and 4:00 p.m. The Order Imbalance Information publications use a reference price¹⁰ in order to indicate how many shares would be needed to close the security at that price, including MOC, marketable LOC and CO orders.¹¹ Beginning at 3:55 p.m., the Order Imbalance Information publications also include stop orders, d-Quotes¹² and all other e-Quotes containing pegging instructions eligible to participate in the closing transaction.¹³

As noted above, Order Imbalance Information publications are solely for informational purposes and off-setting interest must not be submitted in response to Order Imbalance Information publications. Off-setting MOC/LOC interest may be submitted only as described in this memo in response to a Mandatory MOC/LOC Imbalance Publication issued at 3:45 p.m. or after a trading halt in accordance with Rule 123C(2).

¹⁰ For more information on how the reference price is determined, see NYSE and NYSE Amex Equities Rule 123C(6)(a)(iii).

¹¹ In the case of a buy (sell) imbalance, CO orders to sell (buy) at a price equal to or lower (higher) than the reference price are to be included in the imbalance.

¹² On May 17, 2010, the Exchange implemented changes to Rule 70 to provide that d-Quotes and pegging e-Quotes that are entered 10 seconds or less before the scheduled close will automatically be rejected by Exchange systems. Accordingly, on a regular trading day, Exchange systems will reject d-Quotes or pegging e-Quotes entered at or after 3:59:50 p.m. See SEC Release No. 34-61848; File No. SR-NYSE-2010-31 (April 6, 2010).

¹³ On a day that trading on the Exchange is scheduled to close earlier than 4:00 p.m., the Exchange will disseminate Order Imbalance Information every five (5) seconds starting at 10 minutes prior to the Close. See NYSE and NYSE Amex Equities Rule 123C(6)(a)(v).

C. Printing the Closing Transaction

1. NYSE and NYSE Amex Equities Rules 116.40 and 123C(8)

DMMs are reminded that the closing transaction must be printed consistent with NYSE and NYSE Amex Equities Rules 116.40 and 123C(8) and they must accurately reflect both the closing price and closing volume when printing the closing transaction.¹⁴

Due to possible system latency, marketable orders entered into Exchange systems immediately before 4:00 p.m. might not be received at the post until after 4:00 p.m. These orders should be incorporated into the closing process, just as non-MOC/LOC interest that is known at the post is factored into the closing print after 4:00 p.m.

2. Verbal Interest and e-Quotes at the Close

All interest, including verbal, e-Quoted, d-Quoted and Display Book interest, should be taken into account by the DMM when formulating the Close pursuant to Rule 123(C)(7).

Depending on whether it is marketable or not, verbal interest may be handled differently than e-Quoted interest at the Close. Marketable verbal interest is included with all market and MOC interest at the Close, while limited verbal interest and e-Quotes are on parity with limit orders. DMMs are reminded that verbal interest from a Floor broker should be handled one of two ways: limited verbal interest should be entered into the system as a manual e-Quote and DMMs may require a written order from the broker; marketable verbal interest should be entered into the Closing template.

3. Orders to offset MOC/LOC imbalances at the Close to mitigate price disparity

NYSE and NYSE Amex Equities Rule 902 (Off Hours Trading Orders) provide for entry of orders after the Close. Rule 902(a)(ii)(B) permits DMMs to include in the calculation of the Close legitimate market interest that has agreed to offset all or part of any MOC imbalance that existed prior to the Close at 4:00 p.m. The DMM's use of this offsetting interest to minimize significant price dislocation on the Close will result in a closing-price coupled order between the DMM and member, member organization or customer. If the member, member organization or customer agrees, the DMM may include this interest in offsetting an imbalance when setting the closing price and increase DMM participation in the closing print to the extent of the new contra interest. In this way the DMM will liquidate or cover the related dealer position, and the member, member organization or customer will acquire the position. Such closing-price coupled orders are executed at the Ramp.

It is important to note that Rule 902 may not be relied on for the entry of an order after the Close when there is no MOC/LOC imbalance or when the imbalance would not result in volatility and/or price dislocation. In addition, it cannot be used if the Close has already been printed.

¹⁴ For more information on the execution of orders at the Close, see NYSE and NYSE Amex Equities Rule 123C(7). Members and member organizations are reminded that, when arranging the Close, they may not use the Display Book system in an inappropriate manner designed to discover information about unexecuted stop orders.

D. Extreme Order Imbalances at or Near the Close

In order to avoid significant dislocation in the closing price that may result from an order entered or represented at or near the Close, NYSE and NYSE Amex Equities Rule 123C(9) permits, on a security-by-security basis, the Exchanges to temporarily suspend the hours of operation under Rule 52 so that offsetting interest may be solicited from both on-Floor and off-Floor participants and entered to reduce the size of the imbalance. Any such extension of trading under Rule 123C(9) may be designated by the Exchanges for a specific time period up to 30 minutes after the scheduled close.

Off-setting interest is solicited using NYSE and NYSE Amex Equities Trader Updates as well as messages sent directly to Floor broker hand-held devices. These Exchange-issued solicitation requests include information regarding security symbol, the imbalance amount and side, the last sale price, and a designated order acceptance cut-off time (generally five minutes from the issuance of the solicitation request). Offsetting interest submitted in response to an Exchange-issued solicitation request must be a limit order priced no worse than the last sale, irrevocable, and represented by a Floor broker by no later than the order acceptance cut-off time indicated in the solicitation request.¹⁵

Rule 123C(9) also permits temporary suspension of the prohibition on the cancellation or reduction of a MOC/LOC order after 3:58 p.m. where there is a legitimate error in such an order *and* the execution of the order would cause significant price dislocation at the Close.

Only the DMM assigned to a particular affected security may request relief under Rule 123C(9). A request for relief under Rule 123C(9) must be approved and supervised by an Executive Floor Governor or qualified NYSE Euronext employee.

IV. Contingencies in the Event of a System Interruption

A. Contingency Scenarios

NYSE Operations has notified all members and member organizations as to how to proceed in the event of a systems outage on June 25, 2010. There are four contingency scenarios, each of which is described below for convenience. Members and member organizations should refer to the Operations memorandum published June 10, 2010, for further details.¹⁶ In addition, members and member organizations are advised that in Contingency Scenarios 2 and 3, the procedures of NYSE and NYSE Amex Equities Rule 123C will operate as if a regulatory halt were in place.

1. Contingency Scenario 1

In the event of a system interruption that occurs intraday whereby normal trading is resumed prior to 3:45 p.m. the Exchanges will begin the normal Market on Close posting process (3:45 pm, with some Informational Imbalance publications as early as 3:00 p.m.). There will be the normal 4:00 p.m. close time.

¹⁵ See NYSE/NYSE Amex Information Memorandum 09-20 (May 5, 2009).

¹⁶ Available on the NYSE/NYSE Amex website at: www.nyx.com.

2. Contingency Scenario 2

In the event of a system interruption that occurs intraday and normal trading is resumed between 3:45 and 3:59 p.m., the Exchanges will bypass the normal 3:45 p.m. MOC publication and utilize a single MOC publication before the 4:00 p.m. close time, if practicable. Although the Closing process may extend later than the usual 4:00 p.m. close time, order delivery will stop at 4:00 p.m. Any orders in Exchange systems will be executed in one Closing trade as soon as possible thereafter.

3. Contingency Scenario 3

In the event of a system interruption that occurs intraday and service is restored after the 4:00 p.m. close time, we may not publish the 3:45 pm Market on Close information. The Exchanges will notify market participants of the new close time and will price the close at or around this time. The normal 4:45 p.m. MatchPoint cross will be delayed. The new time will be communicated to market participants via the market wide call and a system status posting.

4. Contingency Scenario 4

In the event of a system interruption that occurs intraday and service is not restored, the NYSE and NYSE Amex closing prices on June 25 will be the last regular way trade on the NYSE and NYSE Amex, respectively.

B. Contingency Preparedness

Members are reminded that they should have Floor stationery supplies on hand in the event they are unable to enter or cancel orders through the system.

Should a system interruption affect electronic time-stamping functionality, members and member organizations may manually record required time information. If the Broker Booth Support System (BBSS) is functioning, but the broker handheld is not, Floor brokers must carry the BBSS time onto their paper orders. Under all other circumstances, the time of order entry must be recorded by hand in the Booth, by the Floor broker or clerk.

V. Adequacy of Operations and Supervisory Staff

All members and member organizations, including DMMs, should ensure that both operational and supervisory staffing on and around June 25 will be sufficient to monitor and process all orders, regardless of the form in which they are received, as well as to handle the increased workload anticipated as a result of the Russell Rebalancing. All members and member organizations should also review their systems to ensure that they have adequate capacity to handle the expected increase in volume. For example, DMM firms should review their DMM Unit algorithm to ensure that they meet their obligations to maintain a fair and orderly market. DMMs are reminded to seek the advice of a Floor Official regarding any unusual situations as quickly as possible.

VI. Supervision

A. Review of Policies and Procedures

NYSE Regulation is advising members and member organizations to carefully review their procedures as well as their supervisory systems for handling orders in connection with the Russell Rebalancing on June 25. NYSE Regulation expects members and member organizations to review their practices for handling orders at or near the Close, particularly with respect to any orders where there is an on-close or other price guarantee for those securities that are part of the rebalancing. Reviews should include both orders that are handled manually as well as those orders that are handled systemically, such as orders that are handled by a computer algorithm. In addition, members and member organizations should take all necessary steps to ensure that the relevant trading, compliance and back-office staff are familiar with firm procedures for handling orders at or near the Close. Members and member organizations should also be mindful of the guidance issued in Information Memo 09-22 (May 28, 2009) (attached) regarding procedures for escalating and addressing inquiries arising from real-time regulatory or trading issues.

In addition, members and member organizations are reminded of their obligation to have adequate systems and controls relating to the use of firm systems or mnemonics by correspondents or others, including usage of the Exchanges' odd-lot systems. Please consult NYSE Information Memos 02-48 (November 7, 2002) and 07-60 (June 29, 2007) (both attached) for more information.

B. Adequacy of Compliance Program

Members and member organizations are also reminded to ensure that they have a robust compliance program that includes adequate supervisory policies and procedures to monitor for compliance with NYSE and NYSE Amex Equities Rule 123C and the guidance contained in this Information Memo. Those policies and procedures must be adequate to ensure that all procedures related to MOC/LOC orders and orders entered at or near the close are appropriately followed, and to detect and deter any actions that may violate NYSE, NYSE Amex or SEC rules.

C. Due Diligence Requirements

Consistent with the requirements of NYSE and NYSE Amex Equities Rule 405, before any at-the-close order is transmitted to the Floor the member or member organization accepting the order must exercise due diligence to learn the essential facts relative to the order, including the purpose and propriety of the at-the-close instruction. In addition, an imbalance of orders at or near the Close, caused in part by the entry of such orders, could lead to trading being halted in the security and such orders not receiving an execution.

D. Supervision to Prevent Improperly Affecting the Close

Members and member organizations must also ensure that their activity does not have the effect of artificially impacting the closing price.

As such, members, member organizations and compliance staff should be mindful of the guidance issued in Information Memo 05-52 (August 1, 2005) (attached) regarding VWAP trading at or near the Close, which addresses the responsibility for ensuring that trading strategies engaged in to facilitate or hedge VWAP orders have an economic basis and do not have the effect of marking the close or marking the value of a position. Member organizations should also be aware that certain orders and order entry

practices may have the potential to cause price dislocation before the Close or distort the closing price due to prevailing market conditions at the time the order is entered. Similarly, trading at or near the Close is of particular concern due to the condensed time frame for execution, where the resultant closing price is used to set benchmarks, such as index rebalancing. As a result, manipulation concerns may be heightened when trading occurs at or near the close.

Firms should review procedures utilized in connection with orders to be executed at or near the close with their traders and other order-entry personnel. Firms should also review systemic order-entry functions (e.g., algorithms or “smart servers”) for compliance with the provisions of this Information Memorandum. Firms should also review the provisions of NYSE Information Memo 95-28 (July 10, 1995)(attached), which discusses trading near the Close and activity that would constitute violations of NYSE and NYSE Amex Equities Rules as well as federal securities laws.

In that connection, members and member organizations are reminded that, where a firm has committed to purchase from (sell to) a customer an order at a price that is derived from the closing price (e.g., VWAP and MOC orders) while also reserving a significant portion of its hedging or covering transaction to be executed at or near the Close, they must operate with substantial care. If the transaction is completed in a manner that does not effectively place the firm at market risk or if the transaction does not provide an opportunity for possible contra side interest to develop and/or react to the activity, it would raise manipulative concerns and would operate as conduct inconsistent with just and equitable principles of trade. Members and member organizations should consult Information Memo 05-52 for further guidance.

E. Compliance with Federal Securities Laws and Rules

In addition to complying with NYSE and NYSE Amex rules and policies, members and member organizations should review other applicable federal securities laws and regulations, including Section 9(a)(2) of the Securities Exchange Act, Regulation SHO and Rule 10b-5, as well as the margin and capital rules. Firms must ensure that they have adequate policies and procedures to detect, deter and prevent such potentially violative conduct.

VII. Staff Contacts

In order to facilitate proper communication with respect to this reconstitution, the Exchanges request that all members and member organizations submit the name and contact information of a designated compliance person so that any issues related to the reconstitution may be addressed in an efficient and timely manner on June 25, 2010. This contact information should be submitted via email to ofsu@nyx.com.

Questions concerning Rule interpretations related to this memorandum may be addressed to:

Clare Saperstein, NYSE Regulation, (212) 656-2355

Regulatory questions concerning this memorandum may be addressed to the following:

Patricia Bergholc, Director, On Floor Surveillance, at (212) 656-4948
Gordon Brown, Manager, On Floor Surveillance, at (212) 656-5321
Michael Fryer, Director, Member Trading, at (212) 656-4656
John Saxton, Director, Member Trading, at (212) 656-2324
Andrew White, Director, Member Trading, at (212) 656-4498.

Operations questions concerning this memorandum may be addressed to the following:

Robert Airo, Senior Vice President, NYSE Operations, at (212) 656-5663
Paul Bauccio, Senior Vice President, Operations, at (212) 656-2929
Todd Abrahall, Vice President, NYSE Operations, at (212) 656-4966
Michael Rutigliano, Vice President NYSE Operations, at (212) 656-4679
Dennis Pallotta, Director, Operations, at (212) 656-5236
Sonia Rosa, Director, Operations, at (212) 656-2899.

Questions may also be directed to OFSU via the White Phone or in person at the Ramp. Questions that are not time sensitive may also be submitted to Ask Market Surveillance. For information about the Ask Market Surveillance system, refer to NYSE Member Education Bulletin 2006-3 (January 30, 2006), if you or your firm is not already a subscriber.

NYSE Regulation, Inc.

Attachments