



SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-79107; File No. SR-NYSEArca-2016-130]

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change Amending NYSE Arca Equities Rules 7.35 (Auctions), 7.10 (Clearly Erroneous Executions), 7.31 (Orders and Modifiers), and 7.11 (Limit Up – Limit Down Plan and Trading Pauses in Individual Securities Due to Extraordinary Market Volatility)

October 18, 2016

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (“Act”)² and Rule 19b-4 thereunder,³ notice is hereby given that, on October 4, 2016, NYSE Arca, Inc. (“Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (“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 amend NYSE Arca Equities Rule 7.35 (Auctions) to enhance the information available before an auction and revise its procedures for Trading Halt Auctions, NYSE Arca Equities Rule 7.10 (Clearly Erroneous Executions) to exclude Trading Halt

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

Auctions from being reviewed as clearly erroneous, NYSE Arca Equities Rule 7.31 (Orders and Modifiers) to add a new Imbalance Only Order, and NYSE Arca Equities Rule 7.11.

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.

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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend NYSE Arca Equities Rule 7.35 (Auctions) ("Rule 7.35") to enhance the information available before an auction and revise its procedures for Trading Halt Auctions, NYSE Arca Equities Rule 7.10 ("Rule 7.10") to exclude Trading Halt Auctions from being reviewed as a clearly erroneous execution, NYSE Arca Equities Rule 7.31 (Orders and Modifiers) ("Rule 7.31") to add a new Imbalance Only Order, and NYSE Arca Equities Rule 7.11 (Limit Up – Limit Down Plan and Trading Pauses in Individual Securities Due to Extraordinary Market Volatility) ("Rule 7.11") to conform the rule to proposed changes to the Regulation NMS Plan to Address Extraordinary Market Volatility ("Plan").⁴

Overview

⁴ See Securities Exchange Act Release No. 77679 (April 21, 2016), 81 FR 24908 (April 27, 2016) (File No. 4-631) (Order approving 10th Amendment to the LULD Plan).

The Operating Committee for the Plan with input from the Advisory Committee to the Plan and staff of the Securities and Exchange Commission (“SEC” or “Commission”), has identified a number of enhancements to the reopening process following a Trading Pause that will be addressed in a combination of a proposed amendment to the Plan and amendments to the rules of the Primary Listing Exchanges.⁵ The Exchange is a Participant of the Plan and a member of the Operating Committee.

With respect to the Plan, the Participants submitted a proposal to amend the Plan to provide that a Trading Pause will continue until the Primary Listing Exchange reopens trading using its established reopening procedures and reports a Reopening Price.⁶ The Participants further proposed to eliminate the current allowance for a trading center to resume trading in an NMS Stock following a Trading Pause if the Primary Listing Exchange has not reported a Reopening Price within ten minutes after the declaration of a Trading Pause and has not declared a Regulatory Halt. In addition, to close any gaps of potential scenarios when trading may resume without Price Bands, the Participants proposed to amend the Plan to provide that a trading center may not resume trading in an NMS Stock following a Trading Pause without Price Bands in such NMS Stock. To address potential scenarios of when there may not be a Reopening Price from the Primary Listing Exchange from which to calculate Price Bands, the Participants proposed to make related amendments to the Plan to address when trading may resume if the Primary Listing Exchange is unable to reopen due to a systems or technology issue and how the Reference Price would be determined either under such circumstances or if the Primary Listing Exchange reopens trading on a zero bid or zero quote, or both.

⁵ Unless otherwise specified, capitalized terms used herein have the same meaning as set forth in the Plan or in Exchange rules.

⁶ On September 19, 2016, the Participants filed with the Commission the twelfth amendment to the Plan.

In connection with the proposed Plan amendments, the Participants have agreed on a standardized approach for how the Primary Listing Exchanges should conduct certain aspects of an automated reopening following a Trading Pause. Specifically, because trading centers would not be permitted to resume trading in an NMS Stock until there is a Reopening Price, the Participants believe it is appropriate for the Primary Listing Exchanges to adopt uniform standards for determining whether and when to conduct such automated reopenings, including what price collar thresholds would be applicable to such automated reopenings and how to provide for extensions of when a reopening auction would be conducted. The goal of such changes would be to ensure that all Market Order interest could be satisfied in an automated reopening auction.

More specifically, the Participants have agreed that if there is an imbalance of market orders, or if the Reopening Price would be outside of specified price collar thresholds, the Trading Pause would be extended an additional five minutes in order to provide additional time to attract offsetting liquidity. If at the end of such extension, Market Orders still cannot be satisfied within price collar thresholds or if the reopening auction would be priced outside of the applicable price collar thresholds, the Primary Listing Exchange would extend the Trading Pause an additional five minutes. With each such extension, the Participants have agreed that it would be appropriate to widen the price collar threshold on the side of the market on which there is buying or selling pressure.

With respect to price collar thresholds, the Participants have agreed that the reference price for calculating price collar thresholds would be the price of the limit state that preceded the Trading Pause, i.e., either the Lower or Upper Price Band price. For NMS Stocks priced more than \$3.00,

- if there is selling pressure, the lower collar for the auction would be the Lower Price Band minus five percent and the upper collar would be the Upper Price Band;
- if there is buying pressure, the upper collar for the auction would be the Upper Price Band plus five percent and the lower collar would be the Lower Price Band.

For each extension, the collars would be widened an additional five percent, but only on the side of the imbalance.⁷ The Participants believe that widening collars only in the direction of the imbalance would address issues relating to the concept of mean reversion.

Finally, the Participants have agreed that the proposed new procedures for reopening trading following a Trading Pause reduces the potential that an order or orders entered by one or more ETP Holders caused such execution to be clearly erroneous. Specifically, the Participants believe that the proposed standardized procedures for reopening trading following a Trading Pause incorporates a methodology that allows for widened collars, which may result in a reopening price away from prior trading prices, but which reopening price would be a result of a measured and transparent process that eliminates the potential that such trade would be considered erroneous.

As a Primary Listing Exchange, the Exchange proposes to amend Rule 7.35 to implement the proposed uniform trading practices with respect to reopening a security following a Trading Pause, as described above. In addition, the Exchange proposes to implement changes for automated reopenings following a market-wide circuit breaker under Rule 7.12 and any regulatory halts triggered in an Exchange-listed security. The Exchange further proposes to amend Rule 7.10 to preclude ETP Holders from requesting a review of a Trading Halt Auction as

⁷ For NMS Stocks that are priced \$3.00 and under, the price collar threshold would be \$0.15.

a clearly erroneous execution. Finally, in connection with these proposed changes, the Exchange proposes additional enhancements to its auction processes, including adding a new Imbalance Only Order, an Auction Freeze period before a Trading Halt Auction, and enhanced information to be disseminated before an auction.

Uniform Primary Listing Exchange Proposed Rule Changes.

To effect the proposed enhancements that would be implemented by all Primary Listing Exchanges, the Exchange proposes to add new sub-paragraphs (5) – (10) to Rule 7.35(e), which governs Trading Halt Auctions, re-number current Rule 7.35(e)(5) as new Rule 7.35(e)(11), and amend Rule 7.35(e)(2). The Exchange proposes to implement these changes for all Trading Halt Auctions. The proposed standardized trading practices agreed upon by the Operating Committee are intended for Trading Halt Auctions following a trading pause under Rule 7.11. However, the Exchange believes that these proposed procedures would be beneficial following all halts, including regulatory halts and halts due to extraordinary market volatility.

Rule 7.35(e)(2) currently provides that after trading in a security has been halted or paused, the NYSE Arca Marketplace will disseminate the estimated time at which trading in that security will re-open (“Re-Opening Time”). The Exchange proposes to add to this rule that the initial Re-Opening Time for a Trading Halt Auction following a trading pause under Rule 7.11 (“Trading Pause”) or trading halt due to extraordinary market volatility under Rule 7.12 (“MWCB Halt”) will be at the scheduled end of the Trading Pause or MWCB Halt. This proposed rule text clarifies that for Trading Pauses and MWCB Halts, the length of the initial pause or halt period is as specified in those rules. As specified in the LULD Plan, the scheduled end of the Trading Pause is five minutes after a Trading Pause has been declared. As specified

in Rule 7.12(b), the scheduled end of a Level 1 or Level 2 Market Decline is 15 minutes. If there is a Level 3 Market Decline, the Exchange will not re-open.

Proposed Rule 7.35(e)(5) would provide that a Trading Halt Auction would not be conducted if the Indicative Match Price, before being adjusted based on Auction Collars, is below (above) the Lower (Upper) Auction Collar or if there is a sell (buy) Market Imbalance, either of which would be defined as an “Impermissible Price.”⁸ This proposed rule text would implement the proposed standardized enhancement that the Exchange would not conduct a Trading Halt Auction if there are either unsatisfied Market Orders, or if the Indicative Match Price would be outside the applicable Auction Collars.

Extensions: Proposed Rule 7.35(e)(6) would specify the circumstances when the Exchange would extend the Re-Opening Time for a Trading Halt Auction, as follows:

- Proposed Rule 7.35(e)(6)(A) would provide that, if there is an Impermissible Price at the initial Re-Opening Time, the pause or halt would be extended an additional five minutes and a new Re-Opening Time would be disseminated, which would be referred to as the “First Extension.” The proposed rule would further provide that the Exchange would not conduct a Trading Halt Auction before the Re-Opening Time for the First Extension. As such, if the Exchange disseminates a First Extension, consistent with the current Plan, which provides

⁸ The term “Indicative Match Price” is defined in Rule 7.35(a)(8) to mean the best price at which the maximum volume of shares, including the non-displayed quantity of Reserve Orders, is tradable in the applicable auction, subject to Auction Collars. For purposes of proposed Rule 7.35(e)(5), the Indicative Match Price would not be calculated subject to Auction Collars. The term “Auction Collars” is defined in Rule 7.35(a)(10) to mean the price collar thresholds for the Indicative Match Price for the Core Open Auction, Trading Halt Auction, or Closing Auction. The term “Market Imbalance” is defined in Rule 7.35(a)(7)(B) means the imbalance of any buy (sell) Market Orders that are not matched for trading in the applicable auction.

that if the Primary Listing Exchange does not reopen, trading centers may not resume trading until ten minutes after the beginning of the Trading Pause, the Trading Pause would continue for ten minutes and trading would not resume before that ten-minute marker.

- Proposed Rule 7.35(e)(6)(B) would provide that if there is an Impermissible Price at the end of the First Extension, the pause or halt would be extended an additional five minutes and a new Re-Opening Time would be disseminated (“Subsequent Extension”). As further proposed, the Exchange would conduct a Trading Halt Auction before the Re-Opening Time for a Subsequent Extension if the Indicative Match Price, before being adjusted based on Auction Collars, would be within the applicable Auction Collars and there is no Market Imbalance. This proposed change would implement the Participant’s proposal that for Subsequent Extensions, if equilibrium of prices is reached, the Exchange would conduct the Trading Halt Auction immediately and would not extend the Trading Pause any further.
- Proposed Rule 7.35(e)(6)(C) would provide that the trading pause or halt would continue to be extended if there is an Impermissible Price at the Re-Opening Time for a Subsequent Extension. This proposed rule text makes clear that a halt or pause would continue to be extended until a Trading Halt Auction can be conducted, as provided for in proposed Rule 7.35(e)(5).

Auction Collars: Proposed Rule 7.35(e)(7) would describe how Auction Collars would function for Trading Halt Auctions. As provided for in Rule 7.35(a)(10), Auction Collars mean the price collar thresholds for the Indicative Match Price for the Core Open Auction, Trading

Halt Auction, or Closing Auction. Currently, the price collar thresholds for the Trading Halt Auction are 10% for securities with an Auction Reference Price of \$25.00 or less, 5% for securities with an Auction Reference Price of greater than \$25.00 and less than or equal to \$50.00, or 3% for securities with an Auction Reference Price greater than \$50.00. These price collar thresholds are based on the percentage parameters for determining a clearly erroneous execution under Rule 7.10(c) and are in effect until January 31, 2017.

The Exchange proposes that the price collar threshold for Auction Collars for securities with an Auction Reference Price above \$3.00 would be the Auction Reference Price multiplied by five percent. The price collar threshold for securities with an Auction Reference Price \$3.00 and below would be \$0.15. This value would be defined as the “Price Collar Threshold.” For securities priced above \$3.00, once calculated, the Price Collar Threshold would be applicable for each Subsequent Extension, described below. For securities with an Auction Reference Price of \$3.00 and under, the Price Collar Threshold would be a static \$0.15 for each Subsequent Extension. The Exchange believes that using a 5 percent multiplier for stocks priced \$3.00 or less would result in too narrow of an Auction Collar. Similar to the LULD Plan, which provides for wider percentage parameters for stocks priced \$3.00 or less, the Exchange proposes a wider Price Collar Threshold for stocks with an Auction Reference Price of \$3.00 or less.

The Exchange believes that the proposed Price Collar Thresholds are designed to align the Auction Collars with the existing percentage parameters as specified in the LULD Plan. The Exchange proposes to use the single 5% threshold for all securities priced above \$3.00 and \$0.15 for all securities priced \$3.00 or less, and not apply separate a [sic] percentage parameter based on the tiers specified in the LULD Plan, because the Exchange believes it would be simpler and more transparent. Moreover, the Exchange believes that because the proposed rule changes

would provide for the widening of collars, and would prevent trades at an Impermissible Price, the specific size of the Price Collar Threshold becomes less meaningful. For example, if the Market Imbalance is so large that the proposed five percent price collar threshold is too narrow to permit a Trading Halt Auction, the proposed extensions and widening of Auction Collars, as described below, would provide for a measured manner by which the collars would be widened either to permit a trade at a permissible price or to attract additional offsetting interest. If, at a later date, the LULD Plan is amended and the applicable tiers and percentage parameters are adjusted, the Exchange will reevaluate the Price Collar Thresholds for Trading Halt Auctions and if they should be changed, will file a separate proposed rule change.

Because the Price Collar Thresholds for Auction Collars applicable to a Trading Halt Auction would be specified in proposed Rule 7.35(e)(7), the Exchange proposes to amend Rule 7.35(a)(10)(A) to delete the reference to Trading Halt Auctions. The Exchange further proposes to delete the following text: “* The price collar thresholds specified in this paragraph applicable to Trading Halt Auctions are in effect until January 31, 2017.” The Exchange believes that proposed Rule 7.35(e)(7) obviates the current price collar thresholds specified for Trading Halt Auctions, which were adopted on an interim basis pending the outcome of the review that resulted in the proposed amendments to the Plan and standardized trading practices among the Primary Listing Exchange for how to resume trading following a Trading Pause.

Trading Halt Auction Reference Price: Proposed Rule 7.35(e)(7)(A) would specify the Auction Reference Price that would be used for a Trading Halt Auction following a Trading Pause. As provided for in Rule 7.35(a)(8)(A), the Auction Reference Price for the Trading Halt Auction is the last consolidated round-lot price of that trade day, and if none, the prior day’s Official Closing Price. As proposed, the Auction Reference Price for a Trading Halt Auction

following a Trading Pause would be determined as follows: if the Limit State that preceded the Trading Pause was at the Lower (Upper) Price Band, the Auction Reference Price would be the Lower (Upper) Price Band. This proposed change implements the standardized enhancement to use the Limit State price as the Auction Reference Price for a Trading Halt Auction following a Trading Pause.

The Exchange proposes to make a related change to Rule 7.35(a)(8)(A) to amend the chart that specifies Auction Reference Prices for the Trading Halt Auction. As proposed, the Exchange would add the clause “except as provided for in Rule 7.35(e)(7)(A)” to specify that the Auction Reference Price would be determined under that subparagraph of the rule instead of the Auction Reference Price specified in Rule 7.35(a)(8)(A). For a Trading Halt Auction following a MWCB Halt or regulatory halt, the Auction Reference Price would continue to be as specified in Rule 7.35(a)(8)(A).

Initial Auction Collars: Proposed Rule 7.35(e)(7)(B) would specify the Auction Collars if a Trading Halt Auction is conducted at the initial Re-Opening Time. Currently, as provided for in Rule 7.35(a)(10)(A), the upper (lower) boundary of Auction Collars is the Auction Reference Price increased (decreased) by the specified percentage. As such, the price collar thresholds are applied on both sides of the Auction Reference Price. The Exchange proposes to modify how Auction Collars are calculated as proposed:

- Proposed Rule 7.35(e)(7)(B)(i) would specify how Auction Collars would be determined for a Trading Halt Auction following a Trading Pause. As proposed, if the Auction Reference Price is the Lower (Upper) Price Band, the lower (upper) Auction Collar would be the Auction Reference Price decreased (increased) by

the Price Collar Threshold, rounded down to the nearest MPV,⁹ and the upper (lower) Auction Collar would be the Upper (Lower) Price Band. This proposed rule implements the proposed standardized trading practice that, for Trading Halt Auctions following a Trading Pause, the Auction Collars should be widened only in the direction of the trading that invoked the Trading Pause. For example, if a Trading Pause is triggered following a Limit State at the Lower Price Band, this would indicate selling pressure in that NMS Stock. Accordingly, the proposed lower boundary Auction Collar would be widened by subtracting the Price Collar Threshold from the Auction Reference Price, i.e., the Lower Price Band. To address the concept of mean reversion, i.e., that prices may revert back to the mean or average price of the NMS Stock, and to avoid a security from trading outside of where it would have been permitted to trade before the Trading Pause, the Exchange proposes that the Auction Collar on the opposite side of the trading pressure should be the Price Band in place before the Trading Pause was triggered. Taking the above example, the Upper Auction Collar would therefore be the Upper Price Band. This way, if during the trading pause, the selling pressure reverses and becomes buying pressure, the Auction Collars would not permit a trade higher than would have been permitted under the Price Bands before the Trading Pause.

- Proposed Rule 7.35(e)(7)(B)(ii) would specify how Auction Collars would be determined for a Trading Halt Auction following a MWCB Halt or regulatory halt. In this case, because there would not be a security-specific pricing direction

⁹ See Rules 7.6 and 7.46 (specifying the minimum price variation (“MPV”) for quoting and entry of orders).

reason for the halt, the Exchange proposes that the Price Collar Threshold would be applied on both sides of the Auction Reference Price. Accordingly, for stocks priced above \$3.00, the upper (lower) boundary of the Auction Collar would be the Auction Reference Price (as defined in Rule 7.35(a)(8)(A)), plus (minus) the Auction Reference Price multiplied by 5%. For stocks priced \$3.00 and under, the upper (lower) boundary of the Auction Collar would be the Auction Reference Price (as defined in Rule 7.35(a)(8)(A)), plus (minus) \$0.15. For Trading Halt Auctions following a MWCB Halt or regulatory halt, if the Price Collar Threshold calculation results in a price that is not in the applicable MPV for the security, the Exchange proposes to round down to the nearest price in the applicable MPV.

Auction Collar for Extensions: Proposed Rule 7.35(e)(7)(C) would specify how the Exchange would adjust Auction Collars for each Extension. As proposed, the Auction Collar on the side of the Impermissible Price would be widened for each Extension. In other words, if the Indicative Match Price is below the lower Auction Collar for the initial Re-Opening Time or there is a sell Market Imbalance, the Exchange would widen only the lower Auction Collar. As further proposed, the Auction Collar on the opposite side of the Impermissible Price would remain the same as the last-calculated Auction Collar on that side. Thus, in the case of selling pressure that would result in an Auction Extension, the upper Auction Collar would remain as the last Upper Price Band.

- Proposed Rule 7.35(e)(7)(C)(i) would further provide that if the Impermissible Price is on the side of the Lower (Upper) Auction Collar, the last-calculated Lower (Upper) Auction Collar would be decreased (increased) by a Price Collar Threshold and the Upper (Lower) Auction Collar would stay the same.

- To address the concept of mean reversion, proposed Rule 7.35(e)(7)(C)(ii) would provide that if the side of the Impermissible Price changes from the Lower (Upper) Auction Collar to the Upper (Lower) Auction Collar, the last-calculated Upper (Lower) Auction Collar would be widened for that Extension and the last-calculated Lower (Upper) Auction Collar will remain the same. Therefore, if, during an Extension, the directional trading pressure switches from sell to buy, the upper Auction Collar would be widened, and the last-Lower Auction Collar would remain the same.

Proposed Rules 7.35(e)(8) and (9) would specify the Exchange's proposed handling of orders for a Trading Halt Auction, which are discussed in greater detail below.

Proposed Rule 7.35(e)(10) would specify what the Exchange would do if a Re-Opening Time would be in the last ten minutes of trading before the end of Core Trading Hours. The Participants are proposing to amend the Plan to provide that if an NMS Stock is in a Trading Pause during the last ten minutes of trading before the end of Regular Trading Hours, the Primary Listing Exchange would not reopen trading and would attempt to execute a closing transaction using its established closing procedures.¹⁰ To implement this proposed amendment to the Plan, proposed Rule 7.35(e)(10) would provide that, if the Re-Opening Time for a Trading Halt Auction is in the last ten minutes of trading before the end of Core Trading Hours, the Exchange would not conduct a Trading Halt Auction in that security and would not transition to continuous trading.¹¹ Instead, the Exchange would remain paused or halted and would conduct a Closing Auction in such security as provided for in Rule 7.35(d).

¹⁰ See supra note 6.

¹¹ Rule 7.12 provides that a MWCB Halt following a Level 1 Decline or Level 2 Decline will not be declared after 3:25 p.m. Eastern Time. However, if, as proposed, a MWCB

In such circumstances, as specified in proposed Rule 7.35(e)(10)(A), MOO Orders, LOO Orders, and IO Orders (described below) entered during the pause or halt would not participate in the Closing Auction and would expire at the end of the Core Trading Session. The Exchange proposes to add this rule text to provide transparency to ETP Holders of how orders that are designated to participate in a Trading Halt Auction only would be handled if the Exchange transitions to a Closing Auction without conducting that Trading Halt Auction. The Exchange believes this proposed rule text would provide notice for ETP Holders to enter closing-only interest, i.e., MOC or LOC Orders, to participate in the Closing Auction.

In addition, as specified in proposed Rule 7.35(e)(10)(B), the Auction Collars for the Closing Auction for such security would be the most recently widened Auction Collars for the Trading Halt Auction that did not occur. Currently, the Auction Collars for Closing Auctions are 5% for securities with an Auction Reference Price of \$25.00 or less, 2% for securities with an Auction Reference Price of greater than \$25.00 and less than or equal to \$50.00, or 1% for securities with an Auction Reference Price greater than \$50.00. The Exchange believes that if the Exchange goes directly from an unresolved Trading Pause, MWCB Halt, or regulatory halt in an NMS Stock to a Closing Auction, the narrower price collar thresholds applicable to the Closing Auction would result in Auction Collars that do not correlate to the trading condition for that NMS Stock.

The Exchange proposes to make a related amendment to Rule 7.35(a)(10)(A) to add the clause “except as provided for in Rule 7.35(e)(10)(B)”. This proposed rule text makes clear that

Halt in an NMS Stock that was triggered at or before 3:25 p.m. Eastern Time is extended pursuant to proposed Rule 7.35(e)(5) to after 3:50 p.m. Eastern Time (or 12:50 p.m. Eastern Time in the case of an early scheduled close), the Exchange would not conduct a Trading Halt Auction in that NMS Stock.

the price collar thresholds for a Closing Auction are defined in Rule 7.35(a)(10)(A), except as provided for in proposed Rule 7.35(e)(10)(B).

The Exchange proposes to amend Rule 7.10(a) to provide that ETP Holders may not request a review of a Trading Halt Auction under Rule 7.10(b), which specifies the procedures for an ETP Holder to request a review of an execution, as clearly erroneous. The Exchange believes that this proposed rule text would implement the proposed standardized trading practice that reopening auctions would not be eligible for review by ETP Holders as a clearly erroneous execution.¹²

Finally, the Exchange proposes to amend Rule 7.11 to delete obsolete rule text and conform the remaining rule text to the proposed amendments to the Plan, as described above. First, the Exchange proposes to amend Rule 7.11(b) to delete the text following the heading of Rule 7.11(b) and delete Rules 7.11(b)(1), (b)(1)(A) – (C), and (b)(3). This rule text governed how trading pauses were triggered before the Plan was implemented and is now obsolete. Second, the Exchange proposes that the text currently set forth in Rule 7.11(b)(2) would be moved to be the rule text for Rule 7.11(b). In moving this rule text, the Exchange proposes to delete the second substantive sentence of current Rule 7.11(b)(2) as inconsistent with the proposed amendments to the Plan, described above.¹³ Third, the Exchange proposes to renumber current Rule 7.11(b)(4) as proposed Rule 7.11(b)(1) and amend this paragraph to add that the

¹² The Participants will be engaging in a more comprehensive review of Rule 7.10 in connection with amendments to the Plan relating to tiering of securities and applicable percentage parameters. The Exchange proposes to make this limited amendment to Rule 7.10 as an initial step to eliminating its clearly erroneous executions rules in their current form.

¹³ The sentence that the Exchange would delete provides that “[i]n the event of a significant imbalance at the end of a Trading Pause, the Corporation may delay the re-opening of a security. The Exchange will issue a notification if it cannot resume trading for a reason other than a significant imbalance.”

Exchange would notify the single plan processor if the Exchange is unable to reopen trading at the end of the Trading Pause due to a systems or technology issue, which is consistent with the proposed amendments to the Plan. Finally, the Exchange proposes to renumber current Rule 7.11(b)(5) as proposed Rule 7.11(b)(2) and amend the text to provide that if a primary listing market issues an Trading Pause, the Exchange would resume trading as provided for in Rule 7.18(a).¹⁴ This proposed amendment is consistent with the proposed amendments to the Plan, described above.

Other Proposed Rule Changes

IO Order: The Exchange proposes to add a new order type, an Imbalance Only (“IO”) Order, that would be eligible to participate in Trading Halt Auctions only. The Exchange proposes to amend Rule 7.31(c), which specifies the Exchange’s Auction-Only Order types, to add new subsection (5) to describe an IO Order. As proposed, an IO Order would be a Limit Order to buy (sell) that is to be traded only in a Trading Halt Auction.

Proposed Rule 7.31(c)(5)(A) would provide that an IO Order would be accepted only during a halt or pause, including any extensions. This proposed rule text is consistent with the Exchange’s current rules that MOO or LOO Orders designated to participate in a Trading Halt Auction will be accepted only during the trading halt that precedes such Trading Halt Auction.¹⁵

¹⁴ Rule 7.18(a) provides that if the UTP Listing Market declares a UTP Regulatory Halt, which includes a Trading Pause, the Exchange will halt trading until it receives the first Price Band in that security. Accordingly, following a Trading Pause declared by another Primary Listing Market, the Exchange already waits to receive Price Bands before it resumes trading in that UTP Security. The Exchange proposes to delete the current rule text in Rule 7.11(b)(5) that provides that the Exchange “will pause trading in that security until trading has resumed on the primary listing market or notice has been received from the primary listing market that trading may resume. If the primary listing market does not reopen the security within 10 minutes of notification of a Trading Pause, the Corporation may resume trading the security.”

¹⁵ See Rule 7.31(c)(1) and (2).

Proposed Rule 7.31(c)(5)(B) would provide that an IO Order would participate in a Trading Halt Auction only if: (i) there is an imbalance in the security on the opposite side of the market from the IO Order after taking into account all other orders eligible to trade at the Indicative Match Price; and (ii) the limit price of the IO Order to buy (sell) would be at or above (below) the Indicative Match Price. Proposed Rule 7.31(c)(5)(C) would provide that the working price of an IO Order to buy (sell) would be adjusted to be equal to the Indicative Match Price, provided that the working price of the IO Order would not be higher (lower) than its limit price. Finally, proposed Rule 7.31(c)(5)(D) would provide that an IO Order that participates in a Trading Halt Auction would be ranked in time priority among IO Orders after all other orders eligible to participate in the auction have been allocated. The Exchange notes that the proposed IO Order is based in part on the Closing Offset (“CO”) Order offered by the New York Stock Exchange LLC (“NYSE”).¹⁶

For example, assume for a Trading Halt Auction that the lower boundary of an Auction Collar is \$10.00. Assume further that after allocating all other orders eligible to participate in the Trading Halt Auction, there is a sell Total Imbalance of 10,000 shares and absent Auction Collars, the Indicative Match Price would be below \$10.00. As provided for in Rule 7.35(a)(10)(B), once the Auction Collars are applied, the Indicative Match Price for that Trading

¹⁶ See NYSE Rule 13(c)(1) (defining a CO Order as a day Limit Order to buy or sell as part of the closing transaction where the eligibility to participate in the closing transaction is contingent upon: (i) an imbalance in the security on the opposite side of the market from the CO Order; (ii) after taking into account all other types of interest eligible for execution at the closing price, there is still an imbalance in the security on the opposite side of the market from the CO Order; and (iii) the limit price of the CO Order being at or within the price of the closing transaction. CO Orders eligible to participate in the closing transaction are executed in time priority of receipt by NYSE systems, up to the size of the imbalance in the security, on the opposite side of the market from the CO Order. Any eligible CO Orders not executed due to trading halt (as defined in Rule NYSE 123D) or insufficient volume of the contra side imbalance will be cancelled.)

Halt Auction would be \$10.01 (i.e., one MPV above the lower Auction Collar). Assume now there are seven IO Orders to buy, each for 2,000 shares, with limit prices of \$10.00, \$10.01, \$10.02, \$10.03, \$10.04, \$10.05 and \$10.06, and they are entered in that order. In this scenario, the IO Order to buy with a limit price of \$10.00 would not be eligible to participate, because the \$10.01 Indicative Match Price is higher than the limit price of the order. The remaining six IO Orders to buy would be assigned a working price of \$10.01. However, because the IO Order with a limit price of \$10.06 was entered last in time, it would not participate in the Trading Halt Auction.

Auction Imbalance Freeze: The Exchange proposes to add an Auction Imbalance Freeze before a Trading Halt Auction. As defined in Rule 7.35(a)(3), the Auction Imbalance Freeze means the period that begins before the scheduled time for the Early Open Auction, Core Open Auction, or Closing Auction, as specified in paragraphs (b), (c), and (d) of Rule 7.35, and that ends once the Auction Processing Period begins. To effect the proposed rule change, the Exchange proposes to add a reference to Trading Halt Auction and Rule 7.35(e) to Rule 7.35(a)(3).

Proposed Rule 7.35(e)(8) would describe how the Trading Halt Auction Imbalance Freeze would function. As proposed, the Trading Halt Auction Imbalance Freeze would begin five seconds before the Re-Opening Time, including Re-Opening Times for each Extension. The Exchange proposes to use the same period of time for the Trading Halt Auction Imbalance Freeze, five seconds, as provided for in Rule 7.35(c)(3) for the Core Open Auction. Specifically, the Exchange believes that the proposed five-second time period strikes the appropriate balance for providing sufficient time for market participants to enter and cancel orders before the Trading Halt Auction while at the same time having a short period for any imbalance to stabilize before

the auction is conducted. The rule would further provide that if a pause or halt is extended, the Trading Halt Auction Imbalance Freeze for the prior period would end, new orders and order instructions received during the prior period's Trading Halt Auction Imbalance Freeze would be processed, and the Exchange would accept new order entry and cancellation as provided for in Rule 7.18(c) until the next Trading Halt Auction Imbalance Freeze. In other words, if at the Re-Opening Time, the Exchange extends the Trading Pause for five minutes, the restrictions on order entry and cancellation from the prior freeze would no longer be in effect, and any order instructions that were not processed will be processed.

The proposed rule would further provide how order entry and cancellation during the Trading Halt Auction Imbalance Freeze would be processed:

- As proposed in Rule 7.35(e)(8)(A), MOO Orders and LOO Orders that are on the same side as the Imbalance, would flip the Imbalance, or would create a new Imbalance would be rejected. This proposed rule text is based on how MOC Orders and LOC Orders are processed during the Closing Auction Imbalance Freeze, as described in Rule 7.35(d)(2)(A).
- As proposed in Rule 7.35(e)(8)(B), Market Orders (other than MOO Orders) and Limit Orders would be accepted but would not be included in the calculation of the Indicative Match Price or the Trading Halt Auction Imbalance Information. Such orders would participate in the Trading Halt Auction only to offset the Imbalance that would be remaining after all orders entered before the Trading Halt Auction Imbalance Freeze, including the non-display quantity of Reserve Orders, are allocated in the Trading Halt Auction, and would be allocated in price-time priority under Rule 7.36(c) – (g) consistent with the priority ranking

associated with each order and ahead of any IO Orders. This proposed rule text is based on how [sic] Market Orders (other than MOO Orders) and Limit Orders that are entered during the Core Open Auction Imbalance Freeze, as described in Rule 7.35(c)(3)(B). As such, these orders would participate in the Trading Halt Auction only to offset the final Imbalance for the auction. Such orders would be ranked in price-time priority after all other orders, except for IO Orders, have been allocated. Because the Exchange would be accepting IO Orders for the Trading Halt Auction and because IO Orders do not participate until all other eligible interest has been allocated, the Exchange proposes a substantive difference from the rule governing the Core Open Auction to address how IO Orders would be processed relative to Market Orders (other than MOO Orders) or Limit Orders entered during the Trading Halt Auction Imbalance Freeze. As proposed, IO Orders would not be allocated until Market Orders (other than MOO Orders) and Limit Orders entered during the Trading Halt Auction Imbalance Freeze have been allocated.

- Proposed Rule 7.35(e)(8)(C) would provide that requests to cancel and requests to cancel and replace Market Orders, LOO Orders, Limit Orders, and IO Orders would be accepted but not processed until after the Trading Halt Auction concludes, as provided for in Rule 7.35(h). This proposed rule text is based on Rule 7.35(c)(3)(C) governing which order instructions will be accepted but not processed during the Core Open Auction Imbalance Freeze. The Exchange proposes a substantive difference to reference how requests to cancel IO Orders would be processed if received during the freeze period.

- Finally, proposed Rule 7.35(e)(8)(D) would provide that all other order instructions would be accepted. This proposed rule text is based on Rules 7.35(c)(3)(D) and (d)(2)(C), without any differences.

Unexecuted Limit Orders: The Exchange proposes to specify how it would process Limit Orders that do not participate in the Trading Halt Auction. As discussed above, an Impermissible Price would occur if there is a Market Imbalance or if the Indicative Match Price were outside the specified Price Collar Thresholds. However, if the Indicative Match Price were within the specified Price Collar Thresholds and there is no Market Imbalance, it is still possible to have an imbalance of Limit Orders within the Auction Collars. In such case, the Exchange proposes to transition such unexecuted Limit Orders to continuous trading. The Exchange believes that because such Limit Orders would have a limit price within the Auction Collars, having such Limit Orders transition to continuous trading would not have significant pricing impact on post-Trading Halt Auction trading. Accordingly, proposed Rule 7.35(e)(9) would provide that any Limit Orders that were eligible to participate in the Trading Halt Auction, but did not participate, would transition to continuous trading as provided for in paragraph (h) of this Rule.

Auction Imbalance Information: The Exchange proposes to enhance the Auction Imbalance Information. Rule 7.35(a)(4) defines Auction Imbalance Information as the information that is disseminated by the Exchange for an auction and includes, if applicable, the Total Imbalance, Market Imbalance, Indicative Match Price, and Matched Volume.¹⁷ The Exchange proposes to enhance the Auction Imbalance Information to include the following

¹⁷ See Rule 7.35(a)(7) (defining the terms Total Imbalance and Market Imbalance); 7.35(a)(8) (defining the term Indicative Match Price); and 7.35(a)(9) (defining the term Matched Volume).

additional information: Auction Reference Price, Auction Collar, Book Clearing Price, Far Clearing Price, Imbalance Freeze Indicator, and Auction Indicator. The Auction Reference Price is defined in Rule 7.35(a)(8)(A) and proposed Rule 7.35(e)(7)(A), described above. The Auction Collar is defined in Rule 7.35(a)(10) and proposed Rules 7.35(e)(7) and (e)(10)(B), described above. The Exchange proposes to define the additional terms as follows:

- Proposed Rule 7.35(a)(11) would define the term “Book Clearing Price” to mean the price at which all interest eligible to participate in an auction could be traded if not subject to an Auction Collar. The rule would further provide that the Book Clearing Price would be zero if a sell (buy) imbalance cannot be filled by any buy (sell) orders. For example, if there are only sell orders and no buy orders, the Book Clearing Price would be zero.
- Proposed Rule 7.35(a)(12) would define the term “Far Clearing Price” to mean the price at which Auction-Only Orders could be traded within the Auction Collar. Auction-Only Orders are defined in Rule 7.31(c).
- Proposed Rule 7.35(a)(13) would define the term “Auction Indicator” to mean an indicator of whether an auction could be conducted, based on the applicable Auction Collar and Imbalance. This information would be relevant for the Trading Halt Auction and provide transparency regarding whether a Trading Pause, MWCB Halt, or regulatory halt would be eligible to be conducted. If an Auction Indicator is “no,” market participants would be on notice that submitting offsetting interest may reduce the possibility of the Exchange extending a Trading Halt Auction.

- Proposed Rule 7.35(a)(14) would define the term “Imbalance Freeze Indicator” to mean an indicator of whether a security is currently in an Auction Imbalance Freeze. This indicator would put market participants on notice of whether there are order entry and cancellation restrictions in place at any given time before an auction.

The Exchange proposes to implement the proposed rule change following the Commission’s approval of Amendment 12 to the Plan. The Exchange will announce the implementation date via Trader Update to be issued after this proposed rule change is approved.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),¹⁸ in general, and furthers the objectives of Section 6(b)(5),¹⁹ in particular, because 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, 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.

The Exchange believes the proposed changes would 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, because they are designed, together with the proposed amendments to the Plan, to address the issues experienced on August 24, 2015 by reducing the

¹⁸ 15 U.S.C. 78f(b).

¹⁹ 15 U.S.C. 78f(b)(5).

number of repeat Trading Pauses in a single NMS Stock. The proposed Plan amendments are an essential component to Participants' goal of more standardized processes across Primary Listing Exchanges in reopening trading following a Trading Pause, and facilitates the production of an equilibrium Reopening Price by centralizing the reopening process through the Primary Listing Exchange, which would also improve the accuracy of the reopening Price Bands. The proposed Plan amendments support this initiative by requiring trading centers to wait to resume trading following Trading Pause until there is a Reopening Price.

This proposed rule change further supports this initiative by proposing uniform trading practices for reopening trading following a Trading Pause. The Exchange believes that the proposed standardized approach for how the Primary Listing Exchanges would conduct certain aspects of an automated reopening following a Trading Pause would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would provide certainty for market participants regarding how a security would reopen following a Trading Pause, regardless of the listing exchange. The Exchange further believes that the proposed changes would remove impediments to and perfect the mechanism of a free and open market and a national market system and protect investors and the public interest because the goal of the proposed changes is to ensure that all Market Order interest could be satisfied in an automated reopening auction while at the same time reducing the potential for multiple Trading Pauses in a single security due to a large order imbalance.

The Exchange further believes that the standardized proposal to extend a Trading Pause an additional five minutes would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would provide additional time to attract offsetting liquidity. If at the end of such extension, Market Orders still cannot be satisfied within

price collar thresholds or if the reopening auction would be priced outside of the applicable price collar thresholds, the Primary Listing Exchange would extend the Trading Pause an additional five minutes, which the Exchange believes would further protect investors and the public interest by reducing the potential for significant price disparity in post-auction trading, which could otherwise trigger another Trading Pause. With each such extension, the Exchange believes that widening the price collar threshold on the side of the market on which there is buying or selling pressure would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would provide additional time to attract offsetting interest while at the same time addressing that an imbalance may not be resolved within the prior Auction Collars.

With respect to price collar thresholds, the Exchange believes that using the price of the limit state that preceded the Trading Pause, i.e., either the Lower or Upper Price Band price, would better reflect the most recent price of the security and therefore should be used as the reference price for determining the Auction Collars for such Trading Halt Auction. The Exchange believes that widening Auction Collars only in the direction of the imbalance would address issues relating to the concept of mean reversion, which would protect investors and the public interest by reducing the potential for wide price swings following a Trading Halt Auction.

The Exchange believes that applying the proposed changes to its Trading Halt Auctions not only following a Trading Pause, but also following a MWCB Halt or regulatory halt, would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would promote consistency in how the Exchange conducts its Trading Halt Auctions, thus reducing complexity in the marketplace.

The Exchange believes that precluding ETP Holders from requesting a review of a Trading Halt Auction as a clearly erroneous execution would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed new procedures for reopening trading following a Trading Pause would reduce the possibility that an order(s) from an ETP Holder(s) caused a Trading Halt Auction to be clearly erroneous. Specifically, the Exchange believes that the proposed standardized procedures for reopening trading following a Trading Pause incorporates a methodology that allows for widened collars, which may result in a reopening price away from prior trading prices, but which reopening price would be a result of a measured and transparent process that eliminates the potential that such trade would be considered erroneous.

The Exchange believes that the proposed amendments to Rule 7.11 would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed changes would remove obsolete rule text and amend the remaining rule text to conform to the proposed amendments to the Plan, as described above.

The Exchange believes that the proposed rule change to add an IO Order for Trading Halt Auctions would further remove impediments to and perfect the mechanism of a free and open market and a national market system because such order type is designed to attract offsetting interest that would participate in the Trading Halt Auction. The Exchange believes that offering such order type would provide an option for market participants that are willing to participate in an auction to offset an imbalance, but do not want such orders to participate in continuous trading. The proposed order type is based in part on the CO Order offered by the NYSE, with the main difference being that the IO Order would be offered for the Trading Halt Auction only, whereas the CO Order on NYSE is available for the closing transaction only. However, in

function, the two orders are designed with the same purpose – to reduce the imbalance to assist in achieving pricing equilibrium.

The Exchange further believes that the proposed rule change to add a Trading Halt Auction Imbalance Freeze would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would provide market participants with a brief period to assess the imbalance going into a Trading Halt Auction. During such time, order entry and cancellation would be revised in a manner designed to reduce the last-published imbalance. The proposed mechanism for the Trading Halt Auction Imbalance Freeze is not novel, as it is based in part on the existing Core Open Auction Imbalance Freeze, i.e., the length of the Auction Imbalance Freeze, and the Closing Auction Imbalance Freeze, i.e., how new orders and order instructions would be processed, with a proposed substantive difference to address how the proposed new IO Order type would be processed during the Auction Imbalance Freeze.

The Exchange believes that the proposed manner of how it would process Limit Orders that do not participate in a Trading Halt Auction, but have a limit price within the applicable Auction Collars, in that such orders would roll into continuous trading, would remove impediments to and perfect the mechanism of a free and open market and a national market system. Such Limit Orders likely would not impact the pricing of post-auction trading and trigger another Trading Pause because the limit price of such orders would be within the same price range that trading would otherwise be permitted.

Finally, the Exchange believes that the proposed amendments to enhance the Auction Imbalance Information to add the Auction Reference Price, the Auction Collar, the Book Clearing Price, the Far Clearing Price, the Imbalance Freeze Indicator, and the Auction Indicator

would remove impediments to and perfect the mechanism of a free and open market and a national market system because they are designed to promote additional transparency regarding the Exchange's auctions by providing additional detail regarding what Auction Reference Price would be used in an auction, the Auction Collars applicable to such auction, additional information about potential pricing for such auction, and the status of the applicable auction.

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 Exchange believes that the proposed rule change is not designed to address any competitive issues, but rather, to achieve the Participants' goal of more standardized processes across Primary Listing Exchanges in reopening trading following a Trading Pause, and facilitates the production of an equilibrium Reopening Price by centralizing the reopening process through the Primary Listing Exchange, which would also improve the accuracy of the reopening Price Bands. The Exchange believes that the proposed rule change reduces the burden on competition for market participants because it promotes a transparent and consistent process for reopening trading following a Trading Pause regardless of where a security may be listed. The Exchange further believes that the proposed rule change would not impose any burden on competition because they are designed to increase transparency regarding the Exchange's Trading Halt Auction process while at the same time increasing the ability for offsetting interest to participate in an auction, which would assist in achieving pricing equilibrium for such an auction.

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

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be 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-2016-130 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-2016-130. 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-NYSEArca-2016-130 and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁰

Robert W. Errett,
Deputy Secretary.

BILLING

CODE

8011-01p

²⁰ 17 CFR 200.30-3(a)(12).

