

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-79884; File No. SR-BatsBZX-2016-61)

January 26, 2017

Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Order Granting Approval of Proposed Rule Change, as Modified by Amendment No. 1, to Amend Exchange Rule 11.23, Auctions, to Enhance the Reopening Auction Process Following a Trading Halt Declared Pursuant to the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS

I. Introduction

On October 13, 2016, Bats BZX Exchange, Inc. (“Exchange” or “BZX”) 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 related to the Exchange’s re-opening process following a trading halt declared pursuant to the National Market System Plan to Address Extraordinary Market Volatility (“Plan”). The proposed rule change was published for comment in the Federal Register on November 1, 2016.³ On December 14, 2016, the Commission extended the time period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change to January 30, 2017.⁴ On January 24, 2017, the Exchange filed Amendment No. 1 to the proposed rule change.⁵ The Commission received no

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 79162 (October 26, 2016), 81 FR 75875 (“Notice”).

⁴ See Securities Exchange Act Release No. 79552, 81 FR 92928 (December 20, 2016).

⁵ In Amendment No. 1, the Exchange stated that it anticipates implementing the proposed rule change in the second half of 2017, and most likely within the third quarter, assuming the Securities Information Processors have implemented their changes and the other primary listing exchanges are able to implement their proposed rule changes simultaneously with the Exchange. The Exchange also updated the text of BZX Rule 11.23(d)(2)(E) to reflect the changes made by SR-BatsBZX-2016-81. See Securities

comments on the proposed rule change. This order approves the proposed rule change, as modified by Amendment No. 1.

II. Description of the Proposed Rule Change, as Modified by Amendment No. 1

In conjunction with the Twelfth Amendment to the Plan,⁶ the Exchange proposes to revise its re-opening process following a trading halt declared pursuant to the Plan (“Trading Pause”) and to make related changes.

Auction Reference Price and Auction Collar for Halt Auctions Following a Trading Pause

The Exchange proposes to establish a “Halt Auction Reference Price” and a “Halt Auction Collar” for Halt Auctions following a Trading Pause. Specifically, the Halt Auction Reference Price would be equal to the price of the Upper or Lower Price Band that triggered the Trading Pause.⁷ With respect to Halt Auction Collars, if the Halt Auction Reference Price is the Lower (Upper) Price Band, the initial lower (upper) Halt Auction Collar would be 5 percent less (greater) than the Halt Auction Reference Price, rounded to the nearest minimum price variation, and the upper (lower) Halt Auction Collar would be the Upper (Lower) Price Band.⁸ For securities with a Halt Auction Reference Price of \$3.00 or less, the initial lower (upper) Halt Auction Collar would be \$0.15 less (greater) than the Halt Auction Reference Price, rounded to

Exchange Act Release No. 79467 (December 5, 2016), 81 FR 89176 (December 9, 2016). The Exchange stated that the changes from SR-BatsBZX-2016-81 do not impact the same language as the current proposal and do not conflict with the current proposal. Because Amendment No. 1 does not materially alter the substance of the proposed rule change or raise unique or novel regulatory issues, Amendment No. 1 is not subject to notice and comment. Amendment No. 1 is available at: <https://www.sec.gov/comments/sr-batsbzx-2016-61/batsbzx201661.htm>.

⁶ See Securities Exchange Act Release No. 79845 (January 19, 2017) (File No. 4-631).

⁷ See proposed BZX Rule 11.23(d)(2)(C)(i). The proposed definition of Halt Auction Reference Price for a Trading Pause is designed to be consistent across listing exchanges.

⁸ See id.

the nearest minimum price variation, and the upper (lower) Halt Auction Collar would be the Upper (Lower) Price Band.⁹

Extension of Re-Opening Time and Expansion of Halt Auction Collars for Halt Auctions

Under the proposal, the Exchange would provide a 5-minute Quote-Only Period¹⁰ prior to a Halt Auction following a Trading Pause.¹¹ This Quote-Only Period would be extended for an additional 5 minutes (“Initial Extension Period”) if a Halt Auction could not be conducted due to a Market Order imbalance under BZX Rule 11.23(d)(2)(B)(i)¹² or if the Indicative Price,¹³ before being adjusted for Halt Auction Collars, is outside the Halt Auction Collars set forth in proposed BZX Rule 11.23(d)(2)(C)(i) and (ii) (either, an “Impermissible Price”).¹⁴ After the Initial Extension Period, the Quote-Only Period would be extended for additional 5-minute periods if a Halt Auction could not be conducted due to an Impermissible Price (“Additional Extension Period”) until a Halt Auction occurs.¹⁵

⁹ See id. These proposed Halt Auction Collars are designed to be consistent across listing exchanges. The Exchange also proposes to make conforming changes in renumbered BZX Rule 11.23(d)(2)(E).

¹⁰ See proposed BZX Rule 11.23(d)(2)(C). BZX Rule 11.23(a)(17) defines “Quote-Only Period” to mean a designated period of time prior to a Halt Auction, a Volatility Closing Auction, or an IPO Auction during which Users may submit orders to the Exchange for participation in the auction.

¹¹ See proposed BZX Rule 11.23(d)(2)(C).

¹² BZX Rule 11.23(d)(2)(B)(i) refers to circumstances where there are unmatched market orders on the Auction Book associated with the auction.

¹³ BZX Rule 11.23(a)(10) defines “Indicative Price” to mean, in part, the price at which the most shares from the Auction Book and the Continuous Book would match.

¹⁴ See proposed BZX Rule 11.23(d)(2)(C). The Quote-Only Period would not be extended and the Halt Auction may occur where there is a Limit Order imbalance, but no Market Order imbalance exists and the Indicative Price is inside the thresholds set forth in proposed BZX Rule 11.23(d)(2)(C). See Notice, supra note 3, at 75877.

¹⁵ The Exchange would attempt to conduct a Halt Auction during the course of each Additional Extension Period. See proposed BZX Rule 11.23(d)(2)(C).

Under the proposal, at the beginning of the Initial Extension Period, the upper (lower) Halt Auction Collar would be increased (decreased) by 5 percent in the direction of the Impermissible Price, rounded to the nearest minimum price variation.¹⁶ For securities with a Halt Auction Reference Price of \$3.00 or less, the Halt Auction Collar would be increased (decreased) in \$0.15 increments in the direction of Impermissible Price.¹⁷ At the beginning of each Additional Extension Period, the Halt Auction Collar would be widened in the same manner and by the same amount as the Initial Extension Period.¹⁸

As proposed, a Halt Auction for a security would be cancelled at 3:50 p.m. eastern time, at which time the auction for the security would be conducted pursuant to the Volatility Closing Auction process under BZX Rule 11.23(e).¹⁹

Other Changes Relating to the Halt Auction

The Exchange proposes to amend BZX Rule 11.23(d)(2)(A) regarding the publication of BZX Auction Information. BZX Rule 11.23(d)(2)(A) currently states that, coinciding with the beginning of the Quote-Only Period for a security and updated every five seconds thereafter, the Reference Price, Indicative Price, Auction Only Price, and the lesser of Reference Buy Shares and Reference Sell Shares associated with the Halt Auction will be disseminated via electronic

¹⁶ See proposed BZX Rule 11.23(d)(2)(C)(ii).

¹⁷ See id.

¹⁸ See id. The proposed extensions and widening of the Halt Auction Collars are designed to be consistent across listing exchanges.

¹⁹ See proposed BZX Rule 11.23(d)(2)(C). The concept of holding a closing auction instead of a re-opening auction if a Trading Pause exists in the last ten minutes of trading is designed to be consistent across listing exchanges and to reflect the Twelfth Amendment to the Plan.

means.²⁰ The Exchange now proposes to amend BZX Rule 11.23(d)(2)(A) to include the Halt Auction Reference Price and Halt Auction Collars as part of the information to be disseminated.²¹

The Exchange proposes to amend BZX Rule 11.17(a) to provide that executions as a result of a Halt Auction under BZX Rule 11.23(d) are not eligible for a request to review as clearly erroneous under BZX Rule 11.17(b).²²

Other Changes Relating to Trading Pauses

The Exchange proposes that if a Trading Pause is triggered by the Exchange or if the Exchange is unable to re-open trading at the end of the Trading Pause due to a systems or technology issue, the Exchange would immediately notify the single plan processor responsible for consolidation of information for the security pursuant to Rule 603 of Regulation NMS under the Act.²³

The Exchange states that it will announce the implementation date of the proposed rule change via a trading notice to be issued after this proposed rule change is approved by the Commission.²⁴ The Exchange anticipates that this implementation will occur within the second

²⁰ See BZX Rules 11.23(a)(2) (defining “Auction Only Price”); 11.23(a)(18) (defining “Reference Buy Shares”); 11.23(a)(19) (defining “Reference Price”); and 11.23(a)(21) (defining “Reference Sell Shares”).

²¹ See proposed BZX Rule 11.23(d)(2)(A). The Exchange also proposes to make clear that it would notify market participants of the circumstances and length of an extension of the Quote-Only Period as set forth in BZX Rules 11.23(d)(2)(B) and (C). See proposed BZX Rule 11.23(d)(2)(D).

²² The proposal to exclude re-opening auction trades from the clearly erroneous execution rule is designed to be consistent across listing exchanges.

²³ See proposed BZX Rule 11.23(d)(2)(F). This change is designed to be consistent across listing exchanges and to reflect the Twelfth Amendment to the Plan.

²⁴ See Notice, supra note 3, at 75877.

half of 2017, and most likely within the third quarter, assuming the Securities Information Processors have implemented their changes and the other primary listing exchanges are able to implement their proposed rule changes simultaneously with the Exchange.²⁵

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.²⁶ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,²⁷ which requires, among other things, that the rules of a national securities exchange be 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 public interest. As noted above, the Commission received no comment letters regarding the proposed rule change.

The Commission notes that the proposed rule change is designed, together with the Twelfth Amendment to the Plan,²⁸ to address the issues experienced on August 24, 2015 by reducing the number of repeat Trading Pauses in a single NMS Stock.²⁹ The Commission notes that the proposed rule change is also designed to further the goal of establishing a standardized

²⁵ See Amendment No. 1, supra note 5. For a more detailed description of the proposed rule change, see Notice, supra note 3.

²⁶ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²⁷ 15 U.S.C. 78f(b)(5).

²⁸ See, supra note 6.

²⁹ See Notice, supra note 3, at 75878.

approach for how Primary Listing Exchanges would conduct certain aspects of an automated re-opening following a Trading Pause, which should provide certainty for market participants regarding how a security would re-open following a Trading Pause, regardless of the listing exchange.³⁰

With respect to the proposed Halt Auction Reference Price and Halt Auction Collars, the Commission finds reasonable the Exchange's belief that the price of the limit state that preceded the Trading Pause (i.e., either the Lower or Upper Price Band price) would better reflect the most recent price of the security, and therefore should be used as the Halt Auction Reference Price.³¹ Moreover, the Commission believes that the proposed method for calculating the initial Halt Auction Collars (i.e., the Halt Auction Collar on the opposite side of the trading pressure would be the Price Band in place before the Trading Pause was triggered) would address the concept of mean reversion, as well as avoid a security from trading outside of a price that it would have been permitted to trade before the Trading Pause.³²

The Commission believes that extending the Trading Pause and widening the Halt Auction Collar on the side of the Impermissible Price would be a measured approach to provide additional time to attract offsetting interest, to help to address an imbalance that may not be resolved within the prior Halt Auction Collars, and to reduce the potential for triggering another Trading Pause.³³ Also, as the Exchange noted, widening the Halt Auction Collar only in the direction of the imbalance would address issues relating to the concept of mean reversion.³⁴

³⁰ See id.

³¹ See id.

³² See id.

³³ See id.

³⁴ See id.

Moreover, the Commission notes that the proposal to cancel the Halt Auction at 3:50 p.m. and instead conduct the Volatility Closing Auction under BZX Rule 11.23(e) would be consistent with the Twelfth Amendment to the Plan.

The Commission believes that precluding members from requesting review of a Halt Auction as a clearly erroneous execution is appropriate. The Commission notes that the proposed re-opening procedures would allow for widened collars, which may result in a re-opening price away from prior trading prices, but the re-opening price would be a result of a measured and transparent process that reduces the potential that such trade would be considered erroneous.³⁵

The Commission believes that the proposed enhancements to the information that would be disseminated for a Halt Auction would further promote transparency around a Halt Auction.

Finally, the Commission notes that proposed BZX Rule 11.23(d)(2)(F) is consistent with the Twelfth Amendment to the Plan.

Based on the Exchange's representations mentioned above and in the Notice, and for the foregoing reasons, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with Section 6(b)(5) of the Act³⁶ and the rules and regulations thereunder applicable to a national securities exchange.

³⁵ See id.

³⁶ 15 U.S.C. 78f(b)(5).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,³⁷ that the proposed rule change (SR-BatsBZX-2016-61), as modified by Amendment No. 1, be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³⁸

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Assistant Secretary

³⁷ 15 U.S.C. 78s(b)(2).

³⁸ 17 CFR 200.30-3(a)(12).