NYSE

June 11 2018

<u>**VIA E-MAIL**</u>

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: <u>SR-NYSE-2018-26</u>

Dear Mr. Fields:

NYSE LLC, Inc. filed the attached Amendment No. 1 to the above-referenced filing on June 8, 2018.

Sincerely,

(Encl. Amendment No. 1 to SR-NYSE-2018-26)

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 39	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2018 - * 26
		Amendment No. (req. for Amendments *) 1

Filing by   New York Stock Exchange LLC

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * ☐	Amendment * ☑	Withdrawal ☐	Section 19(b)(2) * ☑	Section 19(b)(3)(A) * ☐	Section 19(b)(3)(B) * ☐

Rule

Pilot ☐	Extension of Time Period for Commission Action * ☐	Date Expires *		19b-4(f)(1) ☐ 19b-4(f)(4) ☐ 19b-4(f)(2) ☐ 19b-4(f)(5) ☐ 19b-4(f)(3) ☐ 19b-4(f)(6) ☐

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * ☐ Section 806(e)(2) * ☐	Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐   Exhibit 3 Sent As Paper Document ☐

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name *	Clare	Last Name *	Saperstein

Title *   Associate General Counsel

E-mail *   ████████████

Telephone *   ████████   Fax   ████████

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title *)

Date   06/08/2018

By   David De Gregorio   Senior Counsel

(Name *)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

David DeGregorio,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information *

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document
☐

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document
☐

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1.   Text of the Proposed Rule Change

    (a)   Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] New York Stock Exchange LLC ("NYSE" or the "Exchange") proposes to amend Pillar trading platform Rule 7.31 relating to Reserve Orders and Rule 7.36 relating to Setter Priority. This Amendment No. 1 supersedes the original filing in its entirety.

        A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1, and the text of the proposed rule change is attached as Exhibit 5.

    (b)   The Exchange does not believe that the proposed rule change will have any direct effect, or any significant indirect effect, on any other Exchange rule in effect at the time of this filing.

    (c)   Not applicable.

2.   Procedures of the Self-Regulatory Organization

Senior management has approved the proposed rule change pursuant to authority delegated to it by the Board of the Exchange. No further action by the Board of Directors or the membership of the Exchange is required. Therefore, the Exchange's internal procedures with respect to the proposed change are complete.

The person on the Exchange staff prepared to respond to questions and comments on the proposed rule change is:

<div align="center">

Clare F. Saperstein
Associate General Counsel
NYSE Group, Inc.

</div>

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

    (a)   Purpose

The Exchange proposes to amend Rule 7.31 relating to Reserve Orders and Rule 7.36 relating to Setter Priority. These proposed changes would be operative for trading on the Pillar trading platform only. Because the Exchange trades only

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[1]   15 U.S.C. 78s(b)(1).

[2]   17 CFR 240.19b-4.

UTP Securities[3] on the Pillar trading platform at this time, these proposed changes would not be applicable to NYSE-listed securities.

Background

Rule 7.31(d)(1) defines a Reserve Order as a Limit Order with a quantity of the size displayed and with a reserve quantity of the size ("reserve interest") that is not displayed. The displayed quantity of a Reserve Order is ranked Priority 2 - Display Orders and the reserve interest is ranked Priority 3 - Non-Display Orders.[4] Rule 7.31(d)(1)(A) provides that on entry, the display quantity of a Reserve Order must be entered in round lots and the displayed portion of a Reserve Order will be replenished following any execution. That rule further provides that the Exchange will display the full size of the Reserve Order when the unfilled quantity is less than the minimum display size for the order. Rule 7.31(d)(1)(B) provides that each time a Reserve Order is replenished from reserve interest, a new working time is assigned to the replenished quantity of the Reserve Order, while the reserve interest retains the working time of original order entry. Pursuant to Rule 7.31(d)(1)(C), a Reserve Order must be designated Day and may be combined with a Limit Non-Routable Order or a Primary Pegged Order.

Rule 7.36(h) provides that Setter Priority will be assigned to an order ranked Priority 2 - Display Orders with a display quantity of at least a round lot if such order (i) establishes a new BBO and (ii) either establishes a new NBBO or joins an Away Market NBBO and that only one order is eligible for Setter Priority at each price.[5] Rule 7.36(h)(1) provides that an order will be evaluated for Setter Priority on arrival, which includes when any portion of an order that has routed returns unexecuted and when it becomes eligible to trade for the first time upon transitioning to a new trading session.

Proposed Rule Change to Reserve Orders

The Exchange proposes to amend Rule 7.31(d)(1) to change the manner by which the display portion of a Reserve Order would be replenished. As proposed, rather than replenishing the display quantity following any execution, the Exchange proposes to replenish the Reserve Order when the display quantity is decremented to below a round lot. This proposed functionality is consistent with how Reserve

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[3]   The term "UTP Securities" is defined in Rule 1.1 to mean a security that is listed on a national securities exchange other than the Exchange and that trades on the Exchange pursuant to unlisted trading privileges.

[4]   The terms "Priority 2 - Display Orders" and "Priority 3 - Non-Display Orders" are defined in Rule 7.36(e).

[5]   The terms "BBO," "NBBO," "PBBO," and "Away Market" are defined in Rule 1.1.

Orders are replenished on other equity exchanges.[6]

As is currently the case, the replenish quantity would be the minimum display size of the order or the remaining quantity of reserve interest if it is less than the minimum display quantity. To reflect this functionality, the Exchange proposes that Rule 7.31(d)(1)(A) would be amended as follows (deleted text bracketed; new text underlined):

> (A) On entry, the display quantity of a Reserve Order must be entered in round lots. The displayed portion of a Reserve Order will be replenished <u>when the display quantity is decremented to below a round lot. The replenish quantity will be the minimum display quantity of the order or the remaining quantity of the reserve interest if it is less than the minimum display quantity</u>[following any execution. The Exchange will display the full size of the Reserve Order when the unfilled quantity is less than the minimum display size for the order].

Under current functionality, because the replenished quantity is assigned a new working time, it is feasible for a single Reserve Order to have multiple replenished quantities with separate working times, each, a "child" order. The proposed change to limit when a Reserve Order would be replenished to when the display quantity is decremented to below a round lot only would reduce the number of child orders for a Reserve Order. The Exchange believes that minimizing the number of child orders for a Reserve Order would reduce the potential for market participants to detect that a child order displayed on the Exchange's proprietary market data feeds is associated with a Reserve Order.

In most cases, the maximum number of child orders for a Reserve Order would be two. For example, assume a Reserve Order to buy has a display quantity of 100 shares and an additional 200 shares of reserve interest. A sell order of 50 shares would trade with the display quantity of such Reserve Order, which would decrement the display quantity to 50 shares. As proposed, the Exchange would then replenish the Reserve Order with 100 shares from the reserve interest, i.e., the minimum display size for the order. After this second replenishment, the Reserve Order would have two child orders, one for 50 shares, the other for 100 shares, each with different working times.

Generally, when there are two child orders, the older child order of less than a round lot will be executed before the second child order. However, there are limited circumstances when a Reserve Order could have two child orders that equal less than a round lot, which, as proposed, would trigger a replenishment. For such circumstance, the Exchange proposes that when a Reserve Order is replenished from reserve interest and already has two child orders that equal less

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[6] See, e.g., Cboe BZX Exchange, Inc. ("BZX") Rule 11.9(c)(1); Nasdaq Stock Market LLC ("Nasdaq") Rule 7503(h).

than a round lot, the child order with the later working time would be reassigned the new working time assigned to the next replenished quantity.

For example, taking the same Reserve Order as above:

- If 100 shares of such order ("A") are routed on arrival, it would have a display quantity of 100 shares ("B") and 100 shares in reserve interest.
- While "A" is routed, a sell order of 50 shares would trade with "B," decrementing "B" to 50 shares and the Reserve Order would be replenished from reserve interest, creating a second child order "C" of 100 shares.
- Next, the Exchange receives a request to reduce the size of the Reserve Order from 300 shares to 230 shares. Because "A" is still routed away and there is no reserve interest, and as described in more detail below, this 70 share reduction in size would be applied against the most recent child order of "C," which would be reduced to 30 shares. Together with "B," which would still be 50 shares, the two displayed child orders would equal less than a round lot, but with no quantity in reserve interest.
- Next, "A" is returned unexecuted, and as described below, becomes reserve interest and is evaluated for replenishment. Because the total display quantity ("B" + "C") is less than a round lot, this Reserve Order would be replenished. But because the Reserve Order already has two child orders, the child order with the later working time, "C," would be returned to the reserve interest, which would now have a quantity of 130 shares ("C" + "A"), and the Reserve Order would be replenished with 100 shares from the reserve interest with a new working time, which would be a new child order "D."
- After this replenishment, this Reserve Order would have two child orders of "B" for 50 shares and "D" for 100 shares, and a reserve interest of 30 shares.

To effect these changes, the Exchange proposes to amend current Rule 7.31(d)(1)(B) to specify that each display quantity of a Reserve Order with a different working time would be referred to as a child order. The Exchange further proposes new Rule 7.31(d)(1)(B)(i) that would provide that when a Reserve Order is replenished from reserve interest and already has two child orders that equal less than a round lot, the child order with the later working time would rejoin the reserve interest and be assigned the new working time assigned to the next replenished quantity.

The Exchange also proposes new Rule 7.31(d)(1)(B)(ii) to provide that if a Reserve Order is not routable (i.e., is combined with either a Limit Non-Routable Order or a Primary Pegged Order), the replenish quantity would be assigned a display and working price consistent with the instructions for the order, which represents current functionality. For example, for a Limit Non-Routable Reserve Order, if the display price would lock or cross the contra-side PBBO, the

replenished quantity would be assigned a display price one MPV worse than the PBBO and a working price equal to the contra-side PBBO, as provided for in Rule 7.31(e)(1)(A)(i). The Exchange believes that this proposed rule text would provide transparency and clarity to Exchange rules.

For a Primary Pegged Reserve Order, the Exchange proposes that the replenished quantity would follow Rule 7.31(h)(2)(B), which provides that a Primary Pegged Order would be rejected if the PBBO is locked or crossed. Because a Primary Pegged Reserve Order would have resting reserve interest, the Exchange proposes to amend Rule 7.31(h)(2)(B) to provide that if the PBBO is locked or crossed when the display quantity of a Primary Pegged Reserve Order is replenished, the entire order would be cancelled. The Exchange believes that cancelling the entire order is consistent with the current rule that provides that the entire order would be rejected on arrival if the display quantity would lock or cross the PBBO.

The Exchange further proposes to add new subsection (D) to Rule 7.31(d)(1) to describe when a Reserve Order would be routed. As proposed, a routable Reserve Order would be evaluated for routing both on arrival and each time the display quantity is replenished.

Proposed Rule 7.31(d)(1)(D)(i) would provide that if routing is required, the Exchange would route from reserve interest before publishing the display quantity. In addition, if after routing, there is less than a round lot available to display, the Exchange would wait until the routed quantity returns (executed or unexecuted) before publishing the display quantity. In the example described above, the Exchange would have published the display quantity before the routed quantity returned because the display quantity was at least a round lot. If, however, 250 shares of a Reserve Order of 300 shares had been routed on arrival, because the unrouted quantity was less than a round lot (50 shares), the Exchange would wait for the routed quantity to return, either executed or unexecuted, before publishing the display quantity.

The Exchange proposes this functionality to reduce the possibility for a Reserve Order to have more than one child order. If the Exchange did not wait, and instead displayed the 50 shares when the balance of the Reserve Order has routed, if the 250 shares returns unexecuted, such Reserve Order would be replenished and would have two child orders - one for the 50 shares that was displayed when the order was entered and a second for the 100 shares that replenished the Reserve Order from the quantity that returned unexecuted. By contrast, by waiting for a report on the routed quantity, if the routed quantity was not executed, the Exchange would display the minimum display quantity as a single child order. If the routed quantity was executed, the Exchange would display the 50 shares, but only because that would be the full remaining quantity of the Reserve Order.

Proposed Rule 7.31(d)(1)(D)(ii) would provide that any quantity of a Reserve Order that is returned unexecuted would join the working time of the reserve

interest, which is current functionality. If there is no quantity of reserve interest to join, the returned quantity would be assigned a new working time as reserve interest. As further proposed, in either case, such reserve interest would replenish the display quantity as provided for in Rules 7.31(d)(1)(A) and (B). The Exchange believes that this proposed rule text would promote transparency and clarity in Exchange rules. The Exchange further believes it is appropriate for a returned quantity of a Reserve Order to join the reserve interest first because the order may not be eligible for a replenishment to the display quantity.

Proposed Rule 7.31(d)(1)(E) would provide that a request to reduce in size a Reserve Order would cancel the reserve interest before canceling the display quantity and if there is more than one child order, the child order with the later working time would be cancelled first. This represents current functionality and the example set forth above demonstrates how this would function. The Exchange believes that canceling reserve interest before a child order would promote the display of liquidity on an exchange. The Exchange further believes that canceling a later-timed child order would respect the time priority of the first child order, and any priority such child order may have for allocations.

Proposed Rule Change for Setter Priority

The Exchange also proposes to expand the opportunity for an order to be eligible for Setter Priority pursuant to Rule 7.36(h)(1). As noted above, currently, an order is eligible for Setter Priority on arrival or when it becomes eligible to trade for the first time when transitioning to a new trading session.

The Exchange first proposes to amend Rule 7.36(h)(1) to specify that an order would not be eligible for Setter Priority if there is an odd-lot sized order with Setter Priority at that price, which is current functionality. Because an odd-lot order cannot establish a BBO, if there is an odd-lot order at a price, an arriving order can get Setter Priority if it establishes the BBO and either joins or establishes the NBBO. However, as set forth in Rule 7.36(h)(2)(A), an order retains Setter Priority if it is decremented to below a round lot. In such case, an arriving order that establishes the BBO and either joins or establishes the NBBO would not be eligible for Setter Priority if there is an odd-lot sized order at that price with Setter Priority. The Exchange believes that the proposed rule text would promote transparency and clarity in Exchange rules.

The Exchange proposes in new Rule 7.36(h)(1)(C) that Setter Priority would be evaluated for a resting order that is assigned a new display price. A resting order could be assigned a new display price for a number of reasons, including because of a change to the PBBO or NBBO (as described in Rule 7.31), pursuant to Rule 7.11(a)(5), or if a Short Sale Period is triggered for a security under Rule 7.16(f). In any repricing scenario, the repriced order would be evaluated for Setter Priority, meaning it would have to meet the requirements of Rule 7.36(h) that it has a display quantity of at least a round lot and (i) establishes a new BBO and (ii)

either establishes a new NBBO or joins an Away Market NBBO. The Exchange believes that if a repriced resting order meets these conditions, it has aggressively displayed liquidity on the Exchange and should be eligible for the additional Setter Priority allocation.

The Exchange proposes to specify what would happen if multiple orders reprice at the same time. As proposed in the second sentence to new Rule 7.36(h)(1)(C), if multiple orders reprice at the same time, none of the orders would be eligible for Setter Priority unless one order is equal to or greater than a round lot and the sum of all other orders at that price is less than a round lot. The other orders at that price could have been resting orders, e.g., odd-lot sized displayed orders, or other repriced orders, or both. The Exchange believes that this proposed change is consistent with how the Exchange evaluates Setter Priority on arrival, which is available for an incoming order of at least a round-lot size that establishes the BBO and either joins or establishes the NBBO, notwithstanding other orders at that price that equal less than a round lot and do not already have Setter Priority.

The Exchange also proposes in new Rule 7.36(h)(1)(D) that a Reserve Order would be evaluated for Setter Priority when the display quantity is replenished. The Exchange proposes this change in conjunction with the proposed changes to Reserve Order replenishment, described above. Because a Reserve Order would be replenished only if the display quantity is decremented to below a round lot, the Exchange believes that a replenishment event should be eligible for Setter Priority if it both establishes a BBO and either joins or establishes the NBBO. If the second child order meets those conditions, such child order would be eligible for Setter Priority even if there is still the first child order of an odd-lot size for such Reserve Order on the Exchange Book. However, consistent with the proposed change to Rule 7.36(h)(1), if the first child order of the Reserve Order had Setter Priority, the second child order of the Reserve Order would not be eligible for Setter Priority because there is already an order on the Exchange Book at that price with Setter Priority.

The second sentence of proposed Rule 7.36(h)(1)(D) would further provide that during a Short Sale Period under Rule 7.16(f), if a short sale Reserve Order has an odd-lot quantity with Setter Priority and the Permitted Price at which such order would be replenished would be a different price, the replenish quantity would not be eligible for Setter Priority. As set forth in Rule 7.16(f)(5)(B), reserve interest that replenishes the displayed quantity of a Reserve Order will be replenished at a Permitted Price. Even though the second child order would be at a different price and would otherwise meet the conditions for Setter Priority, the Exchange believes that a Reserve Order should not be eligible for Setter Priority at more than one price.

For example, during a Short Sale Period,

- If the NBB is 10.00, a short sale Reserve Order priced at 10.01 would be

displayed at 10.01. If that short sale Reserve Order established the BO
and either joined or established the NBO, it would be assigned Setter
Priority.

- If the NBB subsequently changes to 10.01, pursuant to Rule 7.16(f)(6), the
display quantity of the Reserve Order would remain displayed at 10.01,
but the reserve interest would be repriced to the Permitted Price of 10.02.

- If next, the display quantity at 10.01 is reduced to below a round lot, such
child order would retain Setter Priority. In addition, the Reserve Order
would be replenished at 10.02, which is the Permitted Price. However, as
proposed, even if the child order at 10.02 would establish a new BO and
either joined or established a new NBO, because it is part of the same
Reserve Order, it would not be eligible to Setter Priority at the Permitted
Price.

Finally, the Exchange proposes to amend Rule 7.36(h)(3)(C), which provides that
an order loses its Setter Priority if such order is less than a round lot and is
assigned a new working time pursuant to Rule 7.38(d)(2). To reflect the proposed
change to Reserve Orders described above that a child order could be assigned a
new working time, the Exchange proposes that if child order of a Reserve Order
with Setter Priority is assigned a new working time, it would lose that priority.
However, when it joins the reserve interest and replenishes the Reserve Order,
pursuant to proposed Rule 7.36(h)(1)(D), the new child order would be evaluated
for Setter Priority. For example:

- If the Away Market PBB is 10.05 and the Exchange receives a Reserve
Order to buy priced at 10.00 with 100 shares minimum display quantity
and an additional 1000 shares in reserve interest, the child order "A" of
100 shares would be displayed at 10.00, but would not be eligible for
Setter Priority.

- If the Away Market PBB adjusts to 9.99 and the Exchange receives a sell
order with a limit price of 10.00 for 70 shares, "A" would be decremented
to 30 shares and the Reserve Order would be replenished with a new child
order "B" for 100 shares. Because "B" would establish a new BB on the
Exchange and a new NBB, it would be assigned Setter Priority.

- If next, the Exchange receives an order to sell 90 shares at 10.00, because
"B" has Setter Priority, it would trade with the new order to sell and would
decremented to 10 shares, but still retain Setter Priority.

- Because "A" and "B" equal less than a round lot, the Reserve Order will
be replenished. But because "B" would lose its working time and join the
reserve interest pursuant to proposed Rule 7.31(d)(1)(B), "B" would also
lose its Setter Priority pursuant to proposed Rule 7.36(h)(3)(C). A new
child order "C" would replenish the order for 100 shares.

- In this case, because "C" would again establish the BB on the Exchange
and the NBB, "C" would be assigned Setter Priority for 100 shares.

Finally, the Exchange proposes to amend Rule 7.36(h)(4) to delete sub-paragraph

(B) of that Rule, which provides that Setter Priority is not available when the reserve quantity replenishes the display quantity of a Reserve Order. The Exchange proposes to re-number the rule text so that Rule 7.36(h)(4) provides that Setter Priority is not available for any portion of an order that is ranked Priority 3 - Non-Display Orders, which is currently set forth in sub-paragraph (A).

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Because of the technology changes associated with this proposed rule change, the Exchange will announce by Trader Update when these changes will be implemented.

(b)   Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act"),[7] in general, and furthers the objectives of Section 6(b)(5),[8] 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 that the proposed rule change to replenish a Reserve Order only if the display quantity is decremented to below a round lot would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would reduce the number of child orders associated with a single Reserve Order. By reducing the number of child orders, the Exchange believes it would reduce the potential for market participants to detect that a child order is associated with a Reserve Order. This proposed functionality is also consistent with how Reserve Orders function on BZX and Nasdaq.

For similar reasons, the Exchange believes that if a Reserve Order has two child orders that equal less than a round lot, it would remove impediments to and perfect the mechanism of a free and open market and a national market system to assign a new working time to the later child order so that when such Reserve Order is replenished, it would have a maximum of only two child orders. The Exchange believes that this proposed change would streamline the operation of Reserve Orders and meet the objective to reduce the potential for market participants to be able to identify that a child order is associated with a Reserve Order.

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[7]   15 U.S.C. 78f(b).

[8]   15 U.S.C. 78f(b)(5).

The Exchange further believes that the proposed rule change to evaluate a Reserve Order for routing both on arrival and when replenishing would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would reduce the potential for the display quantity of a Reserve Order to lock or cross the PBBO of an away market. The Exchange further believes that routing from reserve interest would promote the display of liquidity on the Exchange, because if there is at least a round lot remaining of a Reserve Order that is not routed, the Exchange would display that quantity. The Exchange also believes that it would remove impediments to and perfect the mechanism of a free and open market and a national market system to wait to display a Reserve Order if there is less than a round lot remaining after routing because it would reduce the potential for such Reserve Order to have more than one child order. Finally, the Exchange believes that joining any quantity of a Reserve Order that is returned unexecuted with reserve interest first would be consistent with the proposed replenishment logic that a Reserve Order would be replenished only if the display quantity is decremented to below a round lot.

The Exchange believes that it would remove impediments to and perfect the mechanism of a free and open market and a national market system to apply a request to reduce in size a Reserve Order to the reserve interest first, and then next to the child order with the later working time, because such functionality would promote the display of liquidity on the Exchange and honor the priority of the first child order with the earlier working time. The Exchange believes that including this existing functionality in Rule 7.31 would promote transparency and clarity in Exchange rules.

The Exchange believes that the proposed change to Primary Pegged Reserve Orders would remove impediments to and perfect the mechanism of a free and open market and a national market system because similar to how a Primary Pegged Order would function on arrival, if the replenish quantity of a Primary Pegged Reserve Order would lock or cross the PBBO, the entire Reserve Order would be cancelled. The Exchange believes that by cancelling the entire order, the Exchange would reduce the potential for such order to be displayed at a price that would lock or cross the PBBO.

The Exchange believes that the proposed changes to Rule 7.36 relating to Setter Priority would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would provide for additional circumstances when an order would be eligible to be evaluated for Setter Priority. The Exchange believes that a resting order that is repriced or a Reserve Order that is replenished should be entitled to Setter Priority if it meets the existing conditions for Setter Priority, including that it is at least a round lot in size, establishes the BBO, and either establishes or joins the NBBO. In these circumstances, a repriced order or replenished Reserve Order would be promoting

the aggressive display of liquidity on the Exchange, which would benefit all market participants.

The Exchange believes that the proposed changes to Setter Priority are designed to operate consistently with the existing functionality, which is why multiple orders that reprice would not be eligible for Setter Priority, unless one order is equal to a round lot or more and the sum of all other orders at that price equal less than a round lot. Similarly, the Exchange believes that it would remove impediments to and perfect the mechanism of a free and open market and a national market system for a Reserve Order to be eligible for Setter Priority at only one price, and therefore, during a Short Sale Period, if a Reserve Order is replenished at a Permitted Price, it would not be eligible for Setter Priority at a second price level.

Finally, the Exchange believes that the proposed amendment to Rule 7.37(h)(3)(C) to add that an order would lose Setter Priority if it is less than a round lot and assigned a new working time pursuant to proposed Rule 7.31(d)(1)(B)(i) is consistent with current behavior that an odd-lot sized order would lose Setter Priority if it is assigned a new working time. The Exchange believes that it would remove impediments to and perfect the mechanism of a free and open market and a national market system for a Reserve Order to lose Setter Priority in such circumstances because when it is assigned a new working time, it would be eligible to be reevaluated for Setter Priority.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is not designed to address any competitive issues. Rather, the proposed rule change to Reserve Orders is designed to reduce the potential for market participants to identify that a child order is related to a Reserve Order. The changes to Setter Priority are designed to promote the aggressive display of liquidity on the Exchange to provide additional circumstances when an order would be eligible for Setter Priority, consistent with current rules.

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

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

6.   Extension of Time Period for Commission Action

The Exchange does not consent at this time to an extension of any time period for Commission action.

7. <u>Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)</u>

    Not applicable.

8. <u>Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission</u>

    The proposed change to replenish a Reserve Order only if the display quantity decrements to below a round lot is based in part on BZX Rule 11.9(c)(1) and Nasdaq Rule 7503(h).

9. <u>Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act</u>

    Not applicable.

10. <u>Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act</u>

    Not applicable.

11. <u>Exhibits</u>

    Exhibit 1 – Form of Notice of Proposed Rule Change for <u>Federal</u> <u>Register</u>

    Exhibit 4 - Proposed Rule Text Marked to Show Changes to Exhibit 5 Made in Amendment No. 1

    Exhibit 5 – Text of Proposed Rule Change

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-   ; File No. SR-NYSE-2018-26, Amendment No. 1)

[Date]

Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing of Proposed Rule Change to Amend Pillar trading Platform Rule 7.31 Relating to Reserve Orders and Rule 7.36 relating to Setter Priority

Pursuant to Section 19(b)(1)[1] of the Securities Exchange Act of 1934 (the "Act")[2] and Rule 19b-4 thereunder,[3] notice is hereby given that, on June 8, 2018, New York Stock Exchange LLC ("NYSE" or the "Exchange") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I, II, and III 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 Pillar trading platform Rule 7.31 relating to Reserve Orders and Rule 7.36 relating to Setter Priority. This Amendment No. 1 supersedes the original filing in its entirety. 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.

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[1]   15 U.S.C.78s(b)(1).

[2]   15 U.S.C. 78a.

[3]   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 Exchange proposes to amend Rule 7.31 relating to Reserve Orders and Rule

7.36 relating to Setter Priority. These proposed changes would be operative for trading

on the Pillar trading platform only. Because the Exchange trades only UTP Securities[4]

on the Pillar trading platform at this time, these proposed changes would not be

applicable to NYSE-listed securities.

Background

        Rule 7.31(d)(1) defines a Reserve Order as a Limit Order with a quantity of the

size displayed and with a reserve quantity of the size ("reserve interest") that is not

displayed. The displayed quantity of a Reserve Order is ranked Priority 2 - Display

Orders and the reserve interest is ranked Priority 3 - Non-Display Orders.[5] Rule

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[4]   The term "UTP Securities" is defined in Rule 1.1 to mean a security that is listed
        on a national securities exchange other than the Exchange and that trades on the
        Exchange pursuant to unlisted trading privileges.

[5]   The terms "Priority 2 - Display Orders" and "Priority 3 - Non-Display Orders" are
        defined in Rule 7.36(e).

7.31(d)(1)(A) provides that on entry, the display quantity of a Reserve Order must be entered in round lots and the displayed portion of a Reserve Order will be replenished following any execution. That rule further provides that the Exchange will display the full size of the Reserve Order when the unfilled quantity is less than the minimum display size for the order. Rule 7.31(d)(1)(B) provides that each time a Reserve Order is replenished from reserve interest, a new working time is assigned to the replenished quantity of the Reserve Order, while the reserve interest retains the working time of original order entry. Pursuant to Rule 7.31(d)(1)(C), a Reserve Order must be designated Day and may be combined with a Limit Non-Routable Order or a Primary Pegged Order.

Rule 7.36(h) provides that Setter Priority will be assigned to an order ranked Priority 2 - Display Orders with a display quantity of at least a round lot if such order (i) establishes a new BBO and (ii) either establishes a new NBBO or joins an Away Market NBBO and that only one order is eligible for Setter Priority at each price.[6] Rule 7.36(h)(1) provides that an order will be evaluated for Setter Priority on arrival, which includes when any portion of an order that has routed returns unexecuted and when it becomes eligible to trade for the first time upon transitioning to a new trading session.

Proposed Rule Change to Reserve Orders

The Exchange proposes to amend Rule 7.31(d)(1) to change the manner by which the display portion of a Reserve Order would be replenished. As proposed, rather than replenishing the display quantity following any execution, the Exchange proposes to replenish the Reserve Order when the display quantity is decremented to below a round lot. This proposed functionality is consistent with how Reserve Orders are replenished

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6   The terms "BBO," "NBBO," "PBBO," and "Away Market" are defined in Rule 1.1.

on other equity exchanges.[7]

As is currently the case, the replenish quantity would be the minimum display size of the order or the remaining quantity of reserve interest if it is less than the minimum display quantity. To reflect this functionality, the Exchange proposes that Rule 7.31(d)(1)(A) would be amended as follows (deleted text bracketed; new text underlined):

(A) On entry, the display quantity of a Reserve Order must be entered in round lots. The displayed portion of a Reserve Order will be replenished when the display quantity is decremented to below a round lot. The replenish quantity will be the minimum display quantity of the order or the remaining quantity of the reserve interest if it is less than the minimum display quantity[following any execution. The Exchange will display the full size of the Reserve Order when the unfilled quantity is less than the minimum display size for the order].

Under current functionality, because the replenished quantity is assigned a new working time, it is feasible for a single Reserve Order to have multiple replenished quantities with separate working times, each, a "child" order. The proposed change to limit when a Reserve Order would be replenished to when the display quantity is decremented to below a round lot only would reduce the number of child orders for a Reserve Order. The Exchange believes that minimizing the number of child orders for a Reserve Order would reduce the potential for market participants to detect that a child order displayed on the Exchange's proprietary market data feeds is associated with a Reserve Order.

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[7]   See, e.g., Cboe BZX Exchange, Inc. ("BZX") Rule 11.9(c)(1); Nasdaq Stock Market LLC ("Nasdaq") Rule 7503(h).

In most cases, the maximum number of child orders for a Reserve Order would be two. For example, assume a Reserve Order to buy has a display quantity of 100 shares and an additional 200 shares of reserve interest. A sell order of 50 shares would trade with the display quantity of such Reserve Order, which would decrement the display quantity to 50 shares. As proposed, the Exchange would then replenish the Reserve Order with 100 shares from the reserve interest, i.e., the minimum display size for the order. After this second replenishment, the Reserve Order would have two child orders, one for 50 shares, the other for 100 shares, each with different working times.

Generally, when there are two child orders, the older child order of less than a round lot will be executed before the second child order. However, there are limited circumstances when a Reserve Order could have two child orders that equal less than a round lot, which, as proposed, would trigger a replenishment. For such circumstance, the Exchange proposes that when a Reserve Order is replenished from reserve interest and already has two child orders that equal less than a round lot, the child order with the later working time would be reassigned the new working time assigned to the next replenished quantity.

For example, taking the same Reserve Order as above:

- If 100 shares of such order ("A") are routed on arrival, it would have a display quantity of 100 shares ("B") and 100 shares in reserve interest.

- While "A" is routed, a sell order of 50 shares would trade with "B," decrementing "B" to 50 shares and the Reserve Order would be replenished from reserve interest, creating a second child order "C" of 100 shares.

- Next, the Exchange receives a request to reduce the size of the Reserve Order

from 300 shares to 230 shares. Because "A" is still routed away and there is no reserve interest, and as described in more detail below, this 70 share reduction in size would be applied against the most recent child order of "C," which would be reduced to 30 shares. Together with "B," which would still be 50 shares, the two displayed child orders would equal less than a round lot, but with no quantity in reserve interest.

- Next, "A" is returned unexecuted, and as described below, becomes reserve interest and is evaluated for replenishment. Because the total display quantity ("B" + "C") is less than a round lot, this Reserve Order would be replenished. But because the Reserve Order already has two child orders, the child order with the later working time, "C," would be returned to the reserve interest, which would now have a quantity of 130 shares ("C" + "A"), and the Reserve Order would be replenished with 100 shares from the reserve interest with a new working time, which would be a new child order "D."

- After this replenishment, this Reserve Order would have two child orders of "B" for 50 shares and "D" for 100 shares, and a reserve interest of 30 shares.

To effect these changes, the Exchange proposes to amend current Rule 7.31(d)(1)(B) to specify that each display quantity of a Reserve Order with a different working time would be referred to as a child order. The Exchange further proposes new Rule 7.31(d)(1)(B)(i) that would provide that when a Reserve Order is replenished from reserve interest and already has two child orders that equal less than a round lot, the child order with the later working time would rejoin the reserve interest and be assigned the new working time assigned to the next replenished quantity.

The Exchange also proposes new Rule 7.31(d)(1)(B)(ii) to provide that if a Reserve Order is not routable (i.e., is combined with either a Limit Non-Routable Order or a Primary Pegged Order), the replenish quantity would be assigned a display and working price consistent with the instructions for the order, which represents current functionality. For example, for a Limit Non-Routable Reserve Order, if the display price would lock or cross the contra-side PBBO, the replenished quantity would be assigned a display price one MPV worse than the PBBO and a working price equal to the contra-side PBBO, as provided for in Rule 7.31(e)(1)(A)(i). The Exchange believes that this proposed rule text would provide transparency and clarity to Exchange rules.

For a Primary Pegged Reserve Order, the Exchange proposes that the replenished quantity would follow Rule 7.31(h)(2)(B), which provides that a Primary Pegged Order would be rejected if the PBBO is locked or crossed. Because a Primary Pegged Reserve Order would have resting reserve interest, the Exchange proposes to amend Rule 7.31(h)(2)(B) to provide that if the PBBO is locked or crossed when the display quantity of a Primary Pegged Reserve Order is replenished, the entire order would be cancelled. The Exchange believes that cancelling the entire order is consistent with the current rule that provides that the entire order would be rejected on arrival if the display quantity would lock or cross the PBBO.

The Exchange further proposes to add new subsection (D) to Rule 7.31(d)(1) to describe when a Reserve Order would be routed. As proposed, a routable Reserve Order would be evaluated for routing both on arrival and each time the display quantity is replenished.

Proposed Rule 7.31(d)(1)(D)(i) would provide that if routing is required, the

Exchange would route from reserve interest before publishing the display quantity. In addition, if after routing, there is less than a round lot available to display, the Exchange would wait until the routed quantity returns (executed or unexecuted) before publishing the display quantity. In the example described above, the Exchange would have published the display quantity before the routed quantity returned because the display quantity was at least a round lot. If, however, 250 shares of a Reserve Order of 300 shares had been routed on arrival, because the unrouted quantity was less than a round lot (50 shares), the Exchange would wait for the routed quantity to return, either executed or unexecuted, before publishing the display quantity.

The Exchange proposes this functionality to reduce the possibility for a Reserve Order to have more than one child order. If the Exchange did not wait, and instead displayed the 50 shares when the balance of the Reserve Order has routed, if the 250 shares returns unexecuted, such Reserve Order would be replenished and would have two child orders - one for the 50 shares that was displayed when the order was entered and a second for the 100 shares that replenished the Reserve Order from the quantity that returned unexecuted. By contrast, by waiting for a report on the routed quantity, if the routed quantity was not executed, the Exchange would display the minimum display quantity as a single child order. If the routed quantity was executed, the Exchange would display the 50 shares, but only because that would be the full remaining quantity of the Reserve Order.

Proposed Rule 7.31(d)(1)(D)(ii) would provide that any quantity of a Reserve Order that is returned unexecuted would join the working time of the reserve interest, which is current functionality. If there is no quantity of reserve interest to join, the

returned quantity would be assigned a new working time as reserve interest. As further proposed, in either case, such reserve interest would replenish the display quantity as provided for in Rules 7.31(d)(1)(A) and (B). The Exchange believes that this proposed rule text would promote transparency and clarity in Exchange rules. The Exchange further believes it is appropriate for a returned quantity of a Reserve Order to join the reserve interest first because the order may not be eligible for a replenishment to the display quantity.

Proposed Rule 7.31(d)(1)(E) would provide that a request to reduce in size a Reserve Order would cancel the reserve interest before canceling the display quantity and if there is more than one child order, the child order with the later working time would be cancelled first. This represents current functionality and the example set forth above demonstrates how this would function. The Exchange believes that canceling reserve interest before a child order would promote the display of liquidity on an exchange. The Exchange further believes that canceling a later-timed child order would respect the time priority of the first child order, and any priority such child order may have for allocations.

Proposed Rule Change for Setter Priority

The Exchange also proposes to expand the opportunity for an order to be eligible for Setter Priority pursuant to Rule 7.36(h)(1). As noted above, currently, an order is eligible for Setter Priority on arrival or when it becomes eligible to trade for the first time when transitioning to a new trading session.

The Exchange first proposes to amend Rule 7.36(h)(1) to specify that an order would not be eligible for Setter Priority if there is an odd-lot sized order with Setter Priority at that price, which is current functionality. Because an odd-lot order cannot

establish a BBO, if there is an odd-lot order at a price, an arriving order can get Setter

Priority if it establishes the BBO and either joins or establishes the NBBO. However, as

set forth in Rule 7.36(h)(2)(A), an order retains Setter Priority if it is decremented to

below a round lot. In such case, an arriving order that establishes the BBO and either

joins or establishes the NBBO would not be eligible for Setter Priority if there is an odd-

lot sized order at that price with Setter Priority. The Exchange believes that the proposed

rule text would promote transparency and clarity in Exchange rules.

The Exchange proposes in new Rule 7.36(h)(1)(C) that Setter Priority would be

evaluated for a resting order that is assigned a new display price. A resting order could

be assigned a new display price for a number of reasons, including because of a change to

the PBBO or NBBO (as described in Rule 7.31), pursuant to Rule 7.11(a)(5), or if a Short

Sale Period is triggered for a security under Rule 7.16(f). In any repricing scenario, the

repriced order would be evaluated for Setter Priority, meaning it would have to meet the

requirements of Rule 7.36(h) that it has a display quantity of at least a round lot and (i)

establishes a new BBO and (ii) either establishes a new NBBO or joins an Away Market

NBBO. The Exchange believes that if a repriced resting order meets these conditions, it

has aggressively displayed liquidity on the Exchange and should be eligible for the

additional Setter Priority allocation.

The Exchange proposes to specify what would happen if multiple orders reprice at

the same time. As proposed in the second sentence to new Rule 7.36(h)(1)(C), if multiple

orders reprice at the same time, none of the orders would be eligible for Setter Priority

unless one order is equal to or greater than a round lot and the sum of all other orders at

that price is less than a round lot.   The other orders at that price could have been resting

orders, e.g., odd-lot sized displayed orders, or other repriced orders, or both. The Exchange believes that this proposed change is consistent with how the Exchange evaluates Setter Priority on arrival, which is available for an incoming order of at least a round-lot size that establishes the BBO and either joins or establishes the NBBO, notwithstanding other orders at that price that equal less than a round lot and do not already have Setter Priority.

The Exchange also proposes in new Rule 7.36(h)(1)(D) that a Reserve Order would be evaluated for Setter Priority when the display quantity is replenished. The Exchange proposes this change in conjunction with the proposed changes to Reserve Order replenishment, described above. Because a Reserve Order would be replenished only if the display quantity is decremented to below a round lot, the Exchange believes that a replenishment event should be eligible for Setter Priority if it both establishes a BBO and either joins or establishes the NBBO. If the second child order meets those conditions, such child order would be eligible for Setter Priority even if there is still the first child order of an odd-lot size for such Reserve Order on the Exchange Book. However, consistent with the proposed change to Rule 7.36(h)(1), if the first child order of the Reserve Order had Setter Priority, the second child order of the Reserve Order would not be eligible for Setter Priority because there is already an order on the Exchange Book at that price with Setter Priority.

The second sentence of proposed Rule 7.36(h)(1)(D) would further provide that during a Short Sale Period under Rule 7.16(f), if a short sale Reserve Order has an odd-lot quantity with Setter Priority and the Permitted Price at which such order would be replenished would be a different price, the replenish quantity would not be eligible for

Setter Priority. As set forth in Rule 7.16(f)(5)(B), reserve interest that replenishes the displayed quantity of a Reserve Order will be replenished at a Permitted Price. Even though the second child order would be at a different price and would otherwise meet the conditions for Setter Priority, the Exchange believes that a Reserve Order should not be eligible for Setter Priority at more than one price.

For example, during a Short Sale Period,

- If the NBB is 10.00, a short sale Reserve Order priced at 10.01 would be displayed at 10.01. If that short sale Reserve Order established the BO and either joined or established the NBO, it would be assigned Setter Priority.

- If the NBB subsequently changes to 10.01, pursuant to Rule 7.16(f)(6), the display quantity of the Reserve Order would remain displayed at 10.01, but the reserve interest would be repriced to the Permitted Price of 10.02.

- If next, the display quantity at 10.01 is reduced to below a round lot, such child order would retain Setter Priority. In addition, the Reserve Order would be replenished at 10.02, which is the Permitted Price. However, as proposed, even if the child order at 10.02 would establish a new BO and either joined or established a new NBO, because it is part of the same Reserve Order, it would not be eligible to Setter Priority at the Permitted Price.

Finally, the Exchange proposes to amend Rule 7.36(h)(3)(C), which provides that an order loses its Setter Priority if such order is less than a round lot and is assigned a new working time pursuant to Rule 7.38(d)(2). To reflect the proposed change to Reserve Orders described above that a child order could be assigned a new working time, the Exchange proposes that if child order of a Reserve Order with Setter Priority is

assigned a new working time, it would lose that priority. However, when it joins the

reserve interest and replenishes the Reserve Order, pursuant to proposed Rule

7.36(h)(1)(D), the new child order would be evaluated for Setter Priority. For example:

- If the Away Market PBB is 10.05 and the Exchange receives a Reserve Order to buy priced at 10.00 with 100 shares minimum display quantity and an additional 1000 shares in reserve interest, the child order "A" of 100 shares would be displayed at 10.00, but would not be eligible for Setter Priority.

- If the Away Market PBB adjusts to 9.99 and the Exchange receives a sell order with a limit price of 10.00 for 70 shares, "A" would be decremented to 30 shares and the Reserve Order would be replenished with a new child order "B" for 100 shares. Because "B" would establish a new BB on the Exchange and a new NBB, it would be assigned Setter Priority.

- If next, the Exchange receives an order to sell 90 shares at 10.00, because "B" has Setter Priority, it would trade with the new order to sell and would decremented to 10 shares, but still retain Setter Priority.

- Because "A" and "B" equal less than a round lot, the Reserve Order will be replenished. But because "B" would lose its working time and join the reserve interest pursuant to proposed Rule 7.31(d)(1)(B), "B" would also lose its Setter Priority pursuant to proposed Rule 7.36(h)(3)(C). A new child order "C" would replenish the order for 100 shares.

- In this case, because "C" would again establish the BB on the Exchange and the NBB, "C" would be assigned Setter Priority for 100 shares.

Finally, the Exchange proposes to amend Rule 7.36(h)(4) to delete sub-paragraph

(B) of that Rule, which provides that Setter Priority is not available when the reserve quantity replenishes the display quantity of a Reserve Order. The Exchange proposes to re-number the rule text so that Rule 7.36(h)(4) provides that Setter Priority is not available for any portion of an order that is ranked Priority 3 - Non-Display Orders, which is currently set forth in sub-paragraph (A).

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Because of the technology changes associated with this proposed rule change, the Exchange will announce by Trader Update when these changes will be implemented.

2.   Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act"),[8] in general, and furthers the objectives of Section 6(b)(5),[9] 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 that the proposed rule change to replenish a Reserve Order only if the display quantity is decremented to below a round lot would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would reduce the number of child orders associated with a single Reserve Order. By reducing the number of child orders, the Exchange believes it

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[8]   15 U.S.C. 78f(b).

[9]   15 U.S.C. 78f(b)(5).

would reduce the potential for market participants to detect that a child order is associated with a Reserve Order. This proposed functionality is also consistent with how Reserve Orders function on BZX and Nasdaq.

For similar reasons, the Exchange believes that if a Reserve Order has two child orders that equal less than a round lot, it would remove impediments to and perfect the mechanism of a free and open market and a national market system to assign a new working time to the later child order so that when such Reserve Order is replenished, it would have a maximum of only two child orders. The Exchange believes that this proposed change would streamline the operation of Reserve Orders and meet the objective to reduce the potential for market participants to be able to identify that a child order is associated with a Reserve Order.

The Exchange further believes that the proposed rule change to evaluate a Reserve Order for routing both on arrival and when replenishing would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would reduce the potential for the display quantity of a Reserve Order to lock or cross the PBBO of an away market. The Exchange further believes that routing from reserve interest would promote the display of liquidity on the Exchange, because if there is at least a round lot remaining of a Reserve Order that is not routed, the Exchange would display that quantity. The Exchange also believes that it would remove impediments to and perfect the mechanism of a free and open market and a national market system to wait to display a Reserve Order if there is less than a round lot remaining after routing because it would reduce the potential for such Reserve Order to have more than one child order. Finally, the Exchange believes that joining any quantity

of a Reserve Order that is returned unexecuted with reserve interest first would be consistent with the proposed replenishment logic that a Reserve Order would be replenished only if the display quantity is decremented to below a round lot.

The Exchange believes that it would remove impediments to and perfect the mechanism of a free and open market and a national market system to apply a request to reduce in size a Reserve Order to the reserve interest first, and then next to the child order with the later working time, because such functionality would promote the display of liquidity on the Exchange and honor the priority of the first child order with the earlier working time. The Exchange believes that including this existing functionality in Rule 7.31 would promote transparency and clarity in Exchange rules.

The Exchange believes that the proposed change to Primary Pegged Reserve Orders would remove impediments to and perfect the mechanism of a free and open market and a national market system because similar to how a Primary Pegged Order would function on arrival, if the replenish quantity of a Primary Pegged Reserve Order would lock or cross the PBBO, the entire Reserve Order would be cancelled. The Exchange believes that by cancelling the entire order, the Exchange would reduce the potential for such order to be displayed at a price that would lock or cross the PBBO.

The Exchange believes that the proposed changes to Rule 7.36 relating to Setter Priority would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would provide for additional circumstances when an order would be eligible to be evaluated for Setter Priority. The Exchange believes that a resting order that is repriced or a Reserve Order that is replenished should be entitled to Setter Priority if it meets the existing conditions for

Setter Priority, including that it is at least a round lot in size, establishes the BBO, and either establishes or joins the NBBO. In these circumstances, a repriced order or replenished Reserve Order would be promoting the aggressive display of liquidity on the Exchange, which would benefit all market participants.

The Exchange believes that the proposed changes to Setter Priority are designed to operate consistently with the existing functionality, which is why multiple orders that reprice would not be eligible for Setter Priority, unless one order is equal to a round lot or more and the sum of all other orders at that price equal less than a round lot. Similarly, the Exchange believes that it would remove impediments to and perfect the mechanism of a free and open market and a national market system for a Reserve Order to be eligible for Setter Priority at only one price, and therefore, during a Short Sale Period, if a Reserve Order is replenished at a Permitted Price, it would not be eligible for Setter Priority at a second price level.

Finally, the Exchange believes that the proposed amendment to Rule 7.37(h)(3)(C) to add that an order would lose Setter Priority if it is less than a round lot and assigned a new working time pursuant to proposed Rule 7.31(d)(1)(B)(i) is consistent with current behavior that an odd-lot sized order would lose Setter Priority if it is assigned a new working time. The Exchange believes that it would remove impediments to and perfect the mechanism of a free and open market and a national market system for a Reserve Order to lose Setter Priority in such circumstances because when it is assigned a new working time, it would be eligible to be reevaluated for Setter Priority.

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

The Exchange does not believe that the proposed rule change will impose any

burden on competition that is not necessary or appropriate in furtherance of the purposes

of the Act. The proposed rule change is not designed to address any competitive issues.

Rather, the proposed rule change to Reserve Orders is designed to reduce the potential for

market participants to identify that a child order is related to a Reserve Order. The

changes to Setter Priority are designed to promote the aggressive display of liquidity on

the Exchange to provide additional circumstances when an order would be eligible for

Setter Priority, consistent with current rules.

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

No written comments were solicited or received with respect to the proposed rule

change.

III.   <u>Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action</u>

Within 45 days of the date of publication of this notice in the <u>Federal</u> <u>Register</u> or

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.   <u>Solicitation of Comments</u>

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:

<u>Electronic comments:</u>

- 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-
  NYSE-2018-26 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-NYSE-2018-26. 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. Persons submitting comments are cautioned that we do not redact or edit
personal identifying information from comment submissions. You should submit only
information that you wish to make available publicly. All submissions should refer to

File Number SR-NYSE-2018-26 and should be submitted on or before [insert date 21 days from publication in the <u>Federal</u> <u>Register</u>].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[10]

<div style="text-align: right;">
Robert W. Errett
Deputy Secretary
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[10] 17 CFR 200.30-3(a)(12).

EXHIBIT 4

Additions: <u>Underlined</u>
Deletions: [Bracketed]
Amendment No. 1 added text in <u>double underline</u>
Amendment No. 1 deleted text in ~~strikethrough~~

Rules of New York Stock Exchange LLC

Pillar Platform Rules (Rules 1P - 13P)

*****

Rule 7P EQUITIES TRADING

*****

Section 3. Exchange Trading

*****

7.31. Orders and Modifiers

*****

    (B) Each time <u>the display quantity of</u> a Reserve Order is replenished from reserve interest, a new working time is assigned to the replenished quantity ~~of the Reserve Order~~ <u>(each display quantity with a different working time is</u>~~,~~ a "child" <u>order)</u>, while the reserve interest retains the working time of original order entry.

*****

EXHIBIT 5

Additions: <u>Underlined</u>
Deletions: [Bracketed]

Rules of New York Stock Exchange LLC

Pillar Platform Rules (Rules 1P - 13P)

*****

Rule 7P EQUITIES TRADING

*****

Section 3. Exchange Trading

*****

7.31. Orders and Modifiers

*****

(d) Orders with a Conditional or Undisplayed Price and/or Size

(1) Reserve Order. A Limit Order with a quantity of the size displayed and with a reserve quantity of the size ("reserve interest") that is not displayed. The displayed quantity of a Reserve Order is ranked Priority 2 - Display Orders and the reserve interest is ranked Priority 3 - Non-Display Orders. Both the display quantity and the reserve interest of an arriving marketable Reserve Order are eligible to trade with resting interest in the Exchange Book or route to Away Markets.

(A) On entry, the display quantity of a Reserve Order must be entered in round lots. The displayed portion of a Reserve Order will be replenished <u>when the display quantity is decremented to below a round lot. The replenish quantity will be the minimum display size of the order or the remaining quantity of the reserve interest if it is less than the minimum display quantity</u>[following any execution. The Exchange will display the full size of the Reserve Order when the unfilled quantity is less than the minimum display size for the order].

(B) Each time <u>the display quantity of</u> a Reserve Order is replenished from reserve interest, a new working time is assigned to the replenished quantity [of the Reserve Order]<u>(each display quantity with a different working time is a "child"</u>

order), while the reserve interest retains the working time of original order entry.

(i) When a Reserve Order is replenished from reserve interest and already has two child orders that equal less than a round lot, the child order with the later working time will rejoin the reserve interest and be assigned the new working time assigned to the next replenished quantity.

(ii) If the Reserve Order is not routable, the replenish quantity will be assigned a display and working price consistent with the instructions for the order.

(C) A Reserve Order must be designated Day and may be combined with the following orders only: Limit Non-Routable Order or Primary Pegged Order.

(D) A routable Reserve Order will be evaluated for routing both on arrival and each time the display quantity is replenished.

(i) If routing is required, the Exchange will route from reserve interest before publishing the display quantity. If after routing there is less than a round lot available to display, the Exchange will wait until the routed quantity returns (executed or unexecuted) before publishing the display quantity.

(ii) Any quantity of a Reserve Order that is returned unexecuted will join the working time of the reserve interest. If there is no reserve interest to join, the returned quantity will be assigned a new working time as reserve interest. In either case, such reserve interest will replenish the display quantity as provided for in paragraphs (d)(1)(A) and (B) of this Rule.

(E) A request to reduce the size of a Reserve Order will cancel the reserve interest before cancelling the display quantity and if there is more than one child order, the child order with the later working time will be cancelled first.

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(h) Pegged Orders. A Limit Order that does not route with a working price that is pegged to a dynamic reference price. If the designated reference price is higher (lower) than the limit price of a Pegged Order to buy (sell), the working price will be the limit price of the order. Pegged Orders are available only to Floor brokers.

(1) Reserved.

(2) Primary Pegged Order. A Pegged Order to buy (sell) with a working price that is pegged to the PBB (PBO), with no offset allowed. A Primary Pegged Order to buy (sell) will be rejected on arrival, or cancelled when resting, if there is no PBB (PBO) against which to peg.

(A) A Primary Pegged Order must include a minimum of one round lot displayed. The working price of a Primary Pegged Order equals the display price and the display quantity is ranked Priority 2 - Display Orders and the reserve interest is ranked Priority 3 - Non-Display Orders.

(B) A Primary Pegged Order will be rejected if the PBBO is locked or crossed. <u>If the PBBO is locked or crossed when the display quantity of a Primary Pegged Reserve Order is replenished, the entire order will be cancelled.</u> If after arrival, the PBBO becomes locked or crossed, the Primary Pegged Order will wait for a PBBO that is not locked or crossed before the working price is adjusted, but remains eligible to trade at its current working price.

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7.36. Order Ranking and Display

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(h) *Setter Priority*. Setter Priority will be assigned to an order ranked Priority 2 - Display Orders with a display quantity of at least a round lot if such order (i) establishes a new BBO and (ii) either establishes a new NBBO or joins an Away Market NBBO <u>provided that such order will not be eligible for Setter Priority if there is an odd-lot sized order with Setter Priority at that price.</u> Only one order is eligible for Setter Priority at each price.

(1) An order will be evaluated for Setter Priority:

(A) on arrival, which includes when any portion of an order that has routed returns unexecuted;

(B) when it becomes eligible to trade for the first time upon transitioning to a new trading session[.]<u>;</u>

(C) <u>when resting and assigned a new display price. If multiple orders reprice at the same time, none of the orders will be eligible for Setter Priority unless one order is equal to or greater than a round lot and the sum of all other orders at that price is less than a round lot; and</u>

(D) <u>when the display quantity of a Reserve Order is replenished. During a Short Sale Period under Rule 7.16(f), if a short sale Reserve Order has an odd-lot quantity with Setter Priority and the Permitted Price at which such order would be replenished would be a different price, the replenish quantity will not be eligible for Setter Priority.</u>

(2) An order retains its Setter Priority:

(A) if it is decremented to any size because it has either traded or been partially cancelled;

(B) if joined at that price by a resting order that is re-priced and assigned a display price equal to the display price of the order with Setter Priority;

(C) if the BBO or NBBO changes;

(D) if the order marking changes from (A) sell to sell short, (B) sell to sell short exempt, (C) sell short to sell, (D) sell short to sell short exempt, (E) sell short exempt to sell, and (F) sell short exempt to sell short; or

(E) when transitioning from one trading session to another.

(3) An order loses its Setter Priority:

(A) if trading in the security is halted, suspended, or paused;

(B) if such order is assigned a new display price; or

(C) if such order is less than a round lot and is assigned a new working time pursuant to Rule 7.31(d)(1)(B)(i) or Rule 7.38(b)(2).

(4) Setter Priority is not available[:

(A)] for any portion of an order that is ranked Priority 3 - Non-Display Orders[; and

(B) when the reserve quantity replenishes the display quantity of a Reserve Order].

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