

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-74571; File No. SR-NYSEMKT-2015-19)

March 24, 2015

Self-Regulatory Organizations; NYSE MKT LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending Rule 13 - Equities Relating to Pegging Interest

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 March 17, 2015, NYSE MKT LLC (“Exchange” or “NYSE MKT”) 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 Rule 13 - Equities (Orders and Modifiers) relating to pegging interest. The text of 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

¹ 15 U.S.C.78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

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 Rule 13 – Equities (“Rule 13”) relating to pegging interest to provide that if the protected best bid or offer (“PBBO”) is not within the range of the pegging interest, the pegging interest would peg to the “next best-priced available displayable interest,” rather than the “next best-priced available interest.” This amendment would therefore exclude non-displayed interest from consideration as part of the “next best-priced available interest” under the rule.

Background

Under current Rule 13, pegging interest pegs to prices based on (i) a PBBO, which may be available on the Exchange or an away market, or (ii) interest that establishes a price on the Exchange.⁴ In addition, pegging interest will peg only within a price range specified by the floor broker submitting the order. Thus, if the PBBO is not within the specified price range of the pegging interest, the pegging interest will instead peg to the next available best-priced interest that is within the specified price range.⁵ For example, if pegging interest to buy 100 shares has a specified price range up to \$10.00, but the best protected bid (“PBB”) of 100 shares is \$10.01, then such pegging interest could not peg to the \$10.01 PBB because it is not within the specified price range of the pegging interest. The pegging interest would instead peg to the next available

⁴ See paragraph (a)(3) to Rule 13 governing pegging interest.

⁵ See paragraph (a)(4) to Rule 13 governing pegging interest.

best-priced interest within the specified price range of up to \$10.00.⁶

The “next available best-priced interest” concept in the current rule was originally expressed in a different fashion (when pegging was based on the Exchange’s BBO, rather than the PBBO), but the basic functionality has always been the same. Specifically, when the pegging interest was introduced in 2006 on the New York Stock Exchange LLC (“NYSE”), if the Exchange BBO was higher (lower) than the price limit on the pegging interest to buy (sell), the pegging interest would peg to the highest (lowest) price at which there was other interest within the pegging price range.⁷ In 2008, the NYSE introduced Non-Displayed Reserve Orders, without changing the underlying functionality of pegging interest to exclude the prices of such orders from the evaluation of what constitutes the highest (lowest) price at which there is other

⁶ See paragraph (a)(4)(A) to Rule 13 governing pegging interest. Similarly, if pegging interest would peg to a price that would lock or cross the Exchange best offer or bid, the pegging interest would instead peg to the next available best-priced interest that would not lock or cross the Exchange best bid or offer. See paragraph (c)(1) to Rule 13 governing pegging interest.

⁷ On October 1, 2008, the Commission approved the Exchange’s rule proposal to establish new membership, member firm conduct, and equity trading rules that were based on the existing NYSE rules to reflect that equities trading on the Exchange would be supported by the NYSE’s trading system. See Securities Exchange Act Release No. 58705 (Oct. 1, 2008), 73 FR 58995 (Oct. 8, 2008) (SR-Amex-2008-63) (approval order). Because the Exchange’s rules are based on the existing NYSE rules, the Exchange believes that pre-October 1, 2008 NYSE rule filings provide guidance concerning Exchange equity rules. See Securities Exchange Act Release No. 54577 (Oct. 5, 2006), 71 FR 60208, 60210 -11 (Oct. 12, 2006) (SR-NYSE-2006-36) (“Pegging Approval Order”) (order approving, among other things, introduction of pegging functionality for Floor brokers, including “if the Exchange best bid is higher than the ceiling price of a pegging buy-side e-Quote or d-Quote, the e-Quote or d-Quote would remain at its quote price *or the highest price at which there is other interest within its pegging price range*, whichever is higher (consistent with the limit price of the order underlying the e-Quote or d-Quote). Similarly, if the Exchange best offer is lower than the floor price of a pegging sell-side e-Quote or d-Quote, the e-Quote or d-Quote would remain at its quote price *or the lowest price at which there is other interest within its pegging price range*, whichever is lower (consistent with the limit price of the order underlying the e-Quote or d-Quote).” (emphasis added)).

interest available within the range of the pegging interest.⁸ In 2011, the Exchange amended the rule governing pegging interest to make a non-substantive change to the rule text to use the term “next available best-priced non-pegging interest” to describe the highest (lowest) priced interest in the Exchange Book or a protected bid or offer on an away market to which pegging interest to buy (sell) could peg.⁹ Accordingly, the next available best-priced interest for pegging interest to buy (sell) is the next highest (lowest)-priced buy (sell) interest within Exchange systems or an away market protected quote that is available for an execution at any given time. That interest could be same-side non-marketable displayable interest or same-side non-marketable non-displayable interest.

Taking the above example, assume that the next price points on the Exchange’s book priced below the \$10.01 PBB are a Non-Display Reserve Order to buy 100 for \$9.99 and a Limit Order to buy 100 for \$9.98. Because the Non-Display Reserve Order is the next available best-priced interest within the specified price range, the pegging interest would peg to the \$9.99 price of the Non-Display Reserve Order.

⁸ See Securities Exchange Act Release No. 59022 (Nov. 26, 2008), 73 FR 73683 (Dec. 3, 2008) (SR-NYSEALTR-2008-10) (introducing Non-Display Reserve Orders).

⁹ See Securities Exchange Act Release No. 66032 (Dec. 22, 2011), 76 FR 82009 (Dec. 29, 2011) (SR-NYSEAmex-2011-99) (“Because the next available best-priced non-pegging interest may be on an away market, the Exchange further proposes to amend paragraph (vii) to Supplementary Material .26 to specify that the non-pegging interest against which pegging interest pegs may either be available on the Exchange or may be a protected bid or offer on an away market.”) (“2011 Pegging Filing”); see also Securities Exchange Act Release No. 68305 (Nov. 28, 2012), 77 FR 71853, 71857 (Dec. 4, 2012) (SR-NYSEMKT-2012-67) (amending Exchange rule governing pegging to, among other things, consolidate rule text from separate parts of the then-existing rule in a streamlined format, including use of the term “next available best-priced interest”) (“2012 Pegging Filing”).

Proposed Rule Change

The Exchange proposes to revise its rule to limit the type of interest to which pegging interest would peg if the PBBO is not within the specified price range of the pegging interest. As proposed, if the PBBO is not within the specified price range, the pegging interest would only peg to the next available best-priced displayable interest. The term “displayable” is defined in Rule 72(a)(i) as that portion of interest that could be published as, or as part of, the Exchange BBO and includes non-marketable odd-lot and round-lot orders.

Using the above example, under the proposed change, the pegging interest to buy would instead peg to the Limit Order to buy for \$9.98, and not the higher-priced Non-Display Reserve Order to buy for \$9.99.

The Exchange also proposes to make a conforming change to paragraph (c)(1) of Rule 13 to provide that if pegging interest would peg to a price that is locking or crossing the Exchange best bid or offer, the pegging interest would instead peg to the next available best-priced displayable interest that would not lock or cross the Exchange best bid or offer.

Currently, under any circumstance when pegging interest cannot peg to the PBBO, whether because of a price restriction or if the PBBO does not meet a minimum size designation, pegging interest pegs instead to the next available best-priced interest. For example, pursuant to paragraph (c)(5) of Rule 13 governing pegging interest, the Exchange offers an optional feature whereby pegging interest may be designated with a minimum size of same-side volume to which such pegging interest would peg. If the PBBO does not meet the optional minimum size designation, the pegging interest pegs to the next available best-priced interest, without regard to

size.¹⁰ Accordingly, the Exchange also proposes to make a related change to current paragraph (c)(5) (which is being renumbered as paragraph (b)(4)) to

- specify that, if the PBBO does not meet a minimum size requirement specified by the pegging interest, the pegging interest pegs to the next available best-priced interest, without regard to size, and
- modify current functionality so that only displayable interest may be pegged to in such circumstances.¹¹

The Exchange also proposes non-substantive amendments to delete references to “reserved” paragraphs of the rule and renumber the rule accordingly.

Because of the technology changes associated with this proposed rule change, the Exchange will announce by Trader Update when this change will be implemented, which will be within 30 days of the effective date of this filing.

¹⁰ When the NYSE adopted this feature in 2006, it only considered the NYSE BBO for purposes of determining whether the size condition was met, and specifically excluded pegging interest that was pegging to the NYSE BBO. See Pegging Approval Order, supra, n. 7 at 60211. The Exchange now evaluates the minimum size requirement based on the PBBO instead of the Exchange BBO. See 2012 Pegging Filing, supra, n. 9 at 71858.

¹¹ The Exchange also proposes to delete the clause “which may not be the PBB or PBO” in current paragraph (c)(5), which is rule text that related to when primary pegging interest had an optional offset feature, in which case the minimum quantity would not have been evaluated against the PBBO because primary pegging interest with an offset would not have pegged to the PBBO. The Exchange did not implement the offset functionality and previously filed a rule change to delete the rule text relating to the optional offset. See Securities Exchange Act Release No. 71898 (April 8, 2014), 79 FR 20957 (April 14, 2014) (SR-NYSEMKT-2014-27) (amending rules governing pegging interest to conform to functionality that is available at the Exchange).

2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act,¹² in general, and furthers the objectives of Section 6(b)(5),¹³ 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. Specifically, the proposed change is intended to respond to the concern raised by the Commission¹⁴ that the current rule permitting pegging to prices of non-displayable same-side non-marketable interest could potentially allow the user of the pegging interest to ascertain the presence of hidden liquidity at those price levels. Eliminating that functionality to respond to the Commission concern (along with conforming changes in the relevant rule) is, therefore, consistent with the Act. Similarly, the Exchange believes that specifying in its rules how the Exchange treats pegging interest that cannot peg to the PBBO, whether because of a price or size restriction, would remove impediments to and perfect the mechanism of a free and open market because it would provide transparency regarding the Exchange's pegging functionality.

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

¹² 15 U.S.C. 78f(b).

¹³ 15 U.S.C. 78f(b)(5).

¹⁴ See Securities Exchange Act Release No. 74298 (Feb. 18, 2015), 80 FR 9770, 9772-73 (Feb. 24, 2015) (SR-NYSEMKT-2014-95) (Order instituting proceedings to determine whether to approve or disapprove a proposed rule change to Rule 13).

proposed change is not intended to address any competitive issues but rather to specify and amend the functionality associated with pegging interest to respond to concerns raised regarding current functionality.

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

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act¹⁵ and Rule 19b-4(f)(6) thereunder.¹⁶ 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 prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6)(iii) thereunder.¹⁷

A proposed rule change filed under Rule 19b-4(f)(6)¹⁸ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),¹⁹ the Commission may designate a shorter time if such action is consistent with

¹⁵ 15 U.S.C. 78s(b)(3)(A)(iii).

¹⁶ 17 CFR 240.19b-4(f)(6).

¹⁷ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

¹⁸ 17 CFR 240.19b-4(f)(6).

¹⁹ 17 CFR 240.19b-4(f)(6)(iii).

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 asserts that such a waiver is consistent with the protection of investors and the public interest because it would permit the Exchange to implement the proposed change as soon as the technology supporting the change is available, because it would respond to the Commission concerns that the current rule could potentially allow the user of pegging interest to ascertain the presence of hidden liquidity, and because it would provide transparency regarding the pegging functionality. The Commission believes that waiver of the operative delay is consistent with the protection of investors and the public interest. Accordingly, the Commission hereby waives the 30-day operative delay and designates the proposal operative upon filing.²⁰

At any time within 60 days of the filing of such 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.²¹

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

²⁰ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²¹ 15 U.S.C. 78s(b)(3)(C).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NYSEMKT-2015-19 on the subject line.

Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSEMKT-2015-19. 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 will also be available for inspection and copying at the NYSE's principal office and on its Internet website at www.nyse.com. 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-2015-19 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.²²

Brent J. Fields
Secretary

²² 17 CFR 200.30-3(a)(59).