

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-68385; File No. SR-NYSEARCA-2012-133)

December 7, 2012

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change Amending NYSE Arca Equities Rule 7.31(h)(7) to Permit PL Select Orders to Interact with Incoming Orders Larger Than the Size of the PL Select Order

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 November 27, 2012, NYSE Arca, Inc. (the “Exchange” or “NYSE Arca”) 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 NYSE Arca Equities Rule 7.31(h)(7) to permit PL Select Orders to interact with incoming orders larger than the size of the PL Select Order. The text of the proposed rule change is available on the Exchange’s website at www.nyse.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places

¹ 15 U.S.C.78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

1. Purpose

The Exchange proposes to amend NYSE Arca Equities Rule 7.31(h)(7) to permit PL Select Orders to interact with incoming orders larger than the size of the PL Select Order.

On September 5, 2012, the Exchange received Commission approval for the PL Select Order type, which is a form of a PL Order that does not interact with an incoming order that: (i) has an immediate-or-cancel ("IOC") time in force condition,⁴ (ii) is an ISO,⁵ or (iii) is larger than the size of the PL Select Order.⁶ The Exchange implemented the new PL Select Order functionality on September 21, 2012.⁷

Based on the few weeks of experience with the new order type, the Exchange has identified an unintended business consequence in connection with the fact that PL Select Orders do not interact with incoming orders that are larger than the size of the PL Select Order. Specifically, in limited situations, the existence of a PL Select Order may prevent certain incoming opposite side interest from posting to the Arca Book. For example, assume that an ETP Holder has entered a PL Select Order to sell priced at \$10.10 for 100 shares. Assume

⁴ See NYSE Arca Equities Rule 7.31(e).

⁵ See NYSE Arca Equities Rule 7.31(jj).

⁶ See Securities Exchange Act Release No. 67785 (Sept. 5, 2012), 77 FR 55888 (Sept. 11, 2012) (SR-NYSEArca-2012-48).

⁷ See http://www.nyse.com/pdfs/Reminder_NYSE_Arca_Introduces_New_PL_Select_Order_Type.pdf.

further that the Exchange receives an incoming buy order for 200 shares priced at \$10.10, which becomes both the Exchange best bid and the National Best Bid. Because the arriving buy order is larger than the resting PL Select Order, as required by current Rule 7.31(h)(7), the PL Select Order would not execute against the arriving \$10.10 buy order. By contrast, a regular PL Order to sell at \$10.10 would have executed against the incoming buy order. Because the PL Select Order would not execute in this scenario, it remains undisplayed on the Arca Book.

Assume further that there is now an incoming Add Liquidity Only Order (“ALO Order”) to buy priced at \$10.10, which is seeking to add to the existing bid of \$10.10 for 200 shares. As required by NYSE Arca Equities Rule 7.31(nn)(3), because there is a resting sell PL Select Order at that price, the incoming ALO Order would be rejected. In such scenario, both the PL Select Order and the ALO order are operating consistently with the rules, but because of the operation of the rules, an ETP Holder seeking to add liquidity to the Arca Book with an ALO order would be unable to do so, even though there is resting interest posted at the same price. The Exchange believes it is appropriate to allow ALO orders to be entered in such scenario. By removing the requirement that PL Select Orders not interact with larger-sized interest, such ALO interest would not need to be rejected, as required by Rule 7.31(nn), because the PL Select Order would have executed against the larger-sized incoming interest and would no longer be resting on the Book.

The Exchange continues to believe that the rationale initially presented for why PL Select Orders should not interact with incoming orders larger in size remains valid. Namely, by not interacting with incoming orders larger in size, the PL Select Order remains on the Arca Book as a mechanism to provide price improvement, rather than be executed in a series of inferior prices as a large incoming order sweeps the Arca Book. However, while the above-described scenario

is rare, the Exchange believes that the potential for liquidity-posting interest to be rejected outweighs the benefits of having the PL Select Order not interact with incoming orders that are larger in size than the PL Select Order.

In addition, the Exchange notes that some institutional investors have raised concerns that by not executing against larger-sized interest, PL Select Orders may be bypassing legitimate interest entered on behalf of institutional investors. While the Exchange continues to believe that the purpose of the PL Select Order not to execute against larger-sized interest is consistent with its original intent to interact with less impactful orders, the Exchange also recognizes that the goal is not to bypass executions with legitimate trading interest, and to the extent there is a perception that this may be the case, the Exchange believes that the restriction should be lifted.

Accordingly, the Exchange proposes to amend Rule 7.31(h)(7) to delete that PL Select Orders would not interact with incoming orders that are larger in size than the PL Select Order.

Because of the related technology changes that this proposed rule change would require, the Exchange proposes to announce the initial implementation date via Trader Update.

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

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(5).

public interest.

The Exchange continues to believe that skipping executions with larger-sized incoming interest would incentivize Users to route PL Orders to the Exchange because such orders would remain available to provide price improvement and would not be swept up by such larger-sized incoming orders. Similarly, because such PL Select Orders would remain available to provide price improvement, it could similarly incentivize Users to route displayable interest to the Exchange because the likelihood of receiving price improvement could increase. However, the Exchange believes that the costs associated with rejecting certain interest that would otherwise be posting liquidity in the Arca Book outweighs the initial rationale for PL Select Orders not to interact with incoming interest that is larger than the size of the PL Select Order. Accordingly, the Exchange believes that amending Rule 7.41(h)(7) to delete that PL Select Orders would not interact with incoming interest that is larger in size than the PL Select Order would remove impediments to and perfect the mechanism of a free and open market because it would eliminate the potential that liquidity adding interest would be rejected. Moreover, the Exchange believes that the proposed change promotes just and equitable principles of trade to the extent that it eliminates any perception that the PL Select Order could be bypassing executions with legitimate trading interest entered on behalf of institutional investors.

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.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date 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. 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. Please include File Number SR-NYSEARCA-2012-133 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSEARCA-2012-133. 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 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-NYSEARCA-2012-133, 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.¹⁰

Kevin M. O'Neill
Deputy Secretary

¹⁰ 17 CFR 200.30-3(a)(12).