SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73362; File No. SR-NYSEArca-2014-117)

October 15, 2014

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change
Modifying Its Quote Mitigation Plan and Amending Rule 6.86

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 October 2, 2014, 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 the Substance of the Proposed
        Rule Change

The Exchange proposes to modify its quote mitigation plan and to amend Rule 6.86

(Firm Quotes). 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

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[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. <u>Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change</u>

1. <u>Purpose</u>

The Exchange is proposing to modify its quote mitigation plan and to amend Rule 6.86

(Firm Quotes). As discussed below, the Exchange believes the modified quote mitigation plan

will adequately accommodate the number of quotations sent to the Exchange and the message

traffic that the Exchange sends to the Options Price Reporting Authority ("OPRA").

<u>Rule 6.86</u>

In connection with the adoption of the Penny Pilot Program, the Exchange adopted a

quote mitigation plan designed to reduce the number of quotations generated by the Exchange

for all options traded on the Exchange, not just issues included in the Penny Pilot Program.[4] The

current plan reduces the number of messages the Exchange sends to OPRA by only submitting

quote messages for "active" series. Commentary .03 to Rule 6.86 defines active series as: (i) the

series has traded on any options exchange in the previous 14 calendar days; or, (ii) the series is

solely listed on the Exchange; or (iii) the series has been trading ten days or less, or; (iv) the

Exchange has an order in the series. Alternatively, the Exchange may define a series as active on

an intraday basis if: (i) the series trades at any options exchange; (ii) the Exchange receives an

order in the series; or (iii) the Exchange receives a request for quote from a Customer in that

series.

The Exchange believes it no longer needs the quote mitigation provided by Commentary

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4   <u>See</u> Securities and Exchange Release No. 55156 (January 23, 2007), 72 FR 4759
        (January 23, 2007) (SR-NYSEArca-2006-73).

.03 to Rule 6.86 because rules adopted since Commentary .03 to Rule 6.86 provide sufficient quote mitigation.

Current Market Structure and Controls on the Exchange

In 2010, the Exchange incorporated select provisions of the Options Listing Procedures Plan ("OLPP") in Rule 6.4A as a quote mitigation strategy.[5]

The OLPP is a national market system plan that, among other things, sets forth procedures governing the listing of new options series. From the OLPP, the Exchange incorporated in Rule 6.4A, "applied uniform standards to the range of options series exercise (or strike) prices available for trading on the [Exchange] as a quote mitigation strategy."[6] In approving the OLPP provisions subsequently incorporated in Rule 6.4A, the Commission indicated that "adopting uniform standards to the range of options series exercise (or strike) prices available for trading on the [Exchange] should reduce the number of option series available for trading, and thus should reduce increases in the options quote message traffic because market participants will not be submitting quotes in those series."[7]

One year after adopting select provisions of the OLPP, the Exchange refined the quoting obligations applicable to Market Makers as a quote mitigation strategy.[8] Specifically, the Exchange adopted Commentary .01 to Rule 6.37B, which states that Lead Market Makers' and Market Makers' continuous quoting obligations "shall not apply to Market Makers with respect

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[5] See Securities and Exchange Release No. 61977 (April 23, 2010), 75 FR 22884 (April 30, 2010) (SR-NYSEArca-2010-30). See also OLPP, available at, http://www.theocc.com/clearing/industry-services/olpp.jsp.

[6] Rule 6.4A codified Amendment No. 3 to the OLPP. See Securities and Exchange Release No. 60531 (August 19, 2009) 74 FR 43173 (File No. 4–443). See also Rule 6.4A.

[7] Id., 74 FR at 43174.

[8] See Securities and Exchange Release No. 65573 (October 14, 2011), 76 FR 65305 (October 20, 2011) (SR-NYSEArca-2011-59).

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to adjusted option series, and series with a time to expiration of nine months or greater, for options on equities and Exchange Traded Fund Shares, and series with a time to expiration of twelve months or greater for Index options."[9] Because there are no Market Maker quoting obligations associated with adjusted options series, there is a reduction in quote traffic that is sent to OPRA. Indeed, in approving Commentary .01 to Rule 6.37B, the Commission noted, "…the Exchange's proposal would reduce the burden on market makers to submit continuous quotes that the Exchange may not submit to OPRA." [10]

The Exchange believes that reliance on the OLPP, via Rule 6.4A, together with the refined Market Maker quoting obligations, pursuant to Commentary .01 to Rule 6.37B, is sufficient as a quote mitigation strategy and obviates the need for Rule 6.86. The Exchange believes that limiting the number of series listed on the Exchange is preferable to suppressing quotes of inactive series, as required under current Rule 6.86, because all quotes sent by Market Makers are actionable even if not displayed.

The Exchange believes that both its own systems capacity and OPRA's systems capacity are more than sufficient to accommodate any additional increase in quote traffic that might be sent to OPRA as a result of the deletion of Rule 6.86. The Exchange has already successfully conducted testing to ensure that its internal systems are equipped to handle any increase in quote traffic as a result of the proposed rule change. Further, the Exchange continually assesses its capacity needs and ensures that the capacity that it requests from OPRA is not only sufficient but

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[9]   An "adjusted series" is "an option series wherein, as a result of a corporate action by the issuer of the underlying security, one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares." See Commentary .01 to Rule 6.37B.

[10]   See supra n. 8, 76 FR at 65306.

also compliant with the requirements established in the OPRA Capacity Guidelines.[11] In submitting its capacity requests, the Exchange has factored in the impact on capacity if all series currently subject to Rule 6.86 were to become active and therefore sent to OPRA.[12]

In addition, the Exchange has in place the following measures that it believes serve as additional safeguards against excessive quoting:

-Monitoring: The Exchange actively monitors the quotation activity of its Market Makers. When the Exchange detects that a Market Maker is disseminating an unusual number of quotes, the Exchange contacts that Market Maker and alerts it to such activity. Such monitoring may reveal that the Market Maker may have internal system issues or has incorrectly set system parameters that were not immediately apparent. Alerting a Market Maker to the heightened levels of activity will usually result in a change that reduces the number of quotes sent to the Exchange by the Market Maker.

-New Listings: The Exchange has a business plan with respect to the listing of options on new underlying securities that is designed to help ensure that any new listings are sufficiently active to avoid listing options on underlying securities that generate quote

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[11] See the OPRA Capacity Guidelines, available here, http://www.opradata.com/pdf/capacity_guidelines.pdf

[12] OPRA has delegated certain functions pertaining to planning the capacity of the OPRA System to an Independent System Capacity Advisor ("ISCA") that "may provide less than all of the capacity that has been requested if it determines (a) that the capacity requests of one or more of the parties are unreasonable, or (b) that it is not reasonable to develop or maintain a System that has capacity sufficient to satisfy the requests of the parties." See id. The Exchange has never been informed by the ISCA that the capacity it has requested cannot be met for any reason, including because the ISCA had deemed the request to be unreasonable. Thus, the Exchange believes that any increase in quote traffic that might be sent to OPRA as a result of the current proposal should not impact any other exchange's capacity at OPRA.

volume without the offsetting benefit of trading volume.[13]

-Ratio Threshold Fees: The Exchange imposes a ratio fee that is designed to encourage the efficient use of orders.[14]

In connection with the foregoing, the Exchange proposes to amend paragraphs (b)(1) and (b)(2) of Rule 6.86 to delete references to the "Quote Mitigation Plan," which refer to the plan set forth in Commentary .03 to Rule 6.86. In addition, the Exchange proposes to delete Commentary .03 to Rule 6.86 in its entirety, as it contains a discussion of the current quote mitigation plan.

Implementation

The Exchange will announce the implementation date of the proposed rule change by Trader Update to be published no later than 60 days following the effective date of this filing. The implementation date will be no later than 60 days following the issuance of the Trader Update.

2.   Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act[15] in general and furthers the objectives of Section 6(b)(5) of the Act[16] in particular in that it should promote just and equitable principles of trade, serve to remove impediments to and perfect the mechanism of a free and open market and a national market system, and protect investors and the public interest.

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13   See NYSE Arca Options Listing Policy Statement, available at, http://www.nyse.com/pdfs/TraderNoticeArcaLOPSChanges092713.pdf

14   See NYSE Arca Options Fee Schedule, available at, https://www.theice.com/publicdocs/nyse/markets/arca-options/NYSE_Arca_Options_Fee_Schedule.pdf.

15   15 U.S.C. 78f(b).

16   15 U.S.C. 78f(b)(5).

The Exchange believes that the proposed modifications to the quote mitigation plan, including the continued reliance on Rule 6.4A and Commentary .01 to Rule 6.37B, together with the other safeguards mentioned above, would promote just and equitable principles of trade, serve to remove impediments to and perfect the mechanism of a free and open market as it would increase transparency and enhance price discovery as all Market Maker quotes would be reflected in the market. Specifically, the Exchange believes that deleting Commentary .03 to Rule 6.86 will remove impediments to and perfect the mechanism of a free and open market and a national market system because it will enable all actionable Market Maker quotes to be displayed, including in inactive series. The Exchange believes this would also protect investors and the public interest because available Market Maker liquidity in all series would be publicly displayed, thereby putting investors on notice of such liquidity. The Exchange further believes that the market structure initiatives adopted in recent years serve to reduce the potential for excessive quoting because the OLPP limits the number of series eligible to be listed, which reduces the number of series for which a Market Maker would be obligated to quote, and therefore reduces quote traffic.

As discussed above, the Exchange believes that both its own systems capacity and OPRA's systems capacity are more than sufficient to accommodate any additional increase in quote traffic that might be sent to OPRA as a result of the proposed rule change.

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. Specifically, as discussed above, the Exchange believes that any increase in quote traffic that

might be sent to OPRA as a result of the proposed rule change should not impact any other

exchange's capacity at OPRA.[17]

    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 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.   <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-NYSEArca-2014-117 on the subject line.

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[17]   <u>See</u> <u>supra</u> n. 12.

<u>Paper comments:</u>

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

All submissions should refer to File Number SR-NYSEArca-2014-117. 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 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-2014-117, 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.[18]

Kevin M. O'Neill
Deputy Secretary

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[18] 17 CFR 200.30-3(a)(12).