SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-74018; File No. SR-NYSEArca-2014-150)

January 8, 2015

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change to Amend Rule 6.60 and to Adopt Rule 6.61, Which was Previously Reserved, to Provide Price Protection for Market Maker Quotes

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 December 29, 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 Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 6.60 (Price Protection) and to adopt Rule 6.61, which was previously Reserved, to provide price protection for Market Maker 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

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 is proposing to amend Rule 6.60 (Price Protection) and to adopt Rule 6.61, which was previously Reserved, to provide price protection for Market Maker quotes. The Exchange currently offers price protection mechanisms for orders and, at this time, is proposing to expand its mechanisms to make price protection available for Market Maker quotes as well. The Exchange believes that this proposed enhancement would assist with the maintenance of fair and orderly markets by averting the risk of Market Maker quotes sweeping through multiple price points resulting in executions at prices that are through the last sale price or National Best Bid or Best Offer ("NBBO") and potentially erroneous.

Rule 6.60, which applies solely to orders, affords price protection to orders priced a specified percentage through the prevailing contra-side market.[4] Specifically, Rule 6.60(b) provides a price protection filter for incoming limit orders, pursuant to which the Exchange rejects limit orders priced a specified percentage[5] through the NBB or NBO ("Limit Order Filter").[6] To clarify that Rule 6.60 applies only to orders, the Exchange proposes [sic] append

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4 The Exchange adopted Rule 6.60 in 2013. See Exchange Rule 6.60; see also Securities Exchange Act Release No. 70038 (July 25, 2013), 78 FR 46392 (July 31, 2013) (NYSEArca-2013-72).

5 Pursuant to Rule 6.60(b), unless determined otherwise by the Exchange and announced to OTP Holders via Trader Update, the specified percentage is 100% for the contra-side NBB or NBO priced at or below $1.00 and 50% for contra-side NBB or NBO priced above $1.00.

6 Until recently the Limit Order Filter was only applicable to orders received during Core Trading Hours, but the Exchange has expanded this price protection feature to limit orders received before the opening of trading. See Securities Exchange Act Release No.

the word "Orders" to the Rule 6.60 header to provide "Rule 6.60. Price Protection – Orders." The Exchange believes that this proposed change would reduce any potential confusion regarding the applicability of Rule 6.60.

Proposed Market Maker Quote Price Protection

To further enhance the price protection functionality available on the Exchange, the Exchange proposes to adopt a new rule, Rule 6.61, which was previously Reserved, that would provide for a price protection mechanism for quotes entered by a Market Maker. To be clear that the proposed rule is for Market Maker quotes only, and consistent with the proposed change to the title for Rule 6.61, the Exchange proposes to title this new rule "Price Protection – Quotes." In addition, Rule 6.61(a) would provide that the proposed price protection filters would be applicable only for quotes entered by a Market Maker pursuant to Rule 6.37B and would not be applicable to orders entered by a Market Maker.[7]

To take into consideration the unique role of Market Makers to enter two-sided quotations in their appointments, the Exchange proposes to provide for two layers of price protection that would be applicable to all incoming Market Maker quotes. As discussed in detail below, the first layer of price protection would assess incoming sell quotes against the National Best Bid ("NBB") and incoming buy quotes against the National Best Offer ("NBO"). The second layer of price protection would assess the price of call or put bids against a specified benchmark.

NBBO Price Reasonability Check

73026 (September 9, 2014), 79 FR 55038 (September 15, 2014) (SR-NYSEArca-2014-97).

[7] Orders entered by a Market Maker are covered by Rule 6.60.

Proposed Rule 6.61(a)(1) would set forth the Exchange's proposed NBBO price reasonability check, which would compare Market Maker bids with the NBO and Market Maker offers with the NBB. This proposed price protection is [sic] mechanism is similar to the Limit Order Filter. Specifically, provided that an NBBO is available, a Market Maker quote would be rejected if it is priced a specified dollar amount or percentage through the contra-side NBBO as follows:

(A) $1.00 for Market Maker bids when the contra-side NBO is priced at or below $1.00; or

(B) 50% for Market Maker bids (offers) when the contra-side NBO (NBB) is priced above $1.00.

The Exchange would reject inbound Market Maker quotes that exceed the parameters set forth in proposed Rule 6.61(a)(1)(A)-(B) as presumptively erroneous. The Exchange believes that the proposed percentages are appropriate because they are based on the percentages already approved for the Limit Order Filter and are thus calibrated to enable the Exchange to reject quotes that otherwise may cause price dislocation before the erroneous quotes could cause harm to the market. The Exchange is also proposing a specific dollar threshold for when the NBO is priced at or below $1.00 because the Exchange believes that the specified dollar amount provides more granular price protection than a percentage-based protection. For example, if the NBO were $0.06, when using a 100% filter, the Exchange would be required to reject any bids priced $0.12 or more. For such low-priced NBOs, the Exchange believes it is appropriate to provide Market Makers with the ability to enter quotes at least $1.00 higher than the prevailing NBO.[8]

[8] The Exchange notes that it continually assesses whether its price protection mechanisms are appropriately calibrated and if it proposes to amend the percentages for the Limit Order Filter, it would do so by means of a separate rule filing.

In addition, pursuant to proposed Rule 6.61(a)(1)(A), Market Maker offers that arrive when the NBB is priced at or below $1.00 would not be subject to this filter. The Exchange believes that when the NBB is priced at or below $1.00, the price of an offer would be bound by $0.00, and therefore an offer would always be less than $1.00 away from the NBB. Such offer prices would likely not be erroneous and therefore the Exchange does not believe it necessary to reject such Market Maker offers.

Because there may be market scenarios that require the proposed parameters to be adjusted, for example, during periods of extreme price volatility, the Exchange further proposes to specify that the Exchange may revise these parameters, provided such revised parameters are announced to OTP Holders or OTP Firms via a Trader Update.[9]

As an additional safeguard and risk-control feature, if a Market Maker quote is rejected pursuant to paragraph (a)(1) of this proposed Rule, the Exchange would also cancel any resting same-side quote in the affected series from that Market Maker.[10] The Exchange believes it is appropriate to reject any resting same-side quote because when a Market Maker submits a new quote, that Market Maker is implicitly instructing the Exchange to cancel any resting quote in that same series. Thus, even if the new quote is rejected because it is priced a specified dollar amount or percentage through the contra-side NBBO, in violation of proposed Rule 6.61(a)(1), the Market Maker's implicit instruction to cancel the resting quote remains valid nonetheless.

The following examples, which are based on the below market scenario, illustrate how the proposed Rule 6.61(a) would operate:

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9 See proposed Rule 6.61(a)(1)(A)-(B) (setting forth the specified dollar amount or percentages "unless determined otherwise by the Exchange and announced to OTP Holders and OTP Firms via Trader Update").

10 See proposed Rule 6.61(b).

Option Series	**NBBO**	**Option Series**	**NBBO**
December $30 Calls	$9.90 x $11.00	December $30 Puts	$0.06 x $0.10
December $35 Calls	$6.00 x $6.20	December $35 Puts	$0.60 x $0.65
December $40 Calls	$2.82 x $2.85	December $40 Puts	$2.30 x $2.40

Example 1 – Proposed Rule 6.61(a)(1)(A): $1.00 for Market Maker bids if the contra-side NBO is priced at or below $1.00. A Market Maker submits a $1.50 bid for the December $30 puts where the NBO is $0.10. As this is $1.00 or more above the NBO ($0.10 plus $1.00 = $1.10), the Exchange would reject the Market Maker bid.

Example 2 – Proposed Rule 6.61 (a)(1)(A): Market Maker offers that arrive when the NBB is priced at or below $1.00 are not subject to this filter. From the options chain above, the options that have a NBB at or below $1.00 are the December $30 and $35 puts. As these options have a NBB below $1.00 (and the offer is bound by $0.00 – less than $1.00 away from the NBB), there are no price protection filters and Market Maker offers in these options would be subject to standard quote processing without delay.

Example 3 – Proposed Rule 6.61(a)(1)(B): 50% for Market Maker bids when the contra-side NBO is priced above $1.00. A Market Maker submits a bid of $9.30 for the December $35 calls where the NBO is $6.20. As this is 50% greater than the NBO ($6.20 plus 50% = $9.30), the Exchange would reject the Market Maker bid.

Example 4 – Proposed Rule 6.61(a)(1)(B): 50% for Market Maker offers when the contra-side NBB is priced above $1.00. A Market Maker submits a $0.60 offer for the December $40 calls when the NBB is $2.82. As this is 50% or more below the NBB ($2.82 minus 50% = $1.41), the Exchange would reject the Market Maker offer as erroneous.

Underlying Stock Price/Strike Price Check

Proposed Rule 6.61(a)(2) and (3) would set forth the Exchange's proposed second layer of price protection filters for Market Maker quotes. These price protection mechanisms would be applicable when either there is no NBBO available, for example, during pre-opening or prior to conducting a re-opening after a trading halt, or if the NBBO is so wide as to not to reflect an appropriate price for the respective options series.

Proposed Rule 6.61(a)(2) would provide price protection for Market Maker bids in call options. As proposed, if such bids equal or exceed the price of the underlying security, the Market Maker bid would be rejected.[11] With a call bid, a Market Maker is bidding to buy an option that would be exercised into the right to acquire the underlying security. The Exchange does not believe that a derivative product, which conveys the right to purchase a security underlying the derivative, should ever be priced higher than the prevailing price of the underlying security itself. Accordingly, the Exchange believes it is appropriate to reject Market Maker bids for call options that are equal to or in excess of the price of the underlying security.

As proposed in new Rule 6.61(a)(2)(A), before the underlying security is open, the Exchange would use the previous day's closing price to determine the price of the underlying security. The Exchange proposes to use the prior day's closing price because, although the underlying securities may trade in the equities markets outside of 9:30 a.m. ET to 4:00 p.m. ET, the equities market is generally not as liquid during this time and equity market makers generally do not have quoting obligations in after-hours trading. Therefore, the Exchange believes that using the previous day's closing price – based on trading during Core Trading Hours, when the market is most liquid – provides a more accurate benchmark and thus a more precise price

11 See proposed Rule 6.61(a)(2).

protection filter for underlying securities that have not yet opened. Per proposed Rule 6.61(a)(2)(B), once the underlying security has opened, the Exchange would use the consolidated last sale price to determine the price of the underlying security. Per proposed Rule 6.61(a)(2)(C), during a trading halt of the underlying security, the Exchange would use the consolidated last sale reported immediately prior to the trading halt to determine the price of the underlying security. The Exchange believes that the consolidated last sale price for an underlying security that has already opened would provide the most accurate benchmark because the market is most liquid during Core Trading Hours.

Proposed Rule 6.61(a)(3) would provide for price protection for Market Maker bids in put options. The value of a put can never exceed the strike price of the option, even if the stock goes to zero. For example, a put with a strike price of $50 gives the holder the right to sell the underlying security for $50 (no more, or no less), therefore it would be illogical to pay more than $50 for the right to sell that underlying security, no matter what the price of the underlying security. As proposed, the Exchange would deem any put bid that equals or exceeds the strike price of the option series to be erroneous and the Exchange believes it would be appropriate to reject such bids.[12]

As an additional safeguard and risk control feature, when a Market Maker quote is rejected pursuant to paragraph (a)(2) or (a)(3) of this Rule, the Exchange would also cancel all resting quote(s) in the affected class(es) from that Market Maker and shall not accept new quote(s) in the affected class(es) until the Market Maker submits a message (which may be automated) to the Exchange to enable the entry of new quotes.[13] The Exchange believes that this temporary suspension from quoting in the affected option class(es) would operate as a safety

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[12] See proposed Rule 6.61(a)(3).

[13] See proposed Rule 6.61(b).

valve that forces Market Makers to re-evaluate their positions before requesting to re-enter the market.

Consider the following examples which are based on the following:

Underlying Security Price = $50

December $50 Calls	December $50 Puts
December $70 Calls	December $70 Puts

Example 1 – Proposed Rule 6.61(a)(2)(B): MM bid for Call rejected if the price of bid is equal to or greater than the price of the underlying security. A Market Maker submits a quote that contains a $53 bid for the December $50 calls. With the underlying security having a last sale price of $50, the Exchange would deem any bid for $50 or more (for the right to buy stock at $50) as erroneous and would therefore reject the bid(s).[14]

Example 2 – Proposed Rule 6.61(a)(3): MM bid for Put rejected if the price of bid is equal to or greater than the strike price of the option. A Market Maker submits a quote that contains a $70 bid for the December $70 puts. The most the December $70 puts could ever be worth is $70 even if the underlying security goes to zero. The Exchange would deem any bid to pay $70 or more for the December $70 puts to be an erroneous quote and would therefore reject the put bid.[15]

The Exchange believes that the proposed extension of the Exchange's price protection functionality to Market Maker quotes would assist with the maintenance of fair and orderly markets by averting the risk of Market Maker quotes sweeping through multiple price points

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14 The Exchange would also cancel any resting quote(s) in the affected class(es) from that Market Maker and will not accept new quote(s) in the affected class(es) until the Market Maker submits a message (which may be automated) to the Exchange to enable the entry of new quotes. See proposed Rule 6.61(b).

15 Id.

resulting in executions at prices that are through the last sale price or NBBO and potentially erroneous. The Exchange notes that it retains the ability to disable these price protection features in response to market events.[16]

Implementation

The Exchange will announce the implementation date of the proposed rule change via Trader Update. The Trader Update will be issued at least 30 days prior to implementation to help ensure participants, in particular Market Makers, have sufficient notice prior to introducing the new functionality.

2. Statutory Basis

The statutory basis for the proposed rule change is Section 6(b)(5) of the Securities Exchange Act of 1934 (the "Act"),[17] which requires the rules of an exchange to promote just and equitable principles of trade, 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 this proposal meets these requirements because it would assist with the maintenance of a fair and orderly market by introducing new price protections that would help to mitigate the risks associated with the entry of quotes that are priced a specified dollar amount or percentage through the last sale or prevailing contra-side market, which the Exchange believes is evidence of error. By rejecting such quotes, the Exchange believes it is promoting just and equitable principles of trade by preventing potential price dislocation that could result from erroneous Market Maker quotes sweeping through multiple price points

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16 The Exchange may disable the Underlying Stock Price/Strike Price Check by security without affecting the status of the NBBO Price Reasonability Checks.

17 15 U.S.C. 78f(b).

resulting in executions at prices that are through the last sale price or NBBO. Specifically, when an NBBO is available, the Exchange believes rejecting Market Maker quotes priced a specified dollar amount or percentage through the contra-side NBBO would remove impediments to and perfect the mechanism of a free and open market and protect investors and the public interest because it would enable the Exchange to avoid the submission of erroneous quotes that otherwise may cause price dislocation before such quotes could cause harm to the market.

The Exchange believes that proposed percentages are reasonable as they are based on the percentages already approved for the Limit Order Filter. In addition, the Exchange believes that the addition of specified dollar thresholds when the NBO is equal to or below $1.00 is consistent with the Act because it would assist with the maintenance of a fair and orderly market by offering Market Maker quotes more precise price protection. Moreover, the Exchange believes it is appropriate to place no limit on Market Maker offers that arrive when the NBB is priced at or below $1.00 because when the NBB is priced at or below $1.00, the price of an offer would be bound by $0.00, and therefore an offer would always be less than $1.00 away from the NBB – and therefore, not likely to be erroneous and not requiring price protection.

Similarly, the Exchange also believes that when no NBBO is available, the Exchange's proposed use of benchmarks to check the reasonability of Market Maker bids for call and put options would assist with the maintenance of a fair and orderly market by affording a second layer of price protection to Market Maker quotes. The Exchange believes these additional price reasonability checks on Market Maker bids would remove impediments to and perfect the mechanism of a free and open market and protect investors and the public interest because the proposed check would reject Market Maker bids that are priced higher than the corresponding benchmark, which would be the price of the underlying security for call options and the strike price for put options.

The Exchange also believes the additional risk controls that result in the cancellation of a Market Maker's resting quote and/or the temporary suspension a Market Maker's quoting activity in the affected option class(es) would remove impediments to and perfect the mechanism of a free and open market and protect investors and the public interest because it provides the Market Maker with an opportunity to re-evaluate their positions before requesting to re-enter the market. The Exchange believes that this additional safeguard would benefit investors and the public because it would provide market participants with additional protection from anomalous executions.

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

The Exchange does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes the proposal would not unduly burden any particular group of market participants trading on the Exchange vis-à-vis another group (i.e., Market Markers versus non-Market Makers) as the proposal is designed to address the unique role of Market Makers to enter two-sided quotations in their appointments and would apply equally to all Market Makers. Moreover, the Exchange believes the proposal would provide market participants with additional protection from anomalous executions. Thus, the Exchange does not believe the proposal creates any significant impact on competition. The Exchange believes this proposal is pro-competitive as it may encourage Market Makers to quote tighter deeper markets, which will increase liquidity and enhance competition, given the safeties afforded by the proposed price protection filters.

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 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 such 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-2014-150 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-NYSEArca-2014-150. 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; 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-2014-150 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]

Brent J. Fields
Secretary

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