



8011-01p
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-74841; File No. SR-NYSEARCA-2015-32)

April 29, 2015

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Modifying its Rules to Provide for the Use of Ports that Provide Connectivity to the Exchange's Trading Systems Solely for the Cancellation or "Takedown" of Quotes and Changes to the NYSE Arca Options Fee Schedule Related to Quote Takedown Service.

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (the "Act")² and Rule 19b-4 thereunder,³ notice is hereby given that, on April 17 2015, NYSE Arca, Inc. (the "Exchange" or "NYSE Arca") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. 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 modify its rules to provide for the use of ports that provide connectivity to the Exchange's trading systems solely for the cancellation or "takedown" of quotes. In addition, the proposed rule change reflects changes to the NYSE Arca Options Fee Schedule ("Fee Schedule") related to this quote takedown service. The text of the proposed rule change is available on the Exchange's website at www.nyse.com, at the principal office of the Exchange, and at the Commission's Public Reference Room.

¹ 15 U.S.C.78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

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 self-regulatory organization 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 those 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 parts 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 proposes to modify its rules to provide for the use of ports that provide connectivity to the Exchange's trading systems solely for the cancellation or "takedown" of quotes. In addition, the proposed rule change reflects changes to the Fee Schedule related to this quote takedown service.

Order/Quote Entry Ports

The Exchange currently makes available to OTP Holders and OTP Firms ("OTPs") order/quote entry ports for connectivity to Exchange trading systems (each an "order/quote entry port"). OTPs may be authorized to utilize order/quote entry ports for option activity on NYSE Arca Options and incur monthly Port Fees. Currently, the Exchange charges \$450 per month, per order/quote entry port for the first 40 ports and \$150 per month, per order/quote entry port for any additional ports in excess of 40 (i.e., ports 41 and greater).⁴ While order/quote entry ports

⁴ See Fee Schedule, available at, https://www.nyse.com/publicdocs/nyse/markets/arca-options/NYSE_Arca_Options_Fee_Schedule.pdf. Unutilized order/quote entry ports that connect to the Exchange via its backup datacenter are considered established for backup purposes and are not subject to Port Fees. In addition, for purpose of calculating the

may be used by OTPs registered as Market Makers to both enter and cancel or remove quotes, Market Makers may dedicate certain ports solely to the removal of quotes, i.e., a “quote takedown port,”⁵ and, until now, the Exchange has treated such dedicated quote takedown ports the same as order/quote entry port [sic] for Port Fee purposes.

Quote Takedown Ports

The Exchange is proposing to modify its rules to provide ports specifically dedicated to quote cancellation or “quote takedown” (each a “Quote Takedown Port”) as a service distinct from order/quote entry ports, which may be used both for entering quotes or orders and removing or cancelling quotes. The proposed Quote Takedown Ports would be designed to assist OTPs registered as Market Makers in the management of, and risk control over, their quotes, particularly if they have a large number of options issues in their appointment. For example, if a Market Maker detects market indications that may influence the direction or bias of its quotes, the Market Maker may attempt to cancel all of its quotes in a number of classes, thereby avoiding unintended executions, while it evaluates the direction of the market. Thus, to reduce uncertainty, the Market Maker may submit to the Exchange a “quote takedown” message through a dedicated Quote Takedown Port for the prompt removal of quotes. By entering a quote takedown message through a dedicated Quote Takedown Port, a Market Maker may reduce its exposure to risk because of heavy quote traffic-induced latency.

The Exchange proposes to modify the Fee Schedule to provide that certain Quote Takedown Ports would not be subject to Port Fees. Specifically, for each order/quote entry port

number of order/quote entry ports, the Exchange shall aggregate the ports of affiliates. See id.

⁵ See Trader Update regarding Options Pre-Trade and Post-Trade Risk Controls, available at, https://www.nyse.com/publicdocs/nyse/markets/amex-options/US_Options_Risk_Controls_Client_Document.pdf (announcing availability of ports dedicated to quote takedown to minimize latency for quote takedowns).

utilized, the Exchange proposes to allow Market Makers to utilize, free of charge, one Quote Takedown Port. Because Quote Takedown Ports would not be available for quote or order submission, the Exchange is proposing to allow one Quote Takedown Port free of charge for every order/quote entry port that a Market Maker utilizes. In other words, provided a Market Maker does not exceed a 1-to-1 ratio of order/quote entry port-to-Quote Takedown Port, the Quote Takedown Port(s) would be free (the “1-to-1 ratio”). However, a Market Maker that exceeds the 1-to-1 ratio would be charged for additional Quote Takedown Ports. For example, a Market Maker with thirty-five (35) order/quote entry ports and forty-two (42) Quote Takedown Ports would have forty-two (42) ports subject to charge because the Exchange would charge for the 35 order/quote entry ports and the seven Quote Takedown Ports that exceed the 1-1 ratio ($42 - 35 = 7$). The Exchange would not charge for the first 35 Quote Takedown Ports because those ports would meet the 1-to-1 ratio.

Similarly, the Exchange would not include those Quote Takedown Ports that meet the 1-to-1 ratio to determine a Market Maker’s total number of ports for purposes of calculating Port Fees. As noted above, the Exchange charges \$450 per month, per port for the first forty ports, and \$150 per month for each additional port in excess of forty. Thus, using the example above, the Exchange would not count the thirty-five (35) Quote Takedown Ports (which align with the 35 order/quote entry ports) against the Market Maker’s total number of ports utilized, but would count seven (7) additional Quote Takedown Ports. Thus, because the Market Maker would have forty-two (42) chargeable ports, the Market Maker’s total monthly port fee would be \$18,300 (i.e., $40 \text{ ports} \times \$450 \text{ per port} = \$18,000$; and $2 \text{ ports} \times \$150 \text{ per port} = \300).

The Exchange notes that options Market Makers typically require more than forty (40) order/quote entry ports, in part to satisfy their obligation to maintain continuous two-sided

markets in their appointed classes. Thus, the Exchange believes that the proposed change would enhance the ability of Market Maker firms to manage quotes, quote traffic, and their quoting obligations by eliminating fees for certain Quote Takedown Ports, which function as risk management tools rather than trade opportunity tools. The Exchange believes this proposed change would permit the Exchange to remain competitive with other exchanges with respect to fees charged for ports.

To reflect the proposed change, the Exchange proposes to add to the Fee Schedule, in the table regarding Port Fees under the section “NYSE Arca OPTIONS: FLOOR and EQUIPMENT and CO-LOCATION FEES,” a new category for “Quote Takedown Ports,” together with the following language: “For each order/quote entry port utilized, NYSE Arca Market Makers may utilize, free of charge, one port dedicated to quote cancellation or ‘quote takedown,’ which port(s) will not be included in the count of order/quote entry ports utilized. Any quote takedown port utilized by a NYSE Arca Market Maker that is in excess of the number of order/quote entry ports utilized will be counted and charged as an order/quote entry port.” In addition, to add clarity regarding Port Fees, the Exchange proposes to move the existing text regarding how the Exchange will aggregate the order/quote entry ports of a Market Maker’s affiliate to appear immediately below the Quote Takedown Ports and to specify that the Exchange will similarly aggregate the Quote Takedown Ports of affiliates.⁶

The Exchange believes the proposal to offer Quote Takedown Ports would ensure a fair and reasonable use of resources by eliminating charges to Market Makers for certain Quote

⁶ See proposed Fee Schedule, Port Fees (“For purpose of calculating the number of order/quote entry ports and quote takedown ports, the Exchange shall aggregate the ports of affiliates.”).

Takedown Ports (described above), which are used to control and manage risk exposure to the benefit of all market participants.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b)⁷ of the Securities Exchange Act of 1934 (the “Act”), in general, and furthers the objectives of Section 6(b)(5),⁸ in particular, in that 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 transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

The Exchange believes that the proposed rule change would promote just and equitable principles of trade and remove impediments to and perfect the mechanism of a free and open market because offering OTPs registered as Market Makers designated Quote Takedown Ports would enhance Market Makers’ ability to manage quotes, quote traffic, and their quoting obligations, which would, in turn, improve their risk controls to the benefit of all participants. The Exchange believes that the Quote Takedown Ports would foster cooperation and coordination with persons engaged in facilitating transactions in securities because Quote Takedown Ports minimize latency for quote takedown, which would enable the fair and reasonable use of Market Makers’ resources. Because Quote Takedown Ports, as the name suggests, are only available for quote takedowns and not order or quote entry (or order cancellation), the Quote Takedown Ports are not designed to permit unfair discrimination but rather are designed to enable Market Makers, that are subject to heightened obligations that other

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

market participants are not, to meet their quoting obligations, which, in turn, benefits all market participants.

The Exchange also believes that the proposed rule change is consistent with Section 6(b) of the Act,⁹ in general, and furthers the objectives of Sections 6(b)(4) and (5) of the Act,¹⁰ in particular, because it provides for the equitable allocation of reasonable dues, fees, and other charges among its members, issuers and other persons using its facilities and does not unfairly discriminate between customers, issuers, brokers or dealers

The Exchange believes the proposed change is reasonable, equitable and not unfairly discriminatory for the following reasons. First, all OTPs would be subject to the same schedule of Port Fees and OTPs would continue to be able to request, and pay for only those ports that they require, with no impact to other OTPs. As noted above, because Quote Takedown Ports are uniquely designed to address quotes and only Market Makers are obliged to quote, the proposed fee structure for Quote Takedown Ports would not disadvantage non-Market Makers trading on the Exchange. Second, the proposal to enable Market Makers to utilize certain Quote Takedown Ports free of charge would result in the fair and reasonable use of resources by Market Makers and would encourage trading on the Exchange, thus improving liquidity and price discovery, to the benefit of all market participants. In addition, providing Market Makers a free Quote Takedown Port for each order/quote entry port may increase use of Quote Takedown Ports as a cost effective means of improving risk controls. The increased use of Quote Takedown Ports by Market Makers would improve Market Makers' ability to manage quotes, quote traffic, and their quoting obligations, which would, in turn, improve their risk controls to the benefit of all participants.

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(4) and (5).

The Exchange likewise believes that not including those Quote Takedown Ports that meet the 1-to-1 ratio (order/quote entry ports-to-Quote Takedown Ports) in the count against a Market Maker's total number of ports utilized for purposes of calculating the monthly Port Fees is reasonable, equitable and not unfairly discriminatory. The Exchange notes that options Market Makers, require more than 40 ports in order to satisfy their responsibilities and obligations to investors, which stem from the significant number of series that exist for any particular option class¹¹ and the corresponding obligations that Market Makers have to maintain continuous quotations in all series in their appointed classes. Furthermore, Market Makers that quote across a significant number, if not all, of the 2,710 classes traded on the Exchange could have responsibility for upwards of 620,000 individual option series.¹² Accordingly, the level of activity that is required to satisfy the quoting obligations, which directly relates to the number of ports needed, is such that the Exchange believes it is equitable and not unfairly discriminatory to only include the number of order/quote entry and Quote Takedown Ports in excess of the 1-to-1 ratio in determining the per port charge for Market Makers.

Finally, the Exchange believes that the proposed change is reasonable, because the Quote Takedown Ports are used for purposes distinct from order/quote entry ports, for which the Exchange charges.¹³ In this regard, the Exchange believes that its Port Fees are competitive with those charged by other venues, and that in some cases its Port Fees are less expensive than many of its primary competitors. For example, the Chicago Board Options Exchange ("CBOE")

¹¹ For example, as of February 24, 2015, there were more than 1,952 individual option series overlying Chipotle Mexican Grill, Inc.

¹² As of February 24, 2015.

¹³ The Exchange also charges for use of drop copy ports, which are not discussed in this filing. See supra n. 4.

charges \$750 per port per month for a Network Access Port.¹⁴ The NASDAQ Options Market (“NOM”) charges \$650 per port per month.¹⁵

For these reasons, the Exchange believes that the proposal is consistent with the Act.

B. Self-Regulatory Organization’s Statement on Burden on Competition

In accordance with Section 6(b)(8) of the Act,¹⁶ the Exchange does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Because the proposed change results in the fair and reasonable use of resources by OTPs, particularly Market Makers, in that the Exchange allows OTPs to utilize one Quote Takedown Port per one order/quote entry port free of charge, the Exchange believes this change would benefit all market participants. In addition, because Quote Takedown Ports enhance Market Makers’ risk controls for transactions executed on the Exchange, the Exchange believes the proposal is pro-competitive.

The Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues. In such an environment, the Exchange must continually review, and consider adjusting, its fees and credits to remain competitive with other exchanges. For the reasons described above, the Exchange believes that the proposed rule change reflects this competitive environment.

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

¹⁴ See CBOE fee schedule, Command Connectivity Charges, at p 11, available at, <http://www.cboe.com/publish/feeschedule/CBOEFeeSchedule.pdf> (charging \$750 per month for each Network Access Port (1 Gbps) and \$3,500 per month for each Network Access Port (10Gbps)).

¹⁵ See NOM Price List, Section 3, NASDAQ Options Market, Access Services, available at, http://nasdaq.cchwallstreet.com/NASDAQTools/bookmark.asp?id=nasdaq-rule-options_XVS3&manual=/nasdaq/main/nasdaq-optionsrules/.

¹⁶ 15 U.S.C. 78f(b)(8).

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

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

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act¹⁷ and Rule 19b-4(f)(6) thereunder.¹⁸ 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)¹⁹ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),²⁰ the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative delay so that the proposal may become operative immediately upon filing and thereby enable Market Makers to enhance their risk controls and risk management processes without delay. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the 30-day operative delay and designates the proposal effective

¹⁷ 15 U.S.C. 78s(b)(3)(A)(iii).

¹⁸ 17 CFR 240.19b-4(f)(6).

¹⁹ 17 CFR 240.19b-4(f)(6).

²⁰ 17 CFR 240.19b-4(f)(6)(iii).

upon filing.²¹

At any time within 60 days of the filing of such proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)²² of the Act to determine whether the proposed rule change 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 e-mail to rule-comments@sec.gov. Please include File Number SR-NYSEARCA-2015-32 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSEARCA-2015-32. This file number should be included on the subject line if e-mail is used.

²¹ For purposes 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).

²² 15 U.S.C. 78s(b)(2)(B).

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 website (<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 website 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 the filing will also be available for inspection and copying at the NYSE's principal office and on its Internet website at www.nyse.com. 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-NYSEARCA-2015-32, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²³

Brent J. Fields,
Secretary.

[FR Doc. 2015-10411 Filed: 5/4/2015 08:45 am; Publication Date: 5/5/2015]

²³ 17 CFR 200.30-3(a)(12).