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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-78391; File No. SR- NSX-2016-05]

Self-Regulatory Organizations; National Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Exchange Rule 11.26 to Implement the Quoting and Trading Provisions of the Regulation NMS Plan to Implement a Tick Size Pilot Program

July 21, 2016

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 11, 2016, National Stock Exchange, Inc. (“NSX” or the “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change, as described in Items I, II, and III below, which Items have been substantially prepared by the Exchange. The Exchange has designated this proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6)(iii)<sup>4</sup> thereunder, which renders it 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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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

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

## Change

The Exchange filed a proposal to amend Exchange Rule 11.26 to implement the quoting and trading provisions of the Regulation NMS Plan to Implement a Tick Size Pilot Program (the “Plan”).<sup>5</sup> The proposed rule change is substantially similar to proposed rule changes recently approved or published by the Commission by New York Stock Exchange LLC to adopt NYSE Rules 67(a) and 67(c)-(e), which also implemented the quoting and trading provisions of the Plan.<sup>6</sup> Therefore, the Exchange has designated this proposal as “non-controversial” and provided the Commission with the notice required by Rule 19b-4(f)(6)(iii) under the Act.<sup>7</sup>

The text of the proposed rule change is available at the Exchange's website at [www.nsx.com](http://www.nsx.com), at the principal office of the Exchange, 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, the Exchange 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 parts of such statements.

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

#### 1. Purpose

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<sup>5</sup> 17 CFR 242.608.

<sup>6</sup> See Securities Exchange Act Release No. 76229 (October 22, 2015), 80 FR 66065 (October 28, 2015) (SR-NYSE-2015-46), as amended by Partial Amendments No. 1 and No. 2 to the Quoting & Trading Rules Proposal. See Securities Exchange Act Release No. 77703 (April 25, 2016), 81 FR 25725 (April 29, 2016) (SR-NYSE-2015-46).

<sup>7</sup> 17 CFR 240.19b-4(f)(6)(iii).

The Exchange proposes to establish rules to require its ETP Holders<sup>8</sup> to comply with the requirements of the Plan,<sup>9</sup> which is designed to study and assess the impact of increment conventions on the liquidity and trading of the common stocks of small capitalization companies. The Exchange proposes changes to its rules for a two-year pilot period that coincides with the pilot period for the Plan, which is currently scheduled as a two-year pilot to begin on October 3, 2016.

### Background

On August 25, 2014, NYSE Group, Inc., on behalf of Bats BZX Exchange, Inc. (f/k/a BATS Exchange, Inc.), Bats BYX Exchange, Inc. (f/k/a BATS Y-Exchange, Inc.), Chicago Stock Exchange, Inc., EDGA Exchange, Inc., EDGX Exchange, Inc., Financial Industry Regulatory Authority, Inc. (“FINRA”), NASDAQ OMX BX, Inc., NASDAQ OMX PHLX LLC, the Nasdaq Stock Market LLC, New York Stock Exchange LLC, the NYSE MKT, LLC (“NYSE MKT”), and NYSE Arca, Inc. (collectively “Participants”), filed the Plan with the Commission, pursuant to Section 11A of the Act<sup>10</sup> and Rule 608 of Regulation NMS thereunder.<sup>11</sup> The Participants filed the Plan to comply with an order issued by the Commission on June 24, 2014 (the “June 2014 Order”).<sup>12</sup> The Plan<sup>13</sup> was published for comment in the Federal Register on

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<sup>8</sup> Rule 1.5E(1) defines the term “ETP” as an Equity Trading Permit issued by the Exchange for effecting approved securities transactions on the Exchange’s trading facilities.

<sup>9</sup> See Securities and Exchange Act Release No. 74892 (May 6, 2015), 80 FR 27513 (May 13, 2015) (File No. 4-657) (“Plan Approval Order”).

<sup>10</sup> 15 U.S.C. 78k-1.

<sup>11</sup> See Letter from Brendon J. Weiss, Vice President, Intercontinental Exchange, Inc., to Secretary, Commission, dated August 25, 2014.

<sup>12</sup> See Securities Exchange Act Release No. 72460 (June 24, 2014), 79 FR 36840 (June 30, 2014).

<sup>13</sup> Unless otherwise specified, capitalized terms used in this rule filing are based on the defined terms of the Plan.

November 7, 2014,<sup>14</sup> and approved by the Commission, as modified, on May 6, 2015.<sup>15</sup> On November 6, 2015, the Commission granted the Participants an exemption from implementing the Plan until October 3, 2016.<sup>16</sup> On March 6, 2016, the Commission noticed an amendment to the Plan adding NSX as a Participant.<sup>17</sup>

The Plan is designed to allow the Commission, market participants, and the public to study and assess the impact of increment conventions on the liquidity and trading of the common stocks of small capitalization companies. The Commission plans to use the Plan to assess whether wider tick sizes enhance the market quality of Pilot Securities for the benefit of issuers and investors. Each Participant is required to comply with, and to enforce compliance by its members, as applicable, with the provisions of the Plan.

The Plan will include stocks of companies with \$3 billion or less in market capitalization, an average daily trading volume of one million shares or less, and a volume weighted average price of at least \$2.00 for every trading day. The Plan will consist of a control group of approximately 1,400 Pilot Securities and three test groups with 400 Pilot Securities in each, selected by a stratified sampling.<sup>18</sup> During the pilot, Pilot Securities in the control group will be quoted at the current tick size increment of \$0.01 per share and will trade at the currently permitted increments. Pilot Securities in the first test group (“Test Group One”) will be quoted in \$0.05 minimum increments but will continue to trade at any price increment that is currently

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<sup>14</sup> See Securities and Exchange Act Release No. 73511 (November 3, 2014), 79 FR 66423 (November 7, 2015) (File No. 4-657) (Plan Filing).

<sup>15</sup> See Plan Approval Order, note 9, *supra*.

<sup>16</sup> See Securities Exchange Act Release No. 76382 (November 6, 2015), 80 FR 70284 (November 13, 2015) (File No. 4-657) (Order Granting Exemption From Compliance With the National Market System Plan To Implement a Tick Size Pilot Program).

<sup>17</sup> See Securities Exchange Act Release No. 77277 (March 3, 2016), 81 FR 12162 (March 8, 2016).

<sup>18</sup> See Section V of the Plan for identification of Pilot Securities, including criteria for selection and grouping.

permitted.<sup>19</sup> Pilot Securities in the second test group (“Test Group Two”) will be quoted in \$0.05 minimum increments and will trade at \$0.05 minimum increments subject to a midpoint exception, a retail investor exception, and a negotiated trade exception.<sup>20</sup> Pilot Securities in the third test group (“Test Group Three”) will be subject to the same terms as Test Group Two and also will be subject to the “Trade-at” requirement to prevent price matching by a person not displaying at a price of a Trading Center’s “Best Protected Bid” or “Best Protected Offer,” unless an enumerated exception applies.<sup>21</sup> In addition to the exceptions provided under Test Group Two, an exception for Block Size orders and exceptions that closely resemble those under Rule 611 of Regulation NMS<sup>22</sup> will apply to the Trade-at requirement.

The Plan also contains requirements for the collection and transmission of data to the Commission and the public. A variety of data generated during the Plan will be released publicly on an aggregated basis to assist in analyzing the impact of wider tick sizes on smaller capitalization stocks.<sup>23</sup>

#### Amendments to Rule 11.26

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<sup>19</sup> See Section VI(B) of the Plan. Pilot Securities in Test Group One will be subject to a midpoint exception and a retail investor exception.

<sup>20</sup> See Section VI(C) of the Plan.

<sup>21</sup> See Section VI(D) of the Plan.

<sup>22</sup> 17 CFR 242.611.

<sup>23</sup> See Section VII of the Plan.

The Plan requires the Exchange to establish, maintain, and enforce written policies and procedures that are reasonably designed to comply with applicable quoting and trading requirements specified in the Plan.<sup>24</sup> Accordingly, the Exchange is proposing to amend Rule 11.26 to require its ETP Holders to comply with the quoting and trading provisions of the Plan. The proposed Rule is also designed to ensure the Exchange's compliance with the Plan.

Proposed paragraph (a)(1) of Rule 11.26 would establish the following defined terms:

- “Plan” means the Tick Size Pilot Plan submitted to the Commission pursuant to Rule 608(a)(3) of Regulation NMS under the Act;
- “Pilot Test Groups” means the three test groups established under the Plan, consisting of 400 Pilot Securities each, which satisfy the respective criteria established by the Plan for each such test group.
- “Trade-at Intermarket Sweep Order”<sup>25</sup> would mean a limit order for a Pilot Security that meets the following requirements:

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<sup>24</sup> The Exchange was also required by the Plan to develop appropriate policies and procedures that provide for data collection and reporting to the Commission of data described in Appendixes B and C of the Plan. NSX has adopted Rule 11.26(b), Compliance with Data Collection Requirements, to implement those requirements. See Securities Exchange Act Release No. 77483 (March 31, 2016), 81 FR 20040 (April 6, 2016) (SR-NSX-2016-01).

<sup>25</sup> The Plan defines a Trade-at Intermarket Sweep Order (“ISO”) as a limit order for a Pilot Security that, when routed to a Trading Center, is identified as an ISO and, simultaneous with the routing of the limit order identified as an ISO, one or more additional limit orders, as necessary, are routed to execute against the full displayed size of any protected bid (in the case of a limit order to sell) or the full displayed size of any protected offer (in the case of a limit order to buy) for the Pilot Security with a price that is equal to the limit price of the limit order identified as an ISO. These additional routed orders also must be marked as ISOs. See Plan, Section I(MM).

The Plan allows (i) an order that is identified as an ISO to be executed at the price of a Protected Quotation (see Plan, Section VI(D)(8) and proposed Rule 11.26(c)(3)(D)(iii)j.; and (ii) an order to execute at the price of a Protected Quotation that “is executed by a trading center that simultaneously routed Trade-at ISO to execute against the full displayed size of the Protected Quotation that was traded at.” See Plan, Section VI(D)(9) and proposed Rule 11.26(c)(3)(D)(iii)i. Accordingly, the Exchange proposes to clarify the use of an ISO in connection with the Trade-at

- When routed to a Trading Center, the limit order is identified as a Trade-at Intermarket Sweep Order; and
- Simultaneously with the routing of the limit order identified as a Trade-at Intermarket Sweep Order, one or more additional limit orders, as necessary, are routed to execute against the full size of any protected bid, in the case of a limit order to sell, or the full displayed size of any protected offer, in the case of a limit order to buy, for the Pilot Security with a price that is better than or equal to the limit price of the limit order identified as a Trade-at Intermarket Sweep Order. These additional routed orders also must be marked as Trade-at Intermarket Sweep Orders.

Paragraph (a)(1)(E) of Rule 11.26 would provide that all capitalized terms not otherwise defined in this rule shall have the meanings set forth in the Plan, Regulation NMS under the Act, or Exchange rules, as applicable.

Proposed Paragraph (a)(2) would state that the Exchange is a Participant in, and subject to the applicable requirements of, the Plan; proposed Paragraph (a)(3) would require ETP Holders to establish, maintain and enforce written policies and procedures that are reasonably designed to comply with the applicable requirements of the Plan, which would allow the Exchange to enforce compliance by its ETP Holders with the provisions of the Plan, as required pursuant to Section II(B) of the Plan.

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requirement by adopting, as part of proposed Rule 11.26(a)(1), a comprehensive definition of “Trade-at ISO.” As set forth in the Plan and as noted above, the definition of a Trade-at ISO used in the Plan does not distinguish ISOs that are compliant with Rule 611 or Regulation NMS from ISOs that are compliant with Trade-at. The Exchange therefore proposes the separate definition of Trade-at ISO contained in proposed Rule 11.26(a). The Exchange believes that this proposed definition will further clarify to recipients of ISOs in Test Group Three securities whether the ISO satisfies the requirements of Rule 611 of Regulation NMS or Trade-at.

In addition, Paragraph (a)(4) would provide that the NSX's trading system (the "System")<sup>26</sup> would not display, quote or trade in violation of the applicable quoting and trading requirements for a Pilot Security specified in the Plan and this proposed rule, unless such quotation or transaction is specifically exempted under the Plan.<sup>27</sup>

The Exchange also proposes to add Rule 11.26(a)(5) to provide for the treatment of Pilot Securities that drop below a \$1.00 value during the Pilot Period.<sup>28</sup> The Exchange proposes that if the price of a Pilot Security drops below \$1.00 during regular trading on any given business day, such Pilot Security would continue to be subject to the Plan and the requirements described below that necessitate ETP Holders to comply with the specific quoting and trading obligations for each respective Pilot Test Group under the Plan, and would continue to trade in accordance with the proposed rules below as if the price of the Pilot Security had not dropped below \$1.00.

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<sup>26</sup> Rule 1.5S(4) defines the term "System" as "...the electronic securities communications and trading facility designated by the Board through which the orders of Users are consolidated for ranking and execution.

<sup>27</sup> The Exchange is evaluating its internal policies and procedures to ensure its compliance with the Plan. Violations of the Plan by ETP Holders will be addressed through the Exchange's current ruleset and its disciplinary process. See Chapter VIII of the Exchange's rule book and Rule 3.2, Violations Prohibited.

<sup>28</sup> New York Stock Exchange LLC, on behalf of the Participants, submitted a letter to Commission requesting exemption from certain provisions of the Plan related to quoting and trading. See letter from Elizabeth K. King, NYSE, to Brent J. Fields, Secretary, Commission, dated October 14, 2015 (the "October Exemption Request"). FINRA, also on behalf of the Plan Participants, submitted a separate letter to Commission requesting additional exemptions from certain provisions of the Plan related to quoting and trading. See letter from Marcia E. Asquith, Senior Vice President and Corporate Secretary, FINRA, to Robert W. Errett, Deputy Secretary, Commission, dated February 23, 2016 (the "February Exemption Request," and together with the October Exemption Request, the "Exemption Request Letters"). The Commission, pursuant to its authority under Rule 608(e) of Regulation NMS, granted New York Stock Exchange LLC a limited exemption from the requirement to comply with certain provisions of the Plan as specified in the Exemption Request Letters and noted herein. See letter from David Shillman, Associate Director, Division of Trading and Markets, Commission to Sherry Sandler, Associate General Counsel, New York Stock Exchange LLC, dated April 25, 2016 (the "Exemption Letter"). The Exchange is seeking the same exemptions as requested in the Exemption Request Letters, including without limitation, an exemption relating to proposed Rule 11.26(a)(5).



However, if the Closing Price of a Pilot Security on any given business day is below \$1.00, such Pilot Security would be moved out of its respective Pilot Test Group into the control group (which consists of Pilot Securities not placed into a Pilot Test Group), and may then be quoted and traded at any price increment that is currently permitted by Exchange rules for the remainder of the Pilot Period. Notwithstanding anything contained herein to the contrary, the Exchange proposes that, at all times during the Pilot Period, Pilot Securities (whether in the control group or any Pilot Test Group) would continue to be subject to the data collection rules, which are enumerated in Rule 11.26(b).

The Exchange proposes Rules 11.26(c)(1) through (3), which would require ETP Holders to comply with the specific quoting and trading obligations for each Pilot Test Group under the Plan. With regard to Pilot Securities in Test Group One, proposed 11.26(c)(1) would provide that no ETP Holder may display, rank, or accept from any person any displayable or non-displayable bids or offers, orders, or indications of interest in increments other than \$0.05. However, orders priced to trade at the midpoint of the National Best Bid and National Best Offer (“NBBO”) or Best Protected Bid and Best Protect Offer (“PBBO”) and orders entered in a Participant-operated retail liquidity program may be ranked and accepted in increments of less than \$0.05.<sup>29</sup> Pilot Securities in Test Group One may continue to trade at any price increment that is currently permitted by permitted by applicable Participant, SEC and Exchange Rules.

With regard to Pilot Securities in Test Group Two, proposed Rule 11.26(c)(2) would provide that such Pilot Securities would be subject to all of the same quoting requirements as described above for Pilot Securities in Test Group One, along with the applicable quoting

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<sup>29</sup> Section VI.(B) of the the Plan provides that orders for Test Group One securities entered into a Participant-operated retail liquidity program may also be ranked and accepted in increments of less than \$0.05. NSX does not currently operate a retail liquidity program.

exceptions. In addition, proposed Rule 11.26(c)(2)(B) would provide that, absent one of the listed exceptions in proposed Rule 11.26(c)(2)(C) enumerated below, no ETP Holder may execute orders in any Pilot Security in Test Group Two in price increments other than \$0.05. The \$0.05 trading increment would apply to all trades, including Brokered Cross Trades.<sup>30</sup>

Paragraph (c)(2)(C) would set forth further requirements for Pilot Securities in Test Group Two. Specifically, ETP Holders trading Pilot Securities in Test Group Two would be allowed to trade in increments less than \$0.05 under the following circumstances:<sup>31</sup>

- (i) Trading may occur at the midpoint between the NBBO or PBBO;
- (ii) Retail Investor Orders may be provided with price improvement that is at least \$0.005 better than the PBBO;
- (ii) Negotiated Trades may trade in increments less than \$0.05; and
- (iii) Execution of a customer order to comply with Rule 12.6 following the execution of a proprietary trade by the member organization at an increment other than \$0.05, where such proprietary trade was permissible pursuant to an exception under the Plan.<sup>32</sup>

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<sup>30</sup> Section I.(G) of the Plan defines a “Brokered Cross Trade” as a trade that a broker-dealer that is a member of a Participant executes directly by matching simultaneous buy and sell orders for a Pilot Security. The Exchange notes that it does not currently offer the functionality to execute Brokered Cross Trades on NSX’s trading system.

<sup>31</sup> Section VI.(C)(2) of the Plan provides that Retail Investor Orders, as defined in Section I (DD) of the Plan, may trade in increments less than \$0.05 where such an order is provided with price improvement that is at least \$0.005 better than the best protected bid or best protected offer. Section I. (EE) defines a “retail liquidity providing order” as an order entered into a Participant-operated retail liquidity program to execute against Retail Investor Orders. As noted in note 29, supra, NSX does not currently operate a retail liquidity program and therefore Section VI.(C)(2) of the Plan does not apply with respect to the quoting and trading of Test Group Two Pilot Securities on NSX.

<sup>32</sup> NSX Rule 12.6, Customer Priority, generally prohibits an ETP Holder from buying or selling, or initiating the purchase or sale of any security traded on the Exchange for its own account or for any account in which the ETP Holder or any associated person of the ETP Holder is directly or indirectly interested while it holds, or has knowledge of, an unexecuted market order for a

Paragraph (c)(3)(A)-(c)(3)(C) would set forth the requirements for Pilot Securities in Test Group Three. ETP Holders quoting or trading such Pilot Securities would be subject to all of the same quoting and trading requirements as described above for Pilot Securities in Test Group Two, including the quoting and trading exceptions applicable to Test Group Two Pilot Securities. In addition, proposed Paragraph (c)(3)(D) would provide for an additional prohibition on Pilot Securities in Test Group Three referred to as the “Trade-at Prohibition.”<sup>33</sup> Paragraph (c)(3)(D)(ii) would provide that, absent one of the listed exceptions in proposed Rule 11.26(c)(3)(D)(iii) enumerated below, no ETP Holder may execute a sell order for a Pilot Security in Test Group Three at the price of a Protected Bid or execute a buy order for a Pilot Security in Test Group Three at the price of a Protected Offer.

Proposed Rule 11.26(c)(3)(D)(iii) would allow ETP Holders to execute a sell order for a Pilot Security in Test Group Three at the price of a Protected Bid or execute a buy order for a Pilot Security in Test Group Three at the price of a Protected Offer if any of the following circumstances exist:<sup>34</sup>

- a. The order is executed as agent or riskless principal by an independent trading unit, as defined under Rule 200(f) of Regulation SHO,<sup>35</sup> of a Trading Center within a

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customer in that security. With respect to limit orders, such an execution of an order for the account of the ETP Holder or an associated person is prohibited if it is at the same price or a better price than the customer order, Rule 12.6(d) contains an exception to these requirements for purposes of facilitating the execution of a customer order on a riskless principal basis.

<sup>33</sup> Proposed Rule 11.26(c)(3)(D)(i) would define the “Trade-at Prohibition” to mean the prohibition against executions by a Trading Center of a sell order for a Pilot Security at the price of a Protected Bid or the execution of a buy order for a Pilot Security at the price of a Protected Offer during regular trading hours.

<sup>34</sup> Section VI.(D)(3) of the Plan provides that an order in a Test Group 3 stock may execute at the trade-at price if the order is a Retail Investor Order and is executed with at least \$0.005 price improvement. NSX currently does not offer a Retail Investor Order.

<sup>35</sup> The Exchange is proposing that, for proposed Rules 11.26(c)(3)(D)(iii)a.-b., a Trading Center operated by a broker-dealer would mean an independent trading unit, as defined under Rule

member organization that has a displayed quotation as agent or riskless principal, via either a processor or an SRO Quotation Feed, at a price equal to the traded-at Protected Quotation, that was displayed before the order was received,<sup>36</sup> but only up to the full displayed size of that independent trading unit's previously displayed quote;<sup>37</sup>

- b. The order is executed by an independent trading unit, as defined under Rule 200(f) of Regulation SHO, of a Trading Center within an ETP Holder's organization that has a displayed quotation for the account of that Trading Center on a principal (excluding riskless principal<sup>38</sup>) basis, via either a processor or an SRO Quotation Feed, at a price equal to the traded-at Protected Quotation, that was displayed before the order was received, but only up to the full displayed size of that independent unit's previously displayed quote;<sup>39</sup>

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200(f) of Regulation SHO, within such broker-dealer. See 17 CFR 242.200.

Independent trading unit aggregation is available if traders in an aggregation unit pursue only the particular trading objective(s) or strategy(s) of that aggregation unit and do not coordinate that strategy with any other aggregation unit. Therefore, a Trading Center cannot rely on quotations displayed by that broker dealer from a different independent trading unit. As an example, an agency desk of a broker-dealer cannot rely on the quotation of a proprietary desk in a separate independent trading unit at that same broker-dealer.

<sup>36</sup> The Exchange is proposing to adopt this limitation to ensure that a Trading Center does not display a quotation after the time of order receipt solely for the purpose of trading at the price of a protected quotation without routing to that protected quotation.

<sup>37</sup> This proposed exception to Trade-at would allow a Trading Center to execute an order at the Protected Quotation in the same capacity in which it has displayed a quotation at a price equal to the Protected Quotation and up to the displayed size of such displayed quotation.

<sup>38</sup> As described above, proposed Rule 11.26(c)(3)(D)(iii)a. would establish the circumstances in which a Trading Center displaying an order as riskless principal would be permitted to Trade-at the Protected Quotation. Accordingly, proposed Rule 11.26(c)(3)(D)(iii)b. would exclude such circumstances.

<sup>39</sup> The display exceptions to Trade-at set forth in proposed Rules 11.26(c)(3)(D)(iii)a. and b. would not permit a broker-dealer to trade on the basis of interest it is not responsible for displaying. In particular, a broker-dealer that matches orders in the over-the-counter market shall be deemed to have "executed" such orders as a Trading Center for purposes of proposed Rule 11.26.

- c. The order is of Block Size<sup>40</sup> at the time of origin and may not be:
  - A. an aggregation of non-block orders; or
  - B. broken into orders smaller than Block Size prior to submitting the order to a Trading Center for execution.<sup>41</sup>
- d. The order is a Retail Investor Order executed with at least \$0.005 price improvement;
- e. The order is executed when the Trading Center displaying the Protected Quotation that was traded at was experiencing a failure, material delay, or malfunction of its systems or equipment;
- f. The order is executed as part of a transaction that was not a "regular way" contract;

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Accordingly, if a broker-dealer is not displaying a quotation at a price equal to the Protected Quotation, it could not submit matched trades to an alternative trading center ("ATS") that was displaying on an agency basis the quotation of another ATS subscriber. However, a broker-dealer that is displaying, as principal, via either a processor or an SRO Quotation Feed, a buy order at the protected bid, could internalize a customer sell order up to its displayed size. The display exceptions would not permit a non-displayed Trading Center to submit matched trades to an ATS that was displaying on an agency basis the quotation of another ATS subscriber and confirmed that a broker-dealer would not be permitted to trade on the basis of interest that it is not responsible for displaying.

<sup>40</sup> "Block Size" is defined in the Plan as an order (1) of at least 5,000 shares or (2) for a quantity of stock having a market value of at least \$100,000.

<sup>41</sup> If a Block Size order or portion of such Block Size order is routed from one Trading Center to another Trading Center in compliance with Rule 611 of Regulation NMS, the Block Size order would retain the Trade-at exemption provided under proposed Rule 11.26(c)(3)(D)(iii)c. For example, if an exchange has a Protected Bid of 3,000 shares, with 2,000 shares in reserve, and receives a 5,000 share order to sell, the exchange would be able to execute the entire 5,000 share order without having to route to an away market at any other Protected Bid at the same price. If, however, that exchange only has 1,000 shares in reserve, the entire order would not be able to be executed on that exchange, and the exchange would only be able to execute 3,000 shares and route the rest to away markets at other Protected Bids at the same price, before executing the 1,000 shares in reserve. The same analysis would hold true at the next price point, if the size of the incoming order would exceed all available shares at the first price, and the remaining shares to be executed would be 5,000 shares or more.

- g. The order is executed as part of a single-priced opening, reopening, or closing transaction on the Exchange;
- h. The order is executed when a Protected Bid was priced higher than a Protected Offer in the Pilot Security in Test Group Three;
- i. The order is identified as a Trade-at Intermarket Sweep Order;<sup>42</sup>
- j. The order is executed by a Trading Center that simultaneously routed Trade-at Intermarket Sweep Orders or Intermarket Sweep Orders as defined in Rule 600(b)(3) of Regulation NMS under the Act<sup>43</sup> to execute against the full displayed size of the Protected Quotation that was traded at;<sup>44</sup>
- k. The order is executed as part of a Negotiated Trade;
- l. The order is executed when the Trading Center displaying the Protected Quotation that was traded at had displayed, within one second prior to execution of the transaction that constituted the Trade-at, a Best Protected Bid or Best Protected Offer, as applicable, for the Pilot Security in Test Group Three with a price that was inferior to the price of the Trade-at transaction;

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<sup>42</sup> The Exchange has defined a Trade-at ISO in proposed Rule 11.26(a)(1)(D); this exception refers to the ISO that is received by a Trading Center.

<sup>43</sup> 17 CFR 242.600(b)(30). The Exchange notes that it is permitting the use of Trade-at ISOs and ISOs, either alone or combined, to allow for ease of implementation of the Trade-at provisions by using existing routing processes to the extent possible. An ETP Holder sending a TAISO represents that it simultaneously routed orders to execute against all Protected Quotations priced better than or equal to the Trade-At price, while an ETP Holder sending an order marked as ISO only represents that it simultaneously routed orders to execute against all Protected Quotations at prices superior to the Trade-At price. ETP Holders that route orders marked ISO instead of Trade-at ISO for a test Group Three stock must satisfy all at-priced protected quotations and not just those at superior prices.

<sup>44</sup> In connection with the definition of a Trade-at ISO proposed in Rule 11.26(a)(1)(D), this exception refers to the Trading Center that routed the ISO.

- m. The order is executed by a Trading Center which, at the time of order receipt, the Trading Center had guaranteed an execution at no worse than a specified price (a “stopped order”), where:
- A. The stopped order was for the account of a customer;
  - B. The customer agreed to the specified price on an order-by-order basis; and
  - C. The price of the Trade-at transaction was, for a stopped buy order, equal to or less than the National Best Bid in the Pilot Security in Test Group Three at the time of execution or, for a stopped sell order, equal to or greater than the National Best Offer in the Pilot Security in Test Group Three at the time of execution, as long as such order is priced at an acceptable increment;<sup>45</sup>

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<sup>45</sup>

The stopped order exemption in Rule 611 of Regulation NMS applies where “[t]he price of the trade-through transaction was, for a stopped buy order, lower than the national best bid in the NMS stock at the time of execution or, for a stopped sell order, higher than the national best offer in the NMS stock at the time of execution.” See 17 CFR 242.611(b)(9). The Trade-at stopped order exception applies where “the price of the Trade-at transaction was, for a stopped buy order, equal to the national best bid in the Pilot Security at the time of execution or, for a stopped sell order, equal to the national best offer in the Pilot Security at the time of execution” See Plan, Section VI(D)(12).

To illustrate the application of the stopped order exemption as it currently operates under Rule 611 of Regulation NMS and as it is currently proposed for Trade-at, assume the National Best Bid is \$10.00 and another protected quote is at \$9.95. Under Rule 611 of Regulation NMS, a stopped order to buy can be filled at \$9.95 and the firm does not have to send an ISO to access the protected quote at \$10.00 since the price of the stopped order must be lower than the National Best Bid. For the stopped order to also be executed at \$9.95 and satisfy the Trade-at requirements, the Trade-at exception would have to be revised to allow an order to execute at the price of a protected quote which, in this case, could be \$9.95.

Based on the fact that a stopped order would be treated differently under the Rule 611 of Regulation NMS exception than under the Trade-at exception in the Plan, the Exchange believes that it is appropriate to amend the Trade-at stopped order exception in the Plan to ensure that the application of this exception would produce a consistent result under both Regulation NMS and the Plan. Therefore, the Exchange proposes in this proposed 11.26(c)(3)(D)(iii)m. to allow a transaction to satisfy the Trade-at requirement if the stopped order price, for a stopped buy order, is equal to or less than the National Best Bid, and for a stopped sell order, is equal to or greater than the National Best Offer, as long as such order is priced at an acceptable increment. The

- n. The order is for a fractional share of a Pilot Security in Test Group Three, provided that such fractional share order was not the result of breaking an order for one or more whole shares of a Pilot Security in Test Group Three into orders for fractional shares or was not otherwise effected to evade the requirements of the Trade-at Prohibition or any other provisions of the Plan; or
- o. The order is to correct a bona fide error, which is recorded by the Trading Center in its error account.<sup>46</sup> A bona fide error is defined as:

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Commission granted New York Stock Exchange LLC an exemption from Rule 608(c) related to this provision. See the Exemption Letter, note 28, supra. The Exchange is seeking the same exemptions as requested in the Exemption Request Letters.

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The exceptions to the Trade-at requirement set forth in the Plan and in the Exchange's proposed Rule 11.26(c)(3)(D)(iii) are, in part, based on the exceptions to the trade-through requirement set forth in Rule 611 of Regulation NMS, including exceptions for an order that is executed as part of a transaction that was not a "regular way" contract, and an order that is executed as part of a single-priced opening, reopening, or closing transaction by the Trading Center See 17 CFR 242.611(b)(2) and (b)(3). Following the adoption of Rule 611 of Regulation NMS and its exceptions, the Commission issued exemptive relief that created exceptions from Rule 611 of Regulation NMS for certain error correction transactions. See Securities Exchange Act Release No. 55884 (June 8, 2007), 72 FR 32926 (June 14, 2007); Securities Exchange Act Release No. 55883 (June 8, 2007), 72 FR 32927 (June 14, 2007). The Exchange has determined that it is appropriate to incorporate this additional exception to the Trade-at Prohibition, as this exception is equally applicable in the Trade-at context.

Accordingly, the Exchange is proposing to exempt certain transactions to correct bona fide errors in the execution of customer orders from the Trade-at Prohibition, subject to the conditions set forth by the SEC's order exempting these transactions from Rule 611 of Regulation NMS. The Commission granted New York Stock Exchange LLC an exemption from Rule 608(c) related to this provision. See the Exemption Letter, note 28, supra. The Exchange is seeking the same exemptions as requested in the Exemption Request Letters.

As with the corresponding exception under Rule 611 of Regulation NMS, the bona fide error would have to be evidenced by objective facts and circumstances, the Trading Center would have to maintain documentation of such facts and circumstances and record the transaction in its error account. To avail itself of the exemption, the Trading Center would be required to establish, maintain, and enforce written policies and procedures reasonably designed to address the occurrence of errors and, in the event of an error, the use and terms of a transaction to correct the error in compliance with this exemption. Finally, the Trading Center would have to regularly surveil to ascertain the effectiveness of its policies and procedures to address errors and transactions to correct errors and take prompt action to remedy deficiencies in such policies and procedures. See Securities Exchange Act Release No. 55884 (June 8, 2007), 72 FR 32926 (June 14, 2007).



- A. The inaccurate conveyance or execution of any term of an order including, but not limited to, price, number of shares or other unit of trading; identification of the security; identification of the account for which securities are purchased or sold; lost or otherwise misplaced order tickets; short sales that were instead sold long or vice versa; or the execution of an order on the wrong side of a market;
- B. The unauthorized or unintended purchase, sale, or allocation of securities, or the failure to follow specific client instructions;
- C. The incorrect entry of data into relevant systems, including reliance on incorrect cash positions, withdrawals, or securities positions reflected in an account; or
- D. A delay, outage, or failure of a communication system used to transmit market data prices or to facilitate the delivery or execution of an order.

Finally, Proposed Rule 11.26(c)(3)(D)(iv) would prevent member organizations from breaking an order into smaller orders or otherwise effecting or executing an order to evade the requirements of the Trade-at Prohibition or any other provisions of the Plan.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>47</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>48</sup> in particular, in that it is designed 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

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<sup>47</sup> 15 U.S.C. 78f(b).

<sup>48</sup> 15 U.S.C. 78f(b)(5).

market and a national market system, and, in general, to protect investors and the public interest. The Exchange believes that the proposed rule change is consistent with the Act because it ensures that the Exchange and its member organizations would be in compliance with a Plan approved by the Commission pursuant to an order issued by the Commission in reliance on Section 11A of the Act.<sup>49</sup> Such approved Plan gives the Exchange authority to establish, maintain, and enforce written policies and procedures that are reasonably designed to comply with applicable quoting and trading requirements specified in the Plan. The Exchange believes that the proposed rule change is consistent with the authority granted to it by the Plan to establish specifications and procedures for the implementation and operation of the Plan that are consistent with the provisions of the Plan. Likewise, the Exchange believes that the proposed rule change provides interpretations of the Plan that are consistent with the Act, in general, and furthers the objectives of the Act, in particular.

Furthermore, the Exchange is a Participant under the Plan and subject, itself, to the provisions of the Plan. The proposed rule change ensures that the Exchange's systems would not display or execute trading interests outside the requirements specified in such Plan. The proposal would also help allow market participants to continue to trade NMS Stocks within quoting and trading requirements that are in compliance with the Plan, with certainty on how certain orders and trading interests would be treated. This, in turn, will help encourage market participants to continue to provide liquidity in the marketplace.

Because the Plan supports further examination and analysis on the impact of tick sizes on the trading and liquidity of the securities of small capitalization companies, and the Commission believes that altering tick sizes could result in significant market-wide benefits and

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15 U.S.C. 78k-1.

improvements to liquidity and capital formation, adopting rules that enforce compliance by its member organizations with the provisions of the Plan would help promote liquidity in the marketplace and perfect the mechanism of a free and open market and national market system.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed changes are being made to establish, maintain, and enforce written policies and procedures that are reasonably designed to comply with the trading and quoting requirements specified in the Plan, of which other equities exchanges are also Participants. Other competing national securities exchanges are subject to the same trading and quoting requirements specified in the Plan. Therefore, the proposed changes would not impose any burden on competition, while providing certainty of treatment and execution of trading interests on the Exchange to market participants in NMS Stocks that are acting in compliance with the requirements specified in the Plan.

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

The Exchange has neither solicited nor received comments on the proposed rule change.

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

Because the foregoing proposed rule change does not:

- A. significantly affect the protection of investors or the public interest;
- B. impose any significant burden on competition; and
- C. become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate,

it has become effective pursuant to Section 19(b)(3)(A)<sup>50</sup> of the Exchange Act and Rule 19b-4(f)(6) thereunder.<sup>51</sup> Because the proposed rule is designed to conform the Exchange's rules to a Commission rule, the proposal qualifies for immediate effectiveness as a "non-controversial" rule change under paragraph (f)(6) of Rule 19b-4.<sup>52</sup>

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

#### IV. Solicitation of Comments

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

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NSX-2016-05 on the subject line.

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<sup>50</sup> 15 U.S.C. 78(s)(b)(3)(A).

<sup>51</sup> 17 CFR 240.19b-4(f)(6).

<sup>52</sup> 17 CFR 240.19b-4(f)(6). See Securities Exchange Act Release No. 58092 (July 3, 2008), 73 FR 40144 (July 11, 2008) ("Commission Guidance and Amendment to the Rule Relating to Organization and Program Management Concerning Proposed Rule Changes by Self-Regulatory Organizations") (the "Streamlining Release"). As set forth in the Streamlining Release, Rule 19b-4(f)(6) permits a proposed rule change to become immediately effective to the extent such proposal is a proposed rule change to implement provisions of an approved national market system plan or a Commission rule. *Id.* at 40148.

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-NSX-2016-05. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet 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 also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer

to File Number SR-NSX-2016-05, 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.<sup>53</sup>

Robert W. Errett  
Deputy Secretary

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<sup>53</sup> 17 CFR 200.30-3(a)(12).

