

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-101812; File No. SR-NYSE-2024-67)

December 4, 2024

Self-Regulatory Organizations; New York Stock Exchange LLC; Order Approving a Proposed Rule Change to Amend NYSE Rule 7.31(f)(1)

I. Introduction

On October 24, 2024, New York Stock Exchange LLC (the “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend NYSE Rule 7.31(f)(1). The proposed rule change was published for comment in the Federal Register on November 4, 2024.<sup>3</sup> The Commission has received no comment letters on the proposed rule change. This order approves the proposed rule change.

II. Description of the Proposal

The Exchange has proposed to amend NYSE Rule 7.31(f)(1) regarding Directed Orders. NYSE Rule 7.31(f)(1) currently defines a Directed Order as a Limit Order with instructions to route on arrival at its limit price to a specified alternative trading system (“ATS”) with which the Exchange maintains an electronic linkage. According to the Exchange, Directed Orders are available for all securities eligible to trade on the Exchange, are not assigned a working time, and do not interact with interest on the Exchange Book.<sup>4</sup> NYSE Rule 7.31(f)(1) further provides that the ATS to which a Directed Order is routed is responsible for validating whether the order is

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 101471 (October 29, 2024), 89 FR 87675 (“Notice”).

<sup>4</sup> See id. at 87675.

eligible to be accepted, and if that ATS determines to reject the order, the order would be canceled.

The Exchange has proposed to amend NYSE Rule 7.31(f)(1) to provide for Directed Orders to be routed to a broker-dealer algorithm for execution. Specifically, the Exchange has proposed to permit Directed Orders to be designated by the entering member organization to route to a broker-dealer algorithm selected from of a set of broker-dealer algorithms with which the Exchange has established connectivity. The Exchange proposes to route Directed Orders only to a range of broker-dealer algorithms that have completed its onboarding process and established routing connectivity with the Exchange.<sup>5</sup> The Exchange represents that any FINRA-registered broker-dealer<sup>6</sup> will be eligible to complete this process, which is intended, among other things, to ensure that algorithm providers attest to compliance with applicable Exchange rules, FINRA rules, and federal securities laws and regulations and to confirm that the algorithm providers can meet the applicable technical specifications to connect to the Exchange. The Exchange states that algorithm providers will also be required to enter into routing agreements with the Exchange's routing broker, Archipelago Securities LLC ("ArcaSec"), to facilitate

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<sup>5</sup> All broker-dealer algorithms to which Directed Orders can be routed will operate on the broker-dealers' respective systems, not on Exchange systems. The Exchange represents that it does not currently have and will not enter into any financial or other arrangements with any algorithm provider with respect to the proposed Directed Orders. The member organization initiating a Directed Order to an algorithm has ultimate responsibility for any transaction fees associated with the execution of that order. The Exchange states that it may facilitate the process by which such fees are passed through from the algorithm providers to the member organizations utilizing Directed Orders, but will not determine, subsidize, or benefit from any such fees. Subject to approval and implementation of this proposed rule change, the Exchange states that it intends to adopt a routing fee for Directed Orders to an algorithm, similar to the existing routing fee for Directed Orders to an ATS. See New York Stock Exchange Price List 2024, available at [https://www.nyse.com/publicdocs/nyse/markets/nyse/NYSE\\_Price\\_List.pdf](https://www.nyse.com/publicdocs/nyse/markets/nyse/NYSE_Price_List.pdf) (providing for Routing Fee for Directed Order to OneChronos LLC). See Notice, supra note 3, 89 FR at 87675.

<sup>6</sup> The Exchange states that the ability to become an NYSE algorithm provider is open to all FINRA-registered broker-dealers, on an equal and non-discriminatory basis, regardless of whether they are also Exchange members. See id.

ArcaSec's routing of Directed Orders on behalf of member organizations to designated algorithms.<sup>7</sup>

As proposed, the member organization entering the Directed Order would select the algorithm to which the Directed Order would be routed and provide instructions for the handling of such order by the routing destination. The Exchange states that member organizations would select from the available algorithm providers without any input or control from the Exchange.<sup>8</sup> As with the existing Directed Order routing to an ATS, the Exchange states that its only role would be to route the order to the designated algorithm as instructed. The Exchange states that neither the Exchange nor ArcaSec will make any routing decisions and will only route Directed Orders to valid destinations as instructed by the member organization. The Exchange further states that it will not have any visibility into where or how a Directed Order is executed by an algorithm, including whether that order may be routed back to the Exchange or one of its affiliated exchanges, at the time of execution.<sup>9</sup> According to the Exchange, a Directed Order designated for an algorithm would not interact with the Exchange Book, and the Exchange would not exercise any discretion in determining where the order is routed.<sup>10</sup> Similarly, according to the Exchange, the algorithm selected by the member organization entering the

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<sup>7</sup> See id.

<sup>8</sup> The Consolidated Audit Trail ("CAT") for a Directed Order would reflect entry of the order at the Exchange; ArcaSec's receipt of the order from the Exchange; ArcaSec's routing of the order to the designated algorithm; and the algorithm's routing of the order to the execution venue(s) selected to effectuate its strategy. The Exchange states that it will not be involved in the clearing or settlement of Directed Orders, except to the extent that it may submit certain trades to clearing on behalf of member organizations (similar to the capacity in which it participates in the clearing process for orders that it routes for Regulation NMS purposes). See id.

<sup>9</sup> The Exchange represents that its systems would not be able to determine, upon receipt of a routed order, whether such order had originated in whole or in part from an algorithm or originated at the Exchange as a Directed Order to an algorithm. See Notice, supra note 3, 89 FR at 87675-76.

<sup>10</sup> See Notice, supra note 3, 89 FR at 87676.

Directed Order would be responsible for validating whether the order is eligible to be accepted, and if the algorithm determines to reject the order, the Directed Order would be canceled.<sup>11</sup>

To effect this change, the Exchange first has proposed to amend the definition of a Directed Order in NYSE Rule 7.31(f)(1) to provide that a Directed Order is a Limit Order with instructions to route on arrival to an ATS or algorithm with which the Exchange maintains an electronic linkage. According to the Exchange, Directed Orders would continue to be available for all securities eligible to trade on the Exchange and would not be assigned a working time or interact with interest on the Exchange Book. The Exchange has further proposed to amend NYSE Rule 7.31(f)(1) to specify that the ATS or algorithm to which the Directed Order is routed, as applicable, would validate whether the order is eligible to be accepted, and if it rejects the order, the order would be canceled.

The Exchange has proposed to permit Directed Orders designated to route to an algorithm to be Market Orders. The Exchange states that permitting these Directed Orders to be entered as Market Orders would facilitate market participants' existing functional workflows when routing to algorithms.<sup>12</sup> According to the Exchange, a member organization routing a Directed Order to an algorithm may, for example, wish to send a parent order with Market Order instructions for execution via smaller limited child orders over several hours of the trading day.

The Exchange has proposed to delete the first sentence of current NYSE Rule 7.31(f)(1)(A), which provides that Directed Orders must be designated for the Exchange's Core Trading Session. The Exchange has also proposed to delete current NYSE Rule 7.34(c)(1)(E), which provides that Directed Orders designated for the Early Trading Session will be rejected,

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<sup>11</sup> See id.

<sup>12</sup> See id.

and to make a conforming change in Rule 7.34(c)(1) to reference “paragraphs (c)(1)(A) through (D)” to reflect the deletion of Rule 7.34(c)(1)(E). The Exchange states that its proposal to permit Directed Orders to be routed during any trading session is intended to allow the routing destinations receiving such orders to determine whether they are eligible to trade in a given trading session.<sup>13</sup> The Exchange states that it will pass on the instructions provided by the member organization entering the Directed Order, and the routing destination will be responsible for validating whether the order will be accepted or rejected, as contemplated by NYSE Rule 7.31(f)(1).<sup>14</sup>

Further, the Exchange has proposed to amend NYSE Rule 7.31(f)(1)(A) to provide that a Directed Order to an ATS must be designated as IOC or Day and would be routed as such, whereas a Directed Order to an algorithm may only be designated as Day and routed as such, consistent with market participants’ existing functional workflows when routing to algorithms. The Exchange also has proposed to clarify language currently in NYSE Rule 7.31(f)(1)(A) providing that Directed Orders may not be combined with any other modifiers set forth in this Rule, to instead provide that Directed Orders would not be processed with any other modifiers set forth in this Rule.

The Exchange has also proposed to amend NYSE Rule 7.31(f)(1)(C) to specify that, during a trading halt or pause, Directed Orders routed to an ATS would continue to be rejected, whereas Directed Orders to an algorithm would be routed as specified. The Exchange states that it has proposed that Directed Orders routed to an algorithm would be routed during a trading halt or pause, consistent with market participants’ existing functional workflows when routing to

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<sup>13</sup> See id.

<sup>14</sup> See id.

algorithms. The Exchange states that the proposed elimination of certain restrictions on Directed Orders currently set forth in Rules 7.31(f)(1)(A) and (C) would provide member organizations with additional flexibility when entering Directed Orders, which would remain subject to the rules and specifications of the destinations to which such orders are routed. As provided in Rule 7.31(f)(1), as amended, the ATS or algorithm to which a Directed Order is routed would validate whether the order is eligible to be accepted.<sup>15</sup>

Finally, the Exchange has proposed to amend Rule 7.31(f)(1)(D) to provide that a request to cancel a Directed Order designated Day will be routed to the ATS or algorithm to which the order was routed.

According to the Exchange, the proposed change would provide member organizations with a technology solution to leverage their existing Exchange connectivity to route Directed Orders to either an ATS or algorithm, thereby affording them increased access to execution tools and enhanced operational efficiency.<sup>16</sup> The Exchange states that the proposed change would offer member organizations greater choice and flexibility, and further believes that the proposed change could create efficiencies for member organizations by enabling them to send orders that they wish to route to an alternate destination through the Exchange, thereby leveraging order entry protocols and specifications already configured for their interactions with the Exchange.<sup>17</sup> The Exchange states that Directed Orders designated to route to an algorithm would generally operate in the same manner as Directed Orders that are currently eligible to be routed to an ATS selected by the member organization entering the order (except as proposed above). The

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<sup>15</sup> See id.

<sup>16</sup> The Exchange states that this proposed rule change could be particularly beneficial for smaller member organizations that cannot, for various reasons including cost, connect to multiple algorithm providers on their own. See id.

<sup>17</sup> See id.

Exchange further states that the Directed Order would continue to provide functionality similar to order types with specific execution instructions (such as the Auction Only Order defined in NYSE Rule 7.31(c)) or routing instructions (such as Primary Only Orders that route to the primary market that are available on the Exchange's affiliated equities exchanges).<sup>18</sup>

### III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>19</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>20</sup> 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 regulating, clearing, settling, processing information with respect to, and 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.

The Commission finds that the proposed rule change is reasonably designed to remove impediments to and perfect the mechanism of a free and open market and a national market system because it is reasonably designed to offer member organizations greater choice and flexibility in executing orders by providing routing to broker-dealer algorithms that have established connectivity with the Exchange and to ensure that such connectivity is provided to

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<sup>18</sup> See id.

<sup>19</sup> In approving this proposed rule change, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>20</sup> 15 U.S.C. 78f(b)(5).

broker-dealer algorithms on a fair and equitable basis. The Commission also believes that the proposed rule change would not permit unfair discrimination among customers, brokers, or dealers because Directed Orders will be available to all Exchange members on an equal basis and because the Exchange has represented that it would not direct orders to any algorithm with which the Exchange has a financial relationship.

Based on the foregoing, the Commission finds that the proposed rule change is consistent with the Act.

#### IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>21</sup> that the proposed rule change (SR-NYSE-2024-67) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>22</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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<sup>21</sup> 15 U.S.C. 78s(b)(2).

<sup>22</sup> 17 CFR 200.30-3(a)(12).