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SECURITIES AND EXCHANGE COMMISSION  
[Release No. 34-80494; File No. SR-NYSEMKT-2017-21]

Self-Regulatory Organizations; NYSE MKT LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Adopt Rule 994NY, Broadcast Order Liquidity Delivery Mechanism

April 20, 2017

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the “Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that on April 11, 2017, NYSE MKT LLC (the “Exchange” or “NYSE MKT”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to adopt Rule 994NY, Broadcast Order Liquidity Delivery (“BOLD”) Mechanism. The proposed rule change is available on the Exchange’s website at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

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

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

1. Purpose

The purpose of the filing is to adopt a rule that governs the operation of the Exchange's new BOLD Mechanism. As proposed, BOLD Mechanism is a feature within the Exchange's trading system that would provide automated order handling for eligible orders in designated classes. Regarding BOLD Mechanism eligibility, the Exchange will designate eligible order size, eligible order type, eligible capacity code (e.g., Customer<sup>4</sup> orders, non-Market Maker non-Customer orders, and Market Maker<sup>5</sup> orders), and classes in which the BOLD Mechanism will be available. Orders must be specifically marked to be eligible for the BOLD Mechanism. After trading with eligible interest on the Exchange, the BOLD Mechanism will automatically process

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<sup>4</sup> The term "Customer" means an individual or organization that is not a Broker/Dealer; when not capitalized, "customer" refers to any individual or organization whose order is being represented, including a Broker/Dealer. See Rule 900.2NY(18).

<sup>5</sup> Market Makers are included in the definition of ATP Holders. See Rule 900.2NY(5) (defining ATP Holder as "a natural person, sole proprietorship, partnership, corporation, limited liability company or other organization, in good standing, that has been issued an ATP," and requires that "[a]n ATP Holder must be a registered broker or dealer pursuant to Section 15 of the Securities Exchange Act of 1934." See also Rule 900.2NY(38) (providing that a Market Maker is "an ATP Holder that acts as a Market Maker pursuant to Rule 920NY").

an eligible incoming order that is marketable against quotations disseminated by other exchanges that are participants in the Options Order Protection and Locked/Crossed Market Plan (the “Linkage Plan”).

With respect to order handling, orders that are received by the BOLD Mechanism pursuant to paragraph (a) of the proposed rule will be electronically exposed at the National Best Bid or Offer (“NBBO”) upon receipt. The exposure will be for a period of time determined by the Exchange on a class-by-class basis, which period of time will not exceed one second. All ATP Holders will be permitted to trade against interest exposed during the exposure period.

Regarding the allocation of exposed orders, any interest priced at the prevailing NBBO or better will be executed pursuant to Rule 964NY (Display, Priority and Order Allocation).<sup>6</sup> If during the exposure period the Exchange receives an order (or quote) on the opposite side of the market from the exposed order that could trade against the exposed order at the prevailing NBBO price or better, then the exposed order will trade with such order at the prevailing NBBO price or better. The exposure period will not terminate if the exposed order has not been completely executed following such trade. Interest that is not immediately executable based on the prevailing NBBO may become executable during the exposure period based on changes to the NBBO. In the event of a change to the NBBO during the exposure period, the Exchange will evaluate the disseminated best bid/offer, and to the extent possible, execute any remaining portion of the exposed order at the best price(s) of resting interest on the Exchange. Following the exposure period, the Exchange will route the remaining portion of the exposed order to other exchanges, unless otherwise instructed by the ATP Holder. Any portion of a routed order that returns unfilled

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<sup>6</sup> NYSE Amex provides customer priority and size pro-rata allocation. Pursuant to Rule 964NY, customers at a given price are executed first in priority. Non-customers are executed on a pro-rata basis pursuant to the size pro rata algorithm set forth in Rule 964NY(b)(3).

will trade against the Exchange's best bid/offer unless another exchange is quoting at a better price in which case new orders will be generated and routed to trade against such better prices. All executions on the Exchange pursuant to this paragraph will comply with Rule 991NY (Order Protection).

Regarding the early termination of the exposure period, the exposure period will terminate if the entire exposed order trades at the NBBO or better. In addition, the exposure period will terminate prior to its expiration and the exposed order will be processed in accordance with paragraph (c) of the proposed rule if, during the exposure period, the NBBO updates such that the exposed order is no longer marketable against the prevailing NBBO.

The purpose of the proposed rule change is to provide all ATP holders with the opportunity to improve their prices and "step up" to meet the NBBO in order to interact with orders sent to the Exchange. This would allow the market participant sending an order to NYSE Amex to increase its chances of receiving an execution at NYSE Amex (the market participant's chosen venue) instead of having the order routed to another exchange. This "step up" process allows market participants to take into account factors beyond just disseminated prices, such as execution costs, system reliability, and quality of service, when determining the exchange to which to route an order. A market participant that prefers NYSE Amex due to some combination of these other factors will know that, even if NYSE Amex is not displaying a price that is the NBBO, the market participant may still receive an execution at NYSE Amex because another ATP Holder may "step up" to match the NBBO. Further, the BOLD Mechanism and the "step up" process enable ATP Holders to add liquidity that is available to interact with orders sent to the Exchange. Indeed, when an ATP Holder on NYSE Amex "steps up" to match the NBBO that is displayed on another exchange, more contracts may be executed at this NBBO price on NYSE Amex than are available at that same price

on another exchange.

The Exchange's proposed BOLD Mechanism and the "step up" process are not novel concepts. As proposed, the BOLD Mechanism is similar to the Step Up Mechanism ("SUM") offered on Bats EDGX Exchange, Inc. ("EDGX"), which provides the same manner of "step up" process.<sup>7</sup> Similar to SUM, the proposed BOLD Mechanism would be entirely electronic.

Another similarity between the proposed BOLD Mechanism and SUM is the determination by the Exchange to permit all ATP Holders to trade against interest exposed during the exposure period.<sup>8</sup> The proposed BOLD Mechanism, however, is different from CBOE's HAL in that on CBOE, only Market Makers with an appointment in the relevant option class and Trading Permit Holders acting as agent for orders resting at the top of CBOE's book in the relevant option series opposite the order submitted to HAL may submit responses to the exposure message during the exposure period (unless CBOE determines, on a class-by-class basis, to allow all Trading Permit Holders to submit responses to the exposure message). Therefore, on CBOE, an order will not be exposed if the CBOE quotation contains resting orders and does not contain sufficient CBOE Market Maker quotation interest to satisfy the entire order. The Exchange does not propose this limitation because the proposed BOLD Mechanism is not dependent only on Market Maker interest in any way, but rather, seeks to expose the order for execution to all participants on NYSE Amex.

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<sup>7</sup> See Securities Exchange Act Release No. 78339 (July 15, 2016), 81 FR 47461 (July 21, 2016) (SR-BatsEDGX-2016-29) ("SUM Approval"). The SUM Approval was based on the Commission's prior approval of the Chicago Board Options Exchange, Inc.'s ("CBOE") Hybrid Agency Liaison ("HAL"). See Securities Exchange Act Release No. 60551 (August 20, 2009), 74 FR 43196 (August 26, 2009) (SR-CBOE-2009-040) ("Approval of CBOE's HAL").

<sup>8</sup> The Exchange is adopting the term "interest" rather than "response" (as known on EDGX) to distinguish that the BOLD Mechanism is not an auction functionality that requires ATP Holders to "respond" to an auction message. Rather, ATP Holders would be permitted to trade against the "interest" that is exposed during the exposure period in accordance with the execution priority set forth in Rule 964NY(b)(3).

In this respect, the proposed BOLD Mechanism is similar to EDGX's SUM, which also is not dependent just on Market Maker interest and exposes orders to all participants on that exchange. Also, Interpretation and Policy .01 to CBOE Rule 6.14A (the CBOE rule regarding HAL), which prohibits the redistribution of exposure messages to market participants not eligible to respond to such messages (except in classes in which CBOE allows all Trading Permit Holders to respond to such messages) also would not apply to the proposed BOLD Mechanism, as all ATP Holders would be permitted to trade against the interest exposed during the exposure period.

With regards to early termination of the exposure period, while the Exchange proposes different criteria for early termination of an exposure period than those reasons set forth in the corresponding CBOE rule regarding HAL, the proposed rule is, in most cases, similar to the SUM rule. Similar to SUM, an exposure period will terminate early if an order is executed in full. CBOE also terminates an exposure period in slightly different circumstances than the Exchange has proposed, including when a same side order is received by CBOE, if CBOE Market Maker interest decrements to an amount equal to the size of the exposed order and if the underlying security enters a limit up limit down state. Similar to EDGX, the Exchange does not believe early termination is necessary for the BOLD Mechanism under any of these reasons, and has proposed to terminate the exposure period early in a scenario not covered by HAL but that is available by SUM. Specifically, the Exchange would terminate an exposure period early when the exposed order is no longer marketable against the NBBO. The Exchange notes that SUM also terminates the exposure period early if a resting order on EDGX is locked or crossed by another options exchange. The Exchange does not believe early termination is necessary for the BOLD Mechanism because the BOLD Mechanism is not an auction. Accordingly, the Exchange believes that permitting the exposure period to continue would allow other orders to arrive and trade with any order exposed via the

BOLD Mechanism (including any from the locking Exchange). Although the early termination section of the proposed rule represents the greatest departure from the HAL rule, the proposed BOLD Mechanism rule is nearly identical to the SUM rule, and the Exchange does not believe that any of the differences raise new policy issues generally with respect to a step up process.

With respect to the early termination scenarios not adopted by the Exchange, the Exchange believes that the fact that an ATP Holder will have the ability to cancel its order after the BOLD Mechanism process is initiated coupled with the fact that the Exchange will only execute an order that has been exposed via the BOLD Mechanism process to the extent the order is marketable against the NBBO mitigate any potential concern regarding such differences.<sup>9</sup> Further, regarding the termination scenarios specified by the Exchange, the Exchange believes that these are reasonable reasons to terminate the BOLD Mechanism process. Specifically, if an order is no longer marketable, then it cannot be executed through the BOLD Mechanism process so no longer benefits from being exposed. Generally speaking, the Exchange's proposed rule is similar to the SUM rule in terms of its structure and wording. The Exchange's proposed rule differs slightly from the SUM rule in that the proposed BOLD Mechanism is not an auction and therefore, when an ATP Holder "steps up" to trade against an exposed order, the proposed rule does not refer to that as a "response" by the ATP Holder. The proposed rule also differs from the SUM rule in that orders received pursuant to paragraph (a) of the proposed rule would only be processed by the BOLD Mechanism once because, having exposed the order and attracted insufficient (or no) liquidity, the order (or balance thereof) would not be exposed again. The Exchange does not believe the terminology used or different wording represents any substantive difference between the proposed

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<sup>9</sup> As a general matter, ATP Holders can cancel their orders on the Exchange unless expressly prohibited. For example, Rule 971.1NY(c) provides, in part, that "[o]nce commenced, the CUBE Order (as well as the Contra Order) may not be cancelled or modified." No such restriction exists for orders processed by the BOLD Mechanism.

BOLD Mechanism and the functionality offered through SUM and HAL. Any such differences are intended to highlight the exact operation of the proposed BOLD Mechanism process.

Despite the differences highlighted above, the proposed BOLD Mechanism would otherwise operate in similar manner to SUM and HAL, the latter of which was previously approved by the Commission and formed the basis for the former to be made immediately effective upon its filing with the Commission. The Commission has always been clear that honoring better prices on other markets can be accomplished by matching those better prices.<sup>10</sup> The proposed BOLD Mechanism would allow participants on NYSE Amex to do just that. If an ATP Holder wants to ensure that an order does not go through the proposed BOLD Mechanism, then that participant can submit an order that would not be exposed to the BOLD Mechanism.<sup>11</sup>

In addition to Rule 994NY proposed above, the Exchange proposes to adopt Commentary .01 to proposed Rule 994NY, which states that all determinations by the Exchange pursuant to proposed Rule 994NY (i.e., eligible order size, order type, increment, participant ID, BOLD Mechanism timer and classes) will be announced in a Trader Update and maintained in specifications made publicly available via the Exchange's website. As noted above, the Exchange also proposes to adopt Commentary .02 to proposed Rule 994NY to make clear that orders that are

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<sup>10</sup> For example, in adopting the Order Protection Rule (Rule 611) under Regulation NMS in 2005, the Commission stated: "The Order Protection Rule generally requires that trading centers match the best quoted prices, cancel orders without an execution, or route orders to the trading centers quoting the best prices." See Securities Exchange Act Release No.51808 (June 9, 2005), 70 FR 37495 (June 29, 2005), at 37525 (S7-10-04).

<sup>11</sup> An ATP Holder will be able to opt-in to the BOLD Mechanism by including a specific field in their orders submitted to the Exchange. Details regarding the ability to opt-in will be set forth in the Exchange's order entry specifications, which are made publicly available to all ATP Holders. The ability to opt-in to the BOLD Mechanism is different from the SUM process. SUM has adopted an 'opt-out' approach where members of EDGX are able to opt-out by including a specific field in orders submitted to that exchange.

received paragraph (a) of the proposed rule would only be processed by the BOLD Mechanism once.

The Exchange also proposes to amend certain other Exchange rules that would be impacted by the proposed BOLD Mechanism. First, the Exchange proposes to adopt paragraph (F) under Rule 971.1NY(c)(4) to reflect that the Exchange's Customer Best Execution Auction ("CUBE Auction") will conclude early if the BOLD Mechanism, i.e., orders that are eligible for exposure under proposed Rule 994NY, receives an unrelated order in the same series during the CUBE Auction's Response Time Interval. When the CUBE Auction concludes, the CUBE Order would execute pursuant to current Rule 971.1NY(c)(5). The Exchange believes that early conclusion of a CUBE Auction in this circumstance would allow the Exchange to appropriately handle unrelated orders exposed via the BOLD Mechanism, while at the same time allowing the CUBE Order to execute against the Contra Order and any RFR Responses that may have been entered up to that point.

Next, the Exchange proposes to adopt Commentary .04 to Rule 971.1NY, which states that a CUBE Order will be rejected if the CUBE Order is in the same series as an order exposed pursuant to the proposed BOLD Mechanism. Finally, the Exchange proposes to adopt Commentary .04 to Rule 985NY, which states that a Qualified Contingent Cross ("QCC") Order will be rejected if the QCC Order is in the same series as an order exposed pursuant to the proposed BOLD Mechanism. The Exchange believes the rejection of a CUBE Order and/or a QCC Order in these circumstances would allow the full exposure period for the order submitted pursuant to the BOLD Mechanism, which should maximize the opportunity for the exposed order to be executed on the Exchange.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with the requirements of the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.<sup>12</sup> In particular, the proposal is consistent with Section 6(b)(5) of the Act<sup>13</sup> because it is designed to adopt the BOLD Mechanism, which is designed to offer market participants greater flexibility with respect to orders entered into the NYSE Amex book, thereby promoting just and equitable principles of trade, fostering cooperation and coordination with persons engaged in facilitating transactions in securities, removing impediments to, and perfecting the mechanisms of, a free and open market and a national market system.

The Exchange’s proposal to adopt the BOLD Mechanism would provide ATP Holders on NYSE Amex with the opportunity to improve their prices to match the NBBO in order to interact with orders sent to the Exchange. This will allow the market participant sending an order to NYSE Amex to increase its chances of receiving an execution on NYSE Amex (the market participant’s chosen venue) instead of having the order be routed to another exchange. This “step up” process allows market participants to take into account factors beyond just disseminated prices, such as execution costs, system reliability, and quality of service, when determining the exchange to which to route an order. A market participant that prefers NYSE Amex due to some combination of these other factors will know that, even if NYSE Amex is not displaying a price that is the NBBO, the market participant may still receive an execution at NYSE Amex because another ATP Holder may “step up” to match the NBBO. Therefore, the fact that the BOLD Mechanism allows a market participant who elects to send an order to NYSE

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<sup>12</sup> 15 U.S.C. 78f(b).

<sup>13</sup> 15 U.S.C. 78f(b)(5).

Amex to have a greater likelihood of achieving execution at their chosen venue removes an impediment to and perfects the mechanism for a free and open national market system. Further, the BOLD Mechanism and the “step up” process enables ATP Holders to add liquidity that is available to interact with orders sent to the Exchange. Indeed, when an ATP Holder “steps up” to match the NBBO that is displayed on another exchange, more contracts maybe executed at this NBBO price on NYSE Amex than are available at that same price on the other exchange. This increased liquidity benefits all market participants on NYSE Amex, thereby perfecting the mechanism for a free and open national market system and protecting investors and the public interest.

The Exchange’s proposed BOLD Mechanism is similar to EDGX’s SUM, which provides the same manner of “step up” process. To the extent there are differences between the proposed BOLD Mechanism and SUM, as described elsewhere in the proposal, the Exchange does not believe such differences raise any new or significant policy concerns. Further, despite the differences, the proposed BOLD Mechanism would otherwise operate in a similar manner to the SUM process. As such, the Exchange merely desires to adopt functionality that is similar to one that already exists on EDGX, and on CBOE.<sup>14</sup> Permitting the Exchange to operate on an even playing field relative to other exchanges that have similar functionality removes impediments to and perfects the mechanism for a free and open market and a national market system.

The Commission has always been clear that honoring better prices on other markets can be accomplished by matching those other prices.<sup>15</sup> The proposed BOLD Mechanism would

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<sup>14</sup> See supra, note 7.

<sup>15</sup> See supra, note 10.

allow participants on NYSE Amex to do just that.

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

The Exchange does not believe that the proposed rule change to adopt the BOLD Mechanism will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange's proposed BOLD Mechanism is open to all market participants. The "step up" feature of the proposed BOLD Mechanism allows for execution at the NBBO for price improvement. When such price improvement is achieved via this "stepping up" to meet (or beat) the best quoted price at another exchange, market participants are able to receive the best quoted price while still achieving execution on NYSE Amex, the exchange to which they elected to send their orders. As noted above, the proposed BOLD Mechanism is similar to processes offered on other options exchanges that compete with NYSE Amex, and therefore the proposal is pro-competitive.

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

Because the proposed rule change does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>16</sup> and Rule 19b-4(f)(6) thereunder.<sup>17</sup>

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<sup>16</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>17</sup> 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act<sup>18</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)<sup>19</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange stated that waiver of the operative delay will allow the Exchange to provide functionality on NYSE Amex that is similar to functionality provided by other options exchanges, including but not limited to EDGX.<sup>20</sup> In addition, the Exchange stated that waiver of the operative delay will allow it to more effectively compete with other options exchanges. For these reasons, the Commission believes the waiver of the operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the operative delay and designates the proposal operative upon filing.<sup>21</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 necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

<sup>18</sup> 17 CFR 240.19b-4(f)(6).

<sup>19</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>20</sup> See supra, note 7.

<sup>21</sup> For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

#### 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-NYSEMKT-2017-21 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-NYSEMKT-2017-21. 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-NYSEMKT-2017-21, 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>22</sup>

Eduardo A. Aleman,  
Assistant Secretary.

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<sup>22</sup> 17 CFR 200.30-3(a)(12).

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