SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-79017; File No. SR-NYSEARCA-2016-123)

September 30, 2016

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Partial Amendment No. 1
and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Partial
Amendment No. 1, Amending Rule 7.46 Relating to the Exchange's order types to implement
the Tick Size Pilot Program

I.   Introduction

On August 25, 2016, NYSE Arca, Inc. ("Exchange" or "NYSE Arca") filed with the

Securities and Exchange Commission ("Commission") pursuant to Section 19(b)(1) of the

Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] a proposed rule change

to: (1) change system functionality to implement the Plan to Implement a Tick Size Pilot

Program ("Plan" or "Pilot")[3] submitted to the Commission pursuant to Rule 608 of Regulation

NMS[4] under the Act; (2) clarify the operation of certain exceptions to the Trade-at Prohibition[5]

on Pilot Securities in Test Group Three; (3) amend the Limit Up/Limit Down ("LULD") price

controls pursuant to the Regulation NMS Plan to Address Extraordinary Market Volatility

("LULD Plan");[6] and (4) amend the Exchange's limit order price protection rule. The proposed

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

[2]   17 CFR 240.19b-4.

[3]   See Securities Exchange Act Release No. 74892 (May 6, 2015), 80 FR 27513 (May 13,
        2015) ("Approval Order"). Unless otherwise specified, capitalized terms used in this rule
        filing are defined as set forth in the Plan.

[4]   17 CFR 242.608.

[5]   Exchange Rule 7.46(e)(4)(A) defines the "Trade-at Prohibition" to mean the prohibition
        against executions by a Trading Center of a sell order for a Pilot Security at the price of a
        Protected Bid or the execution of a buy order for a Pilot Security at the price of a
        Protected Offer during regular trading hours. See also Plan Section I(LL) and Plan
        Section VI(D).

[6]   See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6,

rule change was published for comment in the Federal Register on September 15, 2016.[7] The

Commission received two comment letters in response to the Notice.[8] On September 27, 2016,

the Exchange filed a partial amendment to the proposed rule change ("Amendment No. 1").[9]

This order provides notice of filing of Amendment No. 1 and approves the proposal, as

modified by Amendment No. 1, on an accelerated basis.

II.   Description of the Amended Proposal

The Exchange proposes to: (1) change system functionality to implement the Plan; (2)

clarify the operation of certain exceptions to the Trade-at Prohibition on Pilot Securities in Test

Group Three; (3) amend the LULD price controls pursuant to the LULD Plan; and (4) amend the

Exchange's limit order price protection rule.

A.   Amendments to System Functionality to Implement the Plan

1.   Trade-at Intermarket Sweep Orders ("TA ISO")[10]

The Exchange proposes to accept TA ISOs in all securities. Further, TA ISOs must be

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2012) (File No. 4-631).

[7]   Securities Exchange Act Release No. 78801 (September 9, 2016), 81 FR 63525 ("Notice").

[8]   See Letters from Eric Swanson, EVP, General Counsel, Bats Global Markets, Inc., Elizabeth K. King, General Counsel and Corporate Secretary, New York Stock Exchange; and Thomas A. Wittman, EVP, Global Head of Equities, Nasdaq, Inc., dated September 9, 2016 ("Comment Letter No. 1"); and Eric Swanson, EVP, General Counsel, Bats Global Markets, Inc., dated September 12, 2016 ("Comment Letter No. 2").

[9]   In Amendment No. 1, the Exchange proposes to do the following: (1) delete the proposal to amend Rule 7.35P because the Exchange recently filed a separate proposed rule change to make the same amendment, which is now operative. See Securities Exchange Act Release No. 78861 (September 16, 2016) (SR-NYSEArca-2016-129) ("Rule 7.35P Filing"); (2) modify Rule 7.46(f)(3) to provide that Market Pegged Orders in all Pilot Securities would be rejected and delete references to Market Pegged Orders in Rule 7.46(f)(5)(H); and (3) correct typographical errors in the original proposal.

[10]   See proposed Exchange Rule 7.46(f)(1).

designated as Immediate or Cancel ("IOC"), may be designated with a "no midpoint execution"
modifier, may not be designated with a minimum trade size, and do not route. TA ISO would be
immediately traded with contra-side displayed and non-displayed interest in the NYSE Arca
Book up to its full size and limit price and the quantity not so traded will be immediately and
automatically cancelled.

2. Permitted Price Increment for Pilot Securities[11]

The Exchange proposes that references in Exchange rules to the minimum price variation
("MPV")[12] would mean $0.05 instead of the current $0.01 for Pilot Securities in Test Groups
One, Two, and Three. Further, references to truncating to the MPV in Exchange rules would
mean rounding down to the applicable quoting MPV for Pilot Securities in Test Groups One,
Two, and Three. Mid-Point Liquidity Orders[13] must be entered with a limit price in a $0.05
pricing increment.

3. Rejection of Market Pegged Orders in Pilot Securities[14]

The Exchange proposes that Market Pegged Orders[15] will be rejected for all Pilot
Securities.

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[11]   See proposed Exchange Rule 7.46(f)(2).

[12]   See Exchange Rule 7.6 for a definition of the MPV.

[13]   A Mid-Point Liquidity Order is a Limit Order that is not displayed, does not route, and
has with a working price at the midpoint of the PBBO. See Exchange Rule 7.31P(d)(3).

[14]   See proposed Exchange Rule 7.46(f)(3). See also Amendment No. 1.

[15]   A Market Pegged Order is an order to buy (sell) with a working price that is pegged to
the PBO (PBB). See Exchange Rule 7.31P(h). A Market Pegged Order to buy (sell) will
be rejected on arrival, or cancelled when resting, if there is no PBO (PBB) against which
to peg. Market Pegged Orders will not participate in any auctions. Market Pegged Orders
are not displayed and are ranked "Priority 3 - Non- Display Orders." A Market Pegged
Order to buy (sell) may include an offset value that will set the working price below
(above) the PBO (PBB) by a specified offset.

4. Retail Price Improvement Orders Increment[16]

The Exchange proposes that for Test Group Two and Test Group Three, Retail Price Improvement Orders[17] must be entered in pricing increments of $0.005.

5. Trading in Test Group Three Pilot Securities

a. Change in Priority[18]

The Exchange proposes to revise the priority of resting orders[19] for Pilot Securities in Test Group Three, as follows: (A) first priority would be given to "Priority 2 – Display Orders," which are non-marketable Limit Orders with a displayed working price; (B) second priority would be given to "protected quotations of Away Markets[20];" (C) third priority would be given to "Priority 1 – Market Orders," which are unexecuted Market Orders; and (D) fourth priority would be given to "Priority 3 – Non-Display Orders," which are non-marketable Limit Orders for which the working price is not displayed, including reserve interest of Reserve Orders.

b. Routing to Away Markets[21]

The Exchange proposes that for Pilot Securities in Test Group Three, orders would not be routed to Away Markets that are not displaying Protected Quotations.

c. Repricing of Limit Orders[22]

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[16] See proposed Exchange Rule 7.46(f)(4).

[17] A Retail Price Improvement Order consists of non-displayed interest in NYSE Arca-listed securities and UTP Securities, excluding NYSE-listed (Tape A) securities, that would trade at prices better than the PBB or PBO by at least $0.001 and that is identified as such. See Exchange Rule 7.44P(a)(4).

[18] See proposed Exchange Rule 7.46(f)(5)(A).

[19] Exchange Rule 7.36P(e) sets forth the priority of orders for all securities.

[20] See Exchange Rule 1.1(ffP).

[21] See proposed Exchange Rule 7.46(f)(5)(B).

The Exchange proposes to assign a working price equal to the re-priced display price in Test Group Three for displayed limit orders to avoid ranking orders undisplayed at the price of a Protected Quotation. The Exchange currently assigns a display price of a displayed Limit Order one MPV below(above) the contra-side PBO (PBB), and a working price equal to the contra-side PBBO to prevent locking or crossing the PBBO.[23]

d. Non-Displayed Portion of Reserve Orders[24]

The Exchange proposes that for Pilot Securities in Test Group Three, if a Reserve Order[25] to buy (sell) is displayed at a price that is locked or crossed by a protected offer (bid), the non-displayed portion of the Reserve Order would be assigned a working price of $0.05 below (above) the protected offer (bid), but if routable, would route to a protected offer (bid) based on the limit price of the order.

e. Limit Non-Displayed Orders[26]

The Exchange proposes that for Pilot Securities in Test Group Three, a Limit Non-Displayed Order would be assigned a working price one MPV away from the PBBO. Currently, if the limit price of a Limit Non-Displayed Order to buy (sell) is equal to the PBO (PBB), the order will be assigned a working price equal to the limit price, i.e., the same price as the PBO

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22   See proposed Exchange Rule 7.46(f)(5)(C).

23   See Exchange Rule 7.31P(a)(2)(C).

24   See proposed Exchange Rule 7.46(f)(5)(D).

25   A Reserve Order is defined as a limit or inside limit order with a quantity of the size displayed and with a reserve quantity of the size ("reserve interest") that is not displayed. See Exchange Rule 7.31P(d)(1).

26   See proposed Exchange Rule 7.46(f)(5)(E).

(PBB).[27]

f. Orders that Do Not Route[28]

The Exchange proposes changes to how orders with instructions do not route would
interact with the NYSE Arca Book. These orders include: "Arca Only Orders,"[29] "ALO
Orders,"[30] and "Intermarket Sweep Orders."[31] The Exchange proposes that on arrival, orders
that do not route would trade with resting orders in the NYSE Arca Book, consistent with the
terms of the order and the Trade-at Prohibition. Day ISOs, on arrival, would be eligible for the
Trade-at Intermarket Sweep Orders exception to the Trade-at Prohibition. An IOC ISO to buy
(sell) would not trade with orders to sell (buy) ranked "Priority 1 – Market Orders" or "Priority 3
– Non-Display Orders" that are the same price as a protected offer (bid) unless the limit price of
such IOC ISO is higher (lower) than the price of the protected offer (bid).

For Arca Only Order or ALO Orders, the Exchange proposes that when being added to
the NYSE Arca Book, such orders to buy (sell) with a limit price equal to or above (below) the
PBO (PBB) would be assigned a display price and working price one MPV below (above) the
PBO (PBB). Once the Arca Only Order or ALO Order to buy (sell) is resting on the NYSE Arca
Book, such orders would not be eligible to trade with later-arriving orders to sell (buy) ranked

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[27]   See Rule 7.31P(d)(2)(A).

[28]   See proposed Exchange Rule 7.46(f)(5)(F).

[29]   An "Arca Only Order" is a limit order that does not route. See Exchange Rule
        7.31P(e)(1).

[30]   An "ALO Order" is an Arca Only Order that, with some exceptions, will not remove
        liquidity from the NYSE Arca Book and must have a minimum on one displayed round
        lot. See Exchange Rule 7.31P(e)(2).

[31]   An "Intermarket Sweep Order" is a Limit Order that does not route and meets the
        requirements of Rule 600(b)(30) of Regulation NMS. See Exchange Rule 7.31P(e)(3).

"Priority 2 – Display Orders" priced equal to the PBO (PBB). A later-arriving order to buy (sell) that is eligible to trade with the PBO (PBB) may trade before such resting order.

g. Block Size Exception to the Trade-at Prohibition[32]

The Exchange proposes that the only orders eligible for the block size exception to the Trade-at Prohibition would be Limit IOC Cross Orders[33] that meet the Block Size definition. A Limit IOC Cross Order that is at the same price as the PBBO but does not meet the Block Size definition would be rejected in Test Group Three.

h. Rejection of Tracking Orders[34]

The Exchange proposes that Tracking Orders[35] will be rejected for Test Group Three Pilot Securities.

B. Limit Up – Limit Down ("LULD") Price Bands

The Exchange proposes that after the Exchange opens or reopens an Exchange-listed security but before receiving Price Bands from the Securities Information Processor ("SIP") under the LULD Plan, the Exchange would calculate Price Bands based on the first Reference Price provided to the SIP and, if such Price Bands are not in the MPV for the security, round such Price Bands to the nearest price at the applicable MPV.

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[32] See proposed Exchange Rule 7.46(f)(5)(G).

[33] A Limit IOC Cross Order is a two-sided order with instructions to match the buy-side with the identified sell-side at a specified price and that does not route and will cancel at the time of entry if the cross price is not between the BBO or would trade through the PBBO. See Exchange Rule 7.31P(g)(1).

[34] See proposed Exchange Rule 7.46(f)(5)(H).

[35] A Tracking Order is an order to buy (sell) with a limit price that is not displayed, does not route, must be entered in round lots and designated Day, and will trade only with an order to sell (buy) that is eligible to route. The working price of a Tracking Order to buy (sell) is the PBB (PBO), provided that such price is at or below (above) the limit price of the Tracking Order. See Exchange Rule 7.31P(d)(4).

C.   Limit Order Price Protection

The Exchange proposes to specify that the limit order price protection for both buy and sell orders that are not in the MPV for the security would be rounded down to the nearest price at the applicable MPV.

D.   Miscellaneous Changes

The Exchange proposes to add the phrase "or Intermarket Sweep Orders" to the definition of "Trade-at ISO" as well as into the Trade-at ISO exception to the Trade-at Prohibition to clarify that ISOs may be routed to execute against the full displayed size of the Protected Quotation that was traded at.[36]

The Exchange proposes to amend the Block Size exception to the Trade-at Prohibition to allow a Block Size order to execute on multiple Trading Centers for the purpose of compliance with Rule 611 of Regulation NMS.[37]

Finally, the Exchange proposes to correct numerous typographical errors in the proposed rule text.

III.   Summary of Comment Letters

Both comment letters express support for the proposed rule change and suggest that the Commission should approve the proposal. In Comment Letter No. 1, the commenters stated that if the proposal is approved as proposed, then NYSE would be able to meet the October 3, 2016 implementation date. Further, in Comment Letter No. 1, the commenters stated their belief that the requirements from the Commission have been unclear. In Comment Letter No. 2, the commenter questioned Commission staff's authority.

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[36]   See proposed Exchange Rules 7.46(a)(1)(D)(ii) and 7.46(e)(4)(C)(x).

[37]   See proposed Exchange Rule 7.46(e)(4)(C)(iii).

IV.   Discussion and Commission's Findings

After careful review of the proposed rule change, as modified by Amendment No. 1, and the comment letters, the Commission finds that the proposal, as modified by Amendment No. 1, is consistent with the requirements of the Act, Rule 608 of Regulation NMS,[38] and the rules and regulations thereunder that are applicable to a national securities exchange.[39] Specifically, the Commission finds that the rule change is consistent with Section 6(b)(5) of the Act,[40] which requires that the rules of a national securities exchange be designed, among other things, to prevent fraudulent and manipulative acts and practices, 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 to protect investors and the public interest; and are not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

As noted in the Approval Order, the Plan is by design, an objective, data-driven test to evaluate how a wider tick size would impact trading, liquidity, and market quality of securities of smaller capitalization companies. In addition, the Plan is designed with three Test Groups and a Control Group, to allow analysis and comparison of incremental market structure changes on the Pilot Securities and is designed to produce empirical data that could inform future policy decisions.

The Exchange proposes changes to modify how the Exchange will handle orders during the Pilot Period. Specifically, the Exchange proposes to accept TA ISOs in all securities, to

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[38]   17 CFR 242.608.

[39]   In approving this rule change, the Commission has considered the rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

[40]   15 U.S.C. 78f(b)(5).

specify how references to MPV should be considered for Pilot Securities in the Test Groups, to

require that MPL Orders with a limit price must be entered in a $0.05 pricing increment for Pilot

Securities in the Test Groups, to reject Market Pegged Orders[41] and to specify the pricing

increment for Retail Price Improvement Orders in Test Groups Two and Three. The Exchange

further proposes changes for Pilot Securities in Test Group Three to comply with the Trade-at

Prohibition, including a different priority for execution of resting orders, how display price and

working price would be determined for certain Limit Orders, Reserve Orders and Non-Displayed

Limit Orders, how orders that do not route would operate, and that Tracking Orders would be

rejected for Test Group Three Pilot Securities. In addition, the Exchange proposes to not route to

Away Markets that are not displaying Protected Quotations. Finally, the Exchange proposes to

only permit Limit IOC Cross Orders that meet the Block Size definition to be eligible for the

Block Size exception to the Trade-at Prohibition.[42]

The Commission believes that these changes are reasonably designed to comply with the

Plan. Further, the Commission believes that the proposed changes that are targeted at particular

Test Groups are necessary for compliance with the Plan. Accordingly, the Commission finds

that these changes are consistent with Section 6(b)(5) of the Act[43] and Rule 608 of Regulation

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[41]   See Amendment No. 1. The Exchange originally proposed to reject Market Pegged
         Orders only in Test Group Three. The Commission believes that the amendment to reject
         all Market Pegged Orders in Pilot Securities modifies the proposal so that it does not
         cause a disparate impact on different Test Groups and the Control Group.

[42]   The Commission notes that the Limit IOC Cross Orders that meet the definition of Block
         Size must also satisfy the provisions of the Block Size exception, including that it may
         not be an aggregation of non-block orders, or broken into orders small than Block Size
         prior to submitting the order to a Trading Center for execution. See NYSE Acra Rule
         7.46(e)(4)(C).

[43]   15 U.S.C. 78f(b)(5).

NMS[44] because they implement the Plan and clarify Exchange Rules.

In addition, the Exchange proposes to adopt a rule to specify how the Exchange will calculate LULD Price Bands after the Exchange opens or reopens. The Commission believes that this change should help to ensure that trading does not occur outside of Price Bands when LULD is in effect.

Finally, the Exchange proposes to specify that if Limit Order Price Protection is not in the MPV it would be rounded down to the nearest price at the applicable MPV. The Commission believes that this change should provide clarity in the Exchange's rules.

For these reasons, the Commission finds that the proposed rule change, as modified by Amendment No.1, is consistent with the requirements of the Act and Rule 608 of Regulation NMS.

V.   Solicitation of Comments on Amendment No. 1 to the Proposed Rule Change

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether Amendment No. 1 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-2016-123 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange

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[44]   17 CFR 242.608.

Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR- NYSEArca-2016-123. 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 20549-1090, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing will also 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-2016-123 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

VI.   Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1

The Commission finds good cause to approve the proposed rule change, as modified by Amendment No. 1, prior to the thirtieth day after the date of publication of notice of the proposed rule change, as modified by Amendment No. 1 in the Federal Register. As described above, the Exchange proposes to amend its rules to comply with the Plan and clarify other rules related to LULD and Limit Order Price Protection.

The Commission believes that the proposals to clarify how LULD Price Bands that are calculated by the Exchange would be rounded in instances where they are not in the MPV for a security and how Limit Order Price Protection would be rounded in instances where it is not in the MPV for a security provides clarity in the Exchange rules.

In addition, the Commission notes that the Pilot is scheduled to start on October 3, 2016, and accelerated approval of the proposal would ensure that the rules of the Exchange would be in place for the start of the Pilot. Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2) of the Exchange Act,[45] to approve the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

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[45]   15 U.S.C. 78s(b)(2).

VII.   Conclusion

IT IS THEREFORE ORDERED THAT, pursuant to Section 19(b)(2) of the Act,[46] that

the proposed rule change (SR-NYSEArca-2016-123), as modified by Amendment No. 1, be and

hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated

authority.[47]

Robert W. Errett
Deputy Secretary

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[46]   Id.

[47]   17 CFR 200.30-3(a)(12)