

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-76248; File No. SR-NYSEMKT-2015-88)

October 23, 2015

Self-Regulatory Organizations; NYSE MKT LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Extending the Pilot Period Applicable to Rule 953.1NY(c), Which Addresses How the Exchange Treats Obvious and Catastrophic Errors During Periods of Extreme Market Volatility to Coincide with the Pilot Period for the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 22, 2015, NYSE MKT LLC (the “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 the Substance of the Proposed Rule Change

The Exchange proposes to extend the pilot period applicable to Rule 953.1NY(c), which addresses how the Exchange treats Obvious and Catastrophic Errors during periods of extreme market volatility to coincide with the pilot period for the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS. The pilot period is currently set to expire on October 23, 2015. The text of the proposed rule change is available on the Exchange’s website at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

<sup>2</sup> 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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to extend the pilot period applicable to Rule 953.1NY(c), which addresses how the Exchange treats Obvious and Catastrophic Errors during periods of extreme market volatility to coincide with the pilot period for the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it may be amended from time to time ("LULD Plan"), including any extensions to the pilot period for the LULD Plan. The pilot period is currently set to expire on October 23, 2015.

In April 2013, in connection with the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS (the "Plan"),<sup>3</sup> the Exchange adopted Rule 953.1NY(c) to provide that options executions would not be adjusted or nullified if the execution occurs during periods of extreme market volatility.<sup>4</sup> Specifically, Rule 953.1NY(c) provides that, during the pilot period, electronic transactions in options that overlay an NMS Stock that occur

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<sup>3</sup> See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (File No. 4-631) (Order Approving, on a Pilot Basis, the Plan). The Plan is designed to prevent trades in individual NMS Stocks from occurring outside of specified Price Bands, which are described in more detail in the Plan.

<sup>4</sup> See Securities and Exchange Act Release No. 69339 (April 8, 2013), 78 FR 22011 (April 12, 2013) (SR-NYSEMKT-2013-10) ("Approval Order").

during a Limit State or a Straddle State (as defined by the Plan) are not subject to review under Rule 975NY(c) for Obvious Errors or Rule 975NY(d) for Catastrophic Errors. Nothing in Rule 953.1NY(c) prevents electronic transactions in options that overlay an NMS Stock that occur during a Limit State or a Straddle State from being reviewed on Exchange motion pursuant to 975NY(c)(3), or a bust or adjust pursuant to paragraphs (e) through (j) and (l) of Rule 975NY.<sup>5</sup>

The Plan has been amended several times since inception and was implemented on February 24, 2014. On May 28, 2015, the Participants submitted to the Commission a Supplemental Joint Assessment that recommended that the Plan be adopted as permanent with certain modifications.<sup>6</sup> The purpose of this proposed extension is to allow the Participants to conduct, and the Commission to consider, further analysis of data in support of the recommendations made in the Supplemental Joint Assessment, including around the attributes of limit states; the length of trading pauses; the use of an alternative reference price at the open of trading; and the alignment of the percentage parameters with the Clearly Erroneous Execution (CEE) thresholds (with the goal of largely eliminating the Participants' CEE authority).

In order to align the pilot period for Rule 953.1NY(c) with the proposed pilot period for the Plan, the Exchange similarly proposes to extend the pilot period. The Exchange has committed to provide the Commission with its data assessments five months prior to the expiration of the LULD Plan pilot period, including any extensions. If the Plan extension is approved, the Exchange will deliver its next data assessment to the Commission by December

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<sup>5</sup> See Rule 975NY, Commentary .03.

<sup>6</sup> See Letter from Christopher B. Stone, Vice President, FINRA, to Brent J. Fields, Secretary, SEC, dated May 28, 2015. In addition, the Participants to the Plan recently filed to extend the Plan's pilot period until April 22, 2016 (the "Ninth Amendment"). See Securities Exchange Act Release No. 75917 (September 14, 2015), 80 FR 56515 (September 18, 2015) (File No. 4-631) (notice of proposed Ninth Amendment to the Plan).

18, 2015.

In connection with the proposed change, the Exchange proposes to modify the text of Rule 953.1NY to make clear that paragraph (c), like paragraphs (a) and (b), will be in effect for a pilot period to coincide with the pilot period for the LULD Plan, including any extensions to the pilot period for the LULD Plan. The Exchange believes the benefits afforded to market participants under Rule 953.1NY(c) should continue on a pilot basis during the same period as the Plan pilot. The Exchange continues to believe that adding certainty to the execution of orders in Limit or Straddle States would encourage market participants to continue to provide liquidity to the Exchange, and thus, promote a fair and orderly market during those periods. Thus, the Exchange believes that the protections of current Rule 953.1NY(c) should continue while the industry gains further experience operating the Plan. In addition, the Exchange believes that extending the pilot period for Rule 953.1NY(c) would allow the Exchange to continue to collect and evaluate data, as well as to conduct further data analyses, related to this provision.

Specifically, in connection with the adoption of Rule 953.1NY(c), the Exchange committed to review the operation of this provision and to analyze the impact of Limit and Straddle States accordingly.<sup>7</sup> The Exchange agreed to and has been providing to the Commission and the public data for each Straddle State and Limit State in NMS Stocks underlying options traded on the Exchange beginning in April 2013, limited to those option

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<sup>7</sup> Specifically, the Exchange committed to: “(1) Evaluate the options market quality during Limit States and Straddle States; (2) assess the character of incoming order flow and transactions during Limit States and Straddle States; and (3) review any complaints from members and their customers concerning executions during Limit States and Straddle States.” See Approval Order, 78 FR at 22015.

classes that have at least one (1) trade on the Exchange during a Straddle State or Limit State.<sup>8</sup>

For each of those option classes affected, each data record contains the following information:

- Stock symbol, option symbol, time at the start of the Straddle or Limit State, an indicator for whether it is a Straddle or Limit State.
- For activity on the Exchange:
  - executed volume, time-weighted quoted bid-ask spread, time-weighted average quoted depth at the bid, time-weighted average quoted depth at the offer;
  - high execution price, low execution price;
  - number of trades for which a request for review for error was received during Straddle and Limit States;
  - an indicator variable for whether those options outlined above have a price change exceeding 30% during the underlying stock's Limit or Straddle state compared to the last available option price as reported by OPRA before the start of the Limit or Straddle State (1 if observe 30% and 0 otherwise). Another indicator variable for whether the option price within five minutes of the underlying stock leaving the Limit or Straddle state (or halt if applicable) is 30% away from the price before the start of the Limit or Straddle state.

The Exchange believes that the extension of the pilot period of Rule 953.1NY(c) would allow the Exchange to continue to observe the operation of the pilot and conduct its assessments relating to the impact of the operation of the Rule during Limit and Straddle States, which

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<sup>8</sup> See Securities Exchange Act Release No. 71870 (April 4, 2014), 79 FR 19692 (April 9, 2014) (SR-NYSEMKT-2014-31).

information will continue to be shared with the Commission and the public as set forth above.

Finally, the Exchange proposes to amend 953.1NY (c) to update cross-references to Rule 975NY that reflect the recent amendments of that rule, which add clarity and consistency to Exchange rules. The Exchange also proposes to similarly amend Commentary .03 to Rule 975NY regarding the Limit Up-Limit Down State to reflect the extension of the pilot to coincide with the pilot period for the LULD Plan, including any extensions to the pilot period for the LULD Plan.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act<sup>9</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>10</sup> in particular, in that it is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of, a free and open market and a national market system and, in general, to protect investors and the public interest.

Specifically, the proposal to extend the pilot program of Rule 953.1NY(c) and Commentary .03 to Rule 975NY to coincide with the pilot period for the LULD Plan, as it may be amended from time to time, including any extensions to the pilot period for the LULD Plan would align that pilot program with the Pilot Period for the Plan, as proposed in the Ninth Amendment to the Plan. The Exchange believes that aligning the pilot periods would ensure that trading in options that overlay NMS Stocks continues to be appropriately modified to reflect market conditions that occur during a Limit State or a Straddle State in a manner that promotes just and equitable principles of trade and removes impediments to, and perfects the mechanism of, a free and open market and a national market system. The Exchange believes that the

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<sup>9</sup> 15 U.S.C. 78f (b).

<sup>10</sup> 15 U.S.C. 78f(b)(5).

extension of Rule 953.1NY(c) and Commentary .03 to Rule 975NY would help encourage market participants to continue to provide liquidity during extraordinary market volatility.

Moreover, the Exchange believes that extending the pilot period for Rule 953.1NY(c) and Commentary .03 to Rule 975NY would remove impediments to, and perfect the mechanisms of, a free and open market because it would enable the Exchange to continue to conduct its assessments relating to the impact of the operation of the Obvious Error rules during Limit and Straddle States as set forth above, which, in turn, provides the Exchange with more information from which to assess the impact of Rule 953.1NY(c) and Commentary .03 to Rule 975NY.

Finally, the Exchange believes that amending Rule 953.1NY (c) to update cross-references to Rule 975NY to reflect the recent amendments of that rule would remove impediments to, and perfect the mechanisms of, a free and open market by adding clarity and consistency to Exchange rules to the benefit of all market participants.

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 changes will not impose any burden on competition and will instead provide certainty regarding the treatment and execution of options orders, specifically the treatment of Obvious and Catastrophic Errors during periods of extraordinary volatility in the underlying NMS Stock, and will facilitate appropriate liquidity during a Limit State or Straddle State.

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

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

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the proposed rule change does not (i) significantly affect the protection of

investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate 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<sup>11</sup> and Rule 19b-4(f)(6)(iii) thereunder.<sup>12</sup>

The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest, as it will allow the obvious error pilot program to continue uninterrupted while the industry gains further experience operating under the Plan, and avoid any investor confusion that could result from a temporary interruption in the pilot program. For this reason, the Commission designates the proposed rule change to be operative upon filing.<sup>13</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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<sup>11</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>12</sup> 17 CFR 240.19b-4(f)(6)(iii). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

<sup>13</sup> For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).



#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEMKT-2015-88 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-2015-88. 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, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the

Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSEMKT-2015-88, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>14</sup>

Robert W. Errett  
Deputy Secretary

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<sup>14</sup> 17 CFR 200.30-3(a)(12).