



8011-01p

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-75493; File Nos. SR-NYSEArca-2015-43; SR-NYSEMKT-2015-41)

Self-Regulatory Organizations; NYSEArca, Inc.; NYSEMKT LLC; Order Approving Proposed Rule Changes Relating to the Complex Order Auction Process and Order Exposure Requirements

July 20, 2015

I. Introduction

On May 21, 2015, NYSE Arca, Inc. (“NYSE Arca”) and NYSE MKT LLC (“NYSE MKT”) (each, an “Exchange” and, together, the “Exchanges”) filed with the Securities and Exchange Commission (the “Commission”), pursuant to section 19(b)(1)¹ of the Securities Exchange Act of 1934 (the “Act”),² and Rule 19b-4 thereunder,³ proposed rule changes to amend NYSE Arca Rules 6.47A and 6.91(c) and NYSE MKT Rules 935NY and 980NY(e), respectively, to (1) allow Users to utilize the Complex Order Auction (“COA”) to satisfy the order exposure requirements of Rules NYSE Arca Rule 6.47A and NYSE MKT Rule 935NY; (2) allow any OTP Holder or ATP Holder, as applicable, to participate in a COA; and (3) provide for a COA Response Time Interval of no less than 500 milliseconds.⁴ The proposed rule changes

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

⁴ An OTP Holder is the holder of an Options Trading Permit issued by NYSE Arca. See NYSE Arca Rules 1.1(p) and (q). Under NYSE Arca’s rules, a User is any OTP Holder, OTP Firm, or Sponsored Participant that is authorized to obtain access to OX, NYSE Arca’s electronic order delivery, execution and reporting system for designated option issues, pursuant to NYSE Arca Rule 6.2A. See NYSE Arca Rules 6.1A(13) and 6.1A(19). An ATP Holder is the holder of an Amex Trading Permit issued by NYSE MKT. See NYSE MKT Rules 900.2NY(4) and (5). Under NYSE MKT’s rules, a User is any ATP Holder that is authorized to obtain access to the System pursuant to NYSE MKT Rule 902.1NY. See NYSE MKT Rule 900.2NY(87).

were published for comment in the in the Federal Register on June 8, 2014.⁵ The Commission received no comment letters regarding the proposals. This order approves the proposed rule changes.

II. Description of the Proposals

NYSE Arca and NYSE MKT each operate a COA auction process, which allow an entering trading permit holder to initiate an auction for an eligible complex order.⁶ At the commencement of a COA auction, an Exchange sends an automated request for response message (“RFR”) to all trading permit holders that subscribe to RFR messages.⁷ During the Response Time Interval, trading permit holders that are eligible to respond to a COA may respond to an RFR message, indicating the price and number of contracts they would be willing to trade in the COA.⁸ Under the current rules, the Exchanges may determine the length of the Response Time Interval, which has no minimum duration and will not exceed one second.⁹

⁵ See Securities Exchange Act Release Nos. 75096 (June 2, 2015), 80 FR 32420 (“NYSE Arca Notice”); and 75095 (June 2, 2015), 80 FR 32427 (“NYSE MKT Notice”).

⁶ Each Exchange may determine, on a class-by-class basis, which electronic orders are eligible for a COA, based on marketability (defined as a number of ticks away from the current market), size, number of series, and complex order origin types (*i.e.*, Customers, broker-dealers that are not Market-Makers or specialists on an options exchange, and/or Market-Makers or specialists on an options exchange). See NYSE Arca Rule 6.91(c)(1) and NYSE MKT Rule 980NY(e)(1).

⁷ The RFR message identifies the component series, size, and side of the market of the order being auctioned, and any contingencies. See NYSE Arca Rule 6.91(c)(2) and NYSE MKT Rule 980NY(e)(2).

⁸ See NYSE Arca Rules 6.91(c)(3) and (4) and NYSE MKT Rules 980NY(e)(3) and (e)(4). See also NYSE Arca Notice, 80 FR at 32421 and NYS MKT Notice, 80 FR at 32427.

⁹ See NYSE Arca Rule 6.91(c)(3) and NYSE MKT Rule 980NY(e)(3).

The Exchanges' order exposure rules currently prohibit Users from executing as principal orders they represent as agent unless certain conditions are satisfied.¹⁰ NYSE Arca Rule 6.47A provides that Users may not execute as principal orders they represent as agent unless (i) the agency orders are first exposed on NYSE Arca for at least one second; or (ii) the User has been bidding or offering on NYSE Arca for at least one second prior to receiving an agency order that is executable against such bid or offer. NYSE MKT Rule 935NY provides that Users may not execute as principal orders they represent as agent unless (i) the agency orders are first exposed on NYSE MKT for at least one second; (ii) the User has been bidding or offering on NYSE MKT for at least one second prior to receiving the agency order that is executable against such bid or offer; or (iii) the User utilizes the NYSE Amex Options Customer Best Execution ("CUBE") auction.¹¹ The Exchanges propose to amend their rules to add the use of the COA as a means for a User to satisfy the order exposure requirements.¹² Thus, an electronic complex order subject to a COA would not be subject to the one-second order exposure requirements of NYSE Arca Rule 6.47A or NYSE MKT Rule 935NY, and a User that utilizes the COA pursuant to NYSE Arca Rule 6.91(c) or NYSE MKT Rule 980NY(e) would be able to submit a principal order during the Response Time Interval to trade against an order it represents as agent.¹³ The Exchanges note that this exclusion from the order exposure requirement is consistent with the treatment of orders in the CUBE Auction, which, like the COA, has a minimum duration of 500

¹⁰ See NYSE Arca Rule 6.47A and NYSE MKT Rule 935NY.

¹¹ See NYSE Arca Rule 6.47A; and NYSE MKT Rule 935NY.

¹² The proposals also make conforming changes to NYSE Arca Rule 6.91(c)(3) and NYSE MKT Rule 980NY(e)(3) to delete sentences stating that the obligations of NYSE Arca Rule 6.47A and 935NY are separate from the duration of the Response Time Interval.

¹³ See NYSE Arca Notice, 80 FR at 32422 and NYSE MKT Notice, 80 FR at 32428.

milliseconds, and with the treatment of orders in the BOX Options Exchange's Complex Order Price Improvement Period ("COPIP") auction.¹⁴ In addition, the Exchanges note that, consistent with NYSE Arca Rule 6.47A, Commentary .01, and NYSE MKT Rule 935NY, Commentary .01, trading permit holders may only use the COA where there is a genuine intention to execute bona fide transactions.¹⁵

Currently, only market makers with an appointment in the relevant options class, and trading permit holders acting as agent for orders resting at the top of the Consolidated Book in the relevant options series, may submit RFR Responses.¹⁶ The Exchanges propose to amend their rules to allow any trading permit holder to submit an RFR Response. The Exchanges believe that this could increase participation in COAs, which could foster greater competition and provide additional price improvement opportunities for COA-eligible orders.¹⁷ In addition, the Exchanges believe that this change would benefit market participants by enabling the Exchanges to better compete with options exchanges that permit all members to participate in electronic auctions for crossing transactions that are similar to the COA.¹⁸

The Exchanges also propose to revise their rules to provide that the Response Time Interval will not be less than 500 milliseconds. The maximum possible duration of the Response Time Interval will continue to be one second. The Exchanges believe that it is important to establish a minimum duration for the Response Time Interval to assure that orders entered into a

¹⁴ See NYSE Arca Notice, 80 FR at 32422; and NYSE MKT Notice, 80 FR at 32428.

¹⁵ See NYSE Arca Notice, 80 FR at 32422; and NYSE MKT Notice, 80 FR at 32428.

¹⁶ See NYSE Arca Rule 6.91(c)(4) and NYSE MKT Rule 980NY(e)(4).

¹⁷ See NYSE Arca Notice, 80 FR at 32421; and NYSE MKT Notice, 80 FR at 32428.

¹⁸ See, e.g., ISE Rule 723(a).

COA are exposed for a sufficient time period to allow auction participants to submit RFR Responses.¹⁹

Each Exchange surveyed its trading permit holders to determine whether the proposed minimum Response Time Interval would provide sufficient time to respond to a COA.²⁰ Based on the survey responses—in which 77% of the respondents indicated that they would be able to respond to an auction lasting 100 milliseconds—the Exchanges believe that the proposed Response Time Interval duration of at least 500 milliseconds would provide a meaningful opportunity for Exchange participants to respond to a COA and, at the same time, facilitate the prompt execution of orders.²¹ In addition, the Exchanges believe that a minimum Response Time Interval of 500 milliseconds would provide sufficient time to submit RFR Responses and would encourage competition among participants, thereby enhancing the potential for price improvement in the COA.²² The Exchanges note that the 500 millisecond minimum duration is comparable to the response time interval for the CUBE Auction for single-leg orders, which disseminates an RFR message for an auction lasting for a random period of time of between 500 and 750 milliseconds.²³ The Exchanges note, further, that the BOX Options Exchange’s COPIP

¹⁹ See NYSE Arca Notice, 80 FR at 32421 and NYSE MKT Notice, 80 FR at 32428.

²⁰ In May 2015, NYSE Arca and NYSE MKT surveyed their respective trading permit holders to determine whether they could respond to an auction lasting 100 milliseconds. Of the trading permit holders that have electronic access to NYSE Arca and NYSE MKT, and are able to submit responses to a COA, 13 responded to the surveys. In both surveys, ten respondents (77%) said that they could respond to an auction lasting 100 milliseconds. See NYSE Arca Notice, 80 FR at 32421; and NYSE MKT Notice, 80 FR at 32428.

²¹ See NYSE Arca Notice, 80 FR at 32421; and NYSE MKT Notice, 80 FR at 32428.

²² See *id.*

²³ See NYSE MKT Rule 971.1NY(c)(2)(B).

auction lasts for only 100 milliseconds.²⁴ Although both the CUBE and the COPIP, unlike the COA, are auctions of paired orders that provide for a guaranteed execution, the Exchanges believe that the CUBE and COPIP are analogous to the COA in that they are designed to attract liquidity and provide opportunities for price improvement.²⁵

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule changes are consistent with the Act and the rules and regulations thereunder applicable to a national securities exchange.²⁶ In particular, the Commission finds that the proposed rule changes are consistent with section 6(b)(5) of the Act,²⁷ which requires that the rules of the exchange be designed, among other things, to prevent fraudulent and manipulative acts and practices, 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.

Users trading as principal on the Exchanges may not trade with orders they represent as agent unless the one-second order exposure requirements of NYSE Arca Rule 6.47A or NYSE MKT Rule 935NY, as applicable, are satisfied. The proposals amend NYSE Arca Rule 6.47A and NYSE MKT Rule 935NY to allow Users to utilize the COA to satisfy the order exposure

²⁴ See Box Rule 7245(f)(1).

²⁵ See NYSE Arca Notice, 80 FR at 32421; and NYSE MKT Notice, 80 FR at 32428.

²⁶ In approving this proposed rule change, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²⁷ 15 U.S.C. 78(b)(5).

requirements.²⁸ Thus, an electronic complex order subject to a COA would not be subject to the one-second order exposure requirements of NYSE Arca Rule 6.47A or NYSE MKT Rule 935NY, and a User that utilizes the COA pursuant to NYSE Arca Rule 6.91(c) or NYSE MKT Rule 980NY(e) would be able to submit a principal order during the Response Time Interval to trade against an order it represents as agent.²⁹ The proposals also amend NYSE Arca Rule 6.91(c)(4) and NYSE MKT Rule 980NY(e)(4) to allow all trading permit holders—rather than only market makers in the relevant options class and trading permit holders representing orders at the top of the Consolidated Book in the relevant series—to respond to a COA. Finally, the proposals amend NYSE Arca Rule 6.91(c)(3) and NYSE MKT Rule 980NY(e)(3) to establish a minimum duration of 500 milliseconds for the Response Time Interval.³⁰

The Commission believes that the changes establishing a minimum duration for the Response Time Interval and providing for expanded participation in the COA could enhance competition in the COA. As noted above, each Exchange surveyed its trading permit holders to determine whether they would be able to respond to a COA auction lasting 100 milliseconds. According to the Exchanges, 77% of the survey respondents indicated that they would be able to respond to an auction lasting 100 milliseconds.³¹ Based on the Exchanges' statements, the Commission believes that establishing a minimum duration of 500 milliseconds for the Response Time Interval should provide market participants with an opportunity to compete for exposed

²⁸ The proposals also make conforming changes to NYSE Arca Rule 6.91(c)(3) and NYSE MKT Rule 980NY(e)(3) to delete sentences stating that the obligations of NYSE Arca Rule 6.47A and 935NY are separate from the duration of the Response Time Interval.

²⁹ See NYSE Arca Notice, 80 FR at 32422 and NYSE MKT Notice, 80 FR at 32428.

³⁰ The rules will continue to provide that the Response Time Interval will not exceed one second.

³¹ See notes 20-21, supra, and accompanying text.

bids and offers in a COA auction while facilitating the prompt execution of orders in the COA.³²

In addition, allowing all trading permit holders to submit RFR Responses could result in greater participation and increased competition in the COA, potentially leading to greater opportunities for price improvement for orders submitted to a COA. Accordingly, the Commission believes that it is consistent with the Act to allow Users to utilize the COA to satisfy the order exposure requirements of NYSE Arca Rule 6.47A and NYSE MKT Rule 935NY.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to section 19(b)(2) of the Act,³³ that the proposed rule changes (File Nos. SR-NYSEArca-2015-43 and SR-NYSEMKT-2015-41) are approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³⁴

Robert W. Errett,
Deputy Secretary.

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³² The Commission notes that it has previously approved 500-millisecond response periods for other auctions, as well as a response period of 100 milliseconds for BOX's COPIP auction. See ISE Rules 716, Supplementary Material .04 (providing 500 milliseconds to submit Responses in the Block Order Mechanism, the Facilitation Mechanism, and the Solicited Order Mechanism); and 723(c)(1) (establishing a 500-millisecond exposure period for the Price Improvement Mechanism); and BOX Rule 7245(f)(1).

³³ 15 U.S.C. 78s(b)(2).

³⁴ 17 CFR 200.30-3(a)(12).