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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-79719; File No. SR-NYSEArca-2016-143]

Self-Regulatory Organizations; NYSE Arca, Inc.; Order Approving Proposed Rule Change, as Modified by Amendment No. 1 Thereto, Introducing NYSE OptX
January 3, 2017

I. Introduction

On November 3, 2016, NYSE Arca, Inc. (the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to introduce NYSE OptX, an order entry platform that will allow for the submission of Qualified Contingent Cross orders (“QCC Orders”) by OTP Holders and OTP Firms. On November 15, 2016, the Exchange filed Amendment No. 1 to the proposal.³ The proposed rule change, as modified by Amendment No. 1, was published for comment in the Federal Register on November 22, 2016.⁴ The Commission received no comment letters on the proposed rule change. This order approves the proposed rule change, as modified by Amendment No. 1.

II. Description of the Proposed Rule Change

The Exchange proposes to introduce NYSE OptX, an order entry platform that will

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No. 1, the Exchange clarified that QCC Orders sent through NYSE OptX to the Exchange for execution will comply with the order format and EOC entry requirements established by the Exchange, which are set forth in Exchange Rule 6.67.

⁴ See Securities Exchange Act Release No. 79327 (November 16, 2016), 81 FR 83890 (“Notice”).

allow OTP Holders⁵ and OTP Firms⁶ (collectively, “OTPs”) to submit QCC Orders to the Exchange. According to the Exchange, OTPs currently send QCC Orders to the Exchange through the use of third-party front end order management systems or by calling Floor Brokers and relaying their orders by telephone.⁷

According to the Exchange, NYSE OptX is an order entry platform that will utilize a combination of Instant Messaging (“IM”) and browser-based technology to allow OTPs to submit QCC Orders for execution on the Exchange’s trading system.⁸ To execute a QCC Order through NYSE OptX, an OTP will send the order in plain text to NYSE OptX,⁹ which will then translate the message into a pre-populated order ticket with details of the order and return the order ticket to the OTP in a browser-based URL. The OTP will then confirm the order ticket and submit the order to the Exchange for execution, or send the order to a Floor Broker for

⁵ The term “OTP Holder” refers to a natural person, in good standing, who has been issued an OTP, or has been named as a Nominee. An OTP Holder must be a registered broker or dealer pursuant to Section 15 of the Act, or a nominee or an associated person of a registered broker or dealer that has been approved by the Exchange to conduct business on the Exchange’s Trading Facilities. See Exchange Rule 1.1(q).

⁶ The term “OTP Firm” refers to a sole proprietorship, partnership, corporation, limited liability company, or other organization in good standing that holds an OTP or upon which an individual OTP Holder has conferred trading privileges on the Exchange’s Trading Facilities pursuant to and in compliance with Exchange Rules. An OTP Firm must be a registered broker or dealer pursuant to Section 15 of the Act. See Exchange Rule 1.1(r).

⁷ See Notice, supra note 4, at 83891.

⁸ See id. The Exchange represents that NYSE OptX will not require any changes to the Exchange’s communication or surveillance rules. Id. at 83891, n.9.

⁹ The Exchange states that OTPs will be required to provide all the essential information regarding the QCC Order when sending it to NYSE OptX, including the price of the option and the stock, the size and side of the order, and delta. The Exchange further represents that QCC Orders sent to the Exchange for execution will comply with the order format and EOC entry requirements established by the Exchange. See Notice, supra note 4, at 83891, n.11. See also Exchange Rule 6.67 – Order Format and System Entry Requirements.

execution. After an order is executed on the Exchange, NYSE OptX will remit details of the execution back to the OTP.

According to the Exchange, NYSE OptX is designed as an alternative to front end order management systems and the use of telephones for the sending of QCC Orders to the Exchange.¹⁰ The Exchange notes that NYSE OptX will not provide OTPs with the capability to send any other type of orders or the capability to send QCC Orders for execution to other options markets.¹¹ Further, OTPs will continue to be able to submit QCC Orders through the use of a third-party front end order management system, or by telephone, as they currently do.¹² The Exchange notes that use of OptX to send QCC Orders to the Exchange is optional and voluntary.¹³

The Exchange stated that it will announce the effective date of NYSE OptX in a Trader Update to be published no later than 90 days following approval of this proposal, and that such effective date will be no later than 270 days following publication of the Trader Update.¹⁴

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of Section 6 of the Act¹⁵ and the rules and regulations thereunder applicable to a national securities exchange.¹⁶ In particular, the Commission finds that the

¹⁰ See Notice, supra note 4, at 83891.

¹¹ See id.

¹² See id.

¹³ See id.

¹⁴ See id.

¹⁵ 15 U.S.C. 78f.

¹⁶ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

proposed rule change is consistent with Section 6(b)(5) of the Act,¹⁷ which requires, among other things, that the rules of a national securities exchange be 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 regulating, clearing, settling, processing information with respect to, and 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 and that the rules not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Commission notes that, according to the Exchange, NYSE OptX will provide OTPs an alternative to third-party front end order management systems and the use of telephones to send QCC Orders to the Exchange.¹⁸ Such an alternative may help protect the interests of investors by offering OTPs an additional way to send QCC Orders to the Exchange for execution. The Commission notes that the use of OptX will be entirely voluntary and OTPs will still be able to submit QCC Orders as they do today, either through the use of third-party front end order management systems or by telephone. For these reasons, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with Section 6(b)(5) of the Act and the rules and regulations thereunder applicable to a national securities exchange.

¹⁷ 15 U.S.C. 78f(b)(5).

¹⁸ See Notice, supra note 4, at 83891. As stated above, the Exchange represented that OTPs will be required to provide all the essential information regarding the QCC Order when sending the order to NYSE OptX and QCC Orders sent to the Exchange for execution will comply with the order format and EOC entry requirements established by the Exchange. Id. at 83891, n.11.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁹ that the proposed rule change (SR-NYSEArca-2016-143), as modified by Amendment No. 1, be, and hereby is, approved.

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

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Assistant Secretary

¹⁹ 15 U.S.C. 78s(b)(2).

²⁰ 17 CFR 200.30-3(a)(12).

