

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-75497; File No. SR-NYSEARCA-2015-56)

July 21, 2015

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change Adopting New Equity Trading Rules Relating to Orders and Modifiers and the Retail Liquidity Program to Reflect the Implementation of Pillar, the Exchange's New Trading Technology Platform

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the "Act")<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on July 7, 2015, 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 adopt new equity trading rules relating to Orders and Modifiers and the Retail Liquidity Program to reflect the implementation of Pillar, the Exchange's new trading technology platform. The text of the proposed rule change is available on the Exchange's website at [www.nyse.com](http://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

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

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 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

On April 30, 2015, the Exchange filed its first rule filing relating to the implementation of Pillar, which is an integrated trading technology platform designed to use a single specification for connecting to the equities and options markets operated by NYSE Arca and its affiliates, New York Stock Exchange LLC (“NYSE”) and NYSE MKT LLC (“NYSE MKT”).<sup>4</sup> The Pillar I Filing proposed to adopt new rules relating to Trading Sessions, Order Ranking and Display, and Order Execution.

This is the second filing to support Pillar implementation and is intended to be read together with the Pillar I Filing. Specifically, as described in the Pillar I Filing, new rules to govern trading on Pillar would have the same numbering as current rules, but with the modifier “P” appended to the rule number. For example, Rule 7.31, governing Orders and Modifiers, would remain unchanged and continue to apply to any trading in symbols on the current trading platform. Proposed Rule 7.31P would govern Orders and Modifiers for trading in symbols migrated to the Pillar platform. In addition, the

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<sup>4</sup> See Securities Exchange Act Release No. 74951 (May 13, 2015), 80 FR 28721 (May 19, 2015) (SR-NYSEArca-2015-38) (Notice) (“Pillar I Filing”). In the Pillar I Filing, the Exchange described its proposed implementation of Pillar, including that it would be submitting more than one rule filing to support the anticipated phased migration to Pillar.

proposed new rules to support Pillar in this filing would use the terms that were proposed in the Pillar I Filing, e.g., working price, display price, and priority categories.<sup>5</sup>

In this filing, the Exchange proposes to adopt new Pillar rules relating to:

- Orders and Modifiers (NYSE Arca Equities Rule 7.31P (“Rule 7.31P”));  
and
- Retail Liquidity Program (NYSE Arca Equities Rule 7.44P (“Rule 7.44P”))

#### Proposed New Rule 7.31P - Orders and Modifiers

Rule 7.31 governs orders and modifiers.<sup>6</sup> As set forth in Rule 7.31, which was recently amended by the 2015 Order Type Filing, the Exchange’s offering of order types and modifiers are grouped in the following categories:

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<sup>5</sup> Capitalized terms not proposed to be defined in this filing are the defined terms set forth in the Pillar I Filing or in Exchange rules.

<sup>6</sup> The Exchange has recently amended its rules related to order functionality on the current trading platform. See Securities Exchange Act Release Nos. 71331 (Jan. 16, 2014), 79 FR 3907 (Jan. 23, 2014) (SR-NYSEArca-2013-92) (Approval order for filing that updated rules relating to order types and modifiers) (“2013 Review Filing”); 72942 (Aug. 28, 2014), 79 FR 52784 (Sept. 4, 2014) (SR-NYSEArca-2014-75) (Approval order for filing that eliminated specified order types, modifiers, and related references) (“2014 Deletion Filing”); and 74796 (April 23, 2015), 80 FR 12537 (March 9, 2015) (SR-NYSEArca-2015-08) (Approval order for filing to clarify Exchange rules governing order types) (“2015 Order Type Filing”). The Exchange filed the 2015 Order Type Filing to respond to a request by the SEC’s Division of Trading and Markets that equity exchanges conduct a comprehensive review of their order types and how they operate in practice, and as part of that review, consider appropriate rule changes to help clarify the nature of order types and to eliminate specified order types. See Letter from James Burns, Deputy Director, Division of Trading and Markets, Securities and Exchange Commission, to Jeffrey C. Sprecher, Chief Executive Officer, Intercontinental Exchange, Inc., dated June 20, 2014. See also Mary Jo White, Chair, Securities and Exchange Commission, Speech at the Sandler, O’Neill & Partners, L.P. Global Exchange and Brokerage Conference (June 5, 2014) (available at [www.sec.gov/News/Speech/Detail/Speech/1370542004312#.U5HI-fmwJiw](http://www.sec.gov/News/Speech/Detail/Speech/1370542004312#.U5HI-fmwJiw)).

- Primary Order Types (Rule 7.31(a));
- Time in Force Modifiers (Rule 7.31(b));
- Auction-Only Orders (Rule 7.31(c));
- Working Orders (7.31(d));
- Orders with Instructions not to Route (7.31(e));
- Orders with Specific Routing Instructions (7.31(f));
- Additional Order Instructions and Modifiers (7.31(g)); and
- Q Orders (7.31(h)).

#### Overview of new Rule 7.31P

The Exchange proposes new Rule 7.31P to reflect orders and modifiers in Pillar and would structure new Rule 7.31P in a manner similar to Rule 7.31. Because Pillar would be a new trading platform, the Exchange proposes a new rule set to describe how orders and modifiers in Pillar would be priced, ranked, traded, and/or routed, using the terminology that was proposed in the Pillar I Filing, such as the terms “Away Market,” “working price,” “display price,” “limit price,” and the priority categories, as defined in proposed Rule 7.36P in the Pillar I Filing. Accordingly, all orders and modifiers will have new rule text in Rule 7.31P as compared to Rule 7.31. Proposed Rule 7.31P would have the following general non-substantive differences from current Rule 7.31:

- Renaming the category of orders currently described as “Working Orders” as “Orders with a Conditional or Non-Displayed Price and/or Size,” which would reflect the proposed new terms set forth in the Pillar I Filing;
- Moving Tracking Orders from the category “Orders with Instructions not to Route” to the category “Orders with a Conditional or Non-Displayed

Price and/or Size”;

- Creating new, stand-alone categories for Cross Orders and Pegged Orders;
- Using the terms “quantity” instead of “portion,” “will” instead of “shall,” and “trade” instead of “execute”; and
- Stylistic differences to eliminate use of terms such “contra-side” or “better than” with respect to NBBO or PBBO and instead referring to an order to buy (sell) and then, as appropriate for defining how an order type operates, referring to the contra-side order with which it is trading or being priced off of with more specificity, e.g., PBO (PBB) or PBB (PBO).<sup>7</sup>

The Exchange proposes a number of substantive differences to the orders and modifiers that would be available in Pillar as compared to what is available on the current trading platform. The following provides a high-level summary of proposed substantive differences to orders and modifiers in Pillar, which are discussed in greater detail below:

- Market Orders: To reduce the potential for clearly erroneous executions,<sup>8</sup> Market Order Trading Collars would prevent Market Orders from executing at the Trading Collar, which are based on the clearly erroneous execution numerical guidelines, and not just through the Trading Collar as under the current trading rules;
- Limit Orders: Resting Limit Orders that would lock or cross a protected

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<sup>7</sup> Rule 1.1(dd) defines the terms NBBO and PBBO. See also Securities Exchange Act Release No. 75289 (June 24, 2015) (SR-NYSEArca-2015-54) (“2015 Definition Filing”) (Notice of Filing to amend Rule 1.1 governing definitions, including adding definitions for NBB, NBO, PBB, and PBO).

<sup>8</sup> See Rule 7.10(c)(1) (specifying numerical guidelines for determining when an execution is clearly erroneous).

quotation if they become the BBO<sup>9</sup> would be re-priced;

- Limit Order designated IOC: A Limit Order designated with an immediate-or-cancel (“IOC”) modifier that is not eligible to route may be designated with an optional minimum trade size (“MTS”);
- Auction-Only Orders: MOO and LOO Orders would be eligible to participate in trading halt auctions and the Exchange would accept Auction-Only Orders in non-auction eligible symbols;
- Reserve Orders: The displayed portion of Reserve Orders would be replenished following any execution that reduces the display quantity below the size designated to be displayed, at which point the replenished quantity would receive a new working time;
- Passive Liquidity Orders: Passive Liquidity Orders would be renamed “Limit Non-Displayed Orders,” would no longer be ranked behind other non-displayed orders, and an optional Non-Display Remove Modifier would be available for this order type;
- MPL Orders: Mid-point Passive Liquidity Orders would be renamed “Mid-point Liquidity Orders” (“MPL Order”). On arrival, MPL Orders (and MPL-ALO Orders) would be eligible to trade with resting non-displayed interest that provides price improvement over the midpoint of the PBBO. As under current rules, an MPL Order may be designated with

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<sup>9</sup> The term “BBO” is defined in Rule 1.1(h) to mean the best bid or offer on the NYSE Arca Marketplace. See also 2015 Definition Filing, supra note 7 (defining the terms “BB” to mean Exchange best bid and “BO” to mean Exchange best offer).

an MTS, but in Pillar, the MTS would have to be a minimum of a round lot instead of one share. In addition, an MPL with an MTS would be rejected if, on arrival, the MTS is larger than the size of the order and would be cancelled at any point the MTS is larger than the residual size of the order;

- Tracking Orders: Tracking Orders would peg to the PBBO instead of the NBBO and Self-Trade Prevention (“STP”) Modifiers for Tracking Orders would no longer be ignored;
- PNP Orders: PNP Orders would no longer be offered;
- PNP Blind Orders: PNP Blind Orders would be renamed “Arca Only Orders” and an optional Non-Display Remove Modifier would be available for this order type;
- ALO Orders: The current form of Adding Liquidity Only (“ALO”) Orders, which are based on PNP Orders and are rejected on arrival if marketable, would no longer be offered. ALO Orders in Pillar would no longer be rejected on arrival if marketable and instead would be re-priced both on arrival and after updates to the PBBO. In addition, an ALO Order would trade with resting contra-side non-displayed orders that would provide price improvement;
- Intermarket Sweep Order: Intermarket Sweep Orders (“ISO”) designated Day and IOC would be renamed “Day ISO” and “IOC ISO,” respectively, and ALO modifier functionality available for Day ISOs would be based on the proposed ALO Order in Pillar;

- Primary Only Orders: Primary Only Orders designated for the Core Trading Session would be accepted and routed directly to the primary listing market on arrival and the Exchange would not validate whether the primary listing market would be accepting such orders. Primary Only Orders that are designated Day may be designated as a Reserve Order;
- Cross Orders: The Exchange would offer a new Limit IOC Routable Cross Order, which would be eligible to trade with displayed interest on the NYSE Arca Book and Away Markets before trading at its cross price;
- Pegged Orders: Pegged Orders would peg to the PBBO instead of the NBBO, would require a limit price, and would be accepted during a Short Sale Period, as defined in Rule 7.16(f). Market Pegged Orders would no longer be displayed and an offset value would no longer be required, and Primary Pegged Orders could not include an offset value. In addition, in Pillar, Pegged Orders would not be assigned a working price if the PBBO is locked or crossed: and
- Q Orders: Auto Q Orders would be eliminated.

The Exchange is not proposing at this time to offer the following orders and modifiers in Pillar, and therefore they would not be included in proposed Rule 7.31P: Open Modifiers (Rule 7.31(b)(2)(A) (Good Til Cancelled (“GTC”) Modifier) and (B) (Good Till Date (“GTD”) Modifier); Fill-or-Kill (“FOK”) Modifier (Rule 7.31(b)(4)); Discretionary Orders (Rule 7.31(d)(1)); PNP Order (Rule 7.31(e)(f)); and the Auto Q Order (Rule 7.31(h)(2)). Because the Exchange is not proposing to offer Open Modifiers in Pillar, the Exchange is also not proposing to include the Do Not Reduce Modifier



(Rule 7.31(g)(3)) and Do Not Increase Modifier (Rule 7.31(g)(4)) in proposed Rule 7.31P.

Primary Order Types (Proposed Rule 7.31P(a))

Proposed Rule 7.31P(a) would set forth the Exchange's primary order types in Pillar. As with Rule 7.31(a), proposed Rule 7.31P(a)(1) would provide for Market Orders, proposed Rule 7.31P(a)(2) would provide for Limit Orders, and proposed Rule 7.31P(a)(3) would provide for Inside Limit Orders.

Market Orders: Current Rule 7.31(a)(1) defines a Market Order as an order to buy or sell a stated amount of a security that is to be executed at the NBBO when the order reaches the Corporation. The rule further provides that Market Orders shall not trade through the NBBO or Protected Quotations and shall be rejected if there is no contra-side bid or offer.

Current Rule 7.31(a)(1)(A) – (C) sets forth Trading Collars for Market Orders. Rule 7.31(a)(1)(A) provides that during Core Trading Hours, including the Market Order Auction, a Market Order to buy (sell) will not execute or route to another market center at a price above (below) the Trading Collar and that Trading Collars do not apply to Limit Orders. Rule 7.31(a)(1)(B) sets forth how Trading Collars are calculated, which are based on a specified percentage away from the last consolidated sale price and the specified percentage is equal to the corresponding “numerical guideline” percentage in Rule 7.10(c)(1) (Clearly Erroneous Executions) for the Core Trading Session. Rule 7.31(a)(1)(C) sets forth how Market Orders are handled if a Trading Collar is triggered. Specifically, the Exchange holds a Market Order that would execute outside of the Trading Collar until additional opportunities consistent with the Trading Collar become

available or a new Trading Collar is calculated. The rule further provides that multiple Market Orders that become restricted by the Trading Collar are ranked in time priority and they are not displayed.

Proposed Rule 7.31P would define Market Orders in Pillar with one substantive difference relating to how Trading Collars function, described in greater detail below. The Exchange is not proposing any other substantive differences with respect to how Market Orders operate in Pillar. However, because of the additional terminology available in Pillar and because ranking and execution requirements in Pillar would be set forth in proposed Rules 7.36P and 7.37P, the Exchange proposes new rule text to describe Market Orders.

As proposed, Rule 7.31P(a)(1) would provide that a Market Order is an unpriced order to buy or sell a stated amount of a security that is to be traded at the best price obtainable without trading through the NBBO. As further proposed, a Market Order would be required to be designated Day and would be rejected on arrival, or cancelled if resting, if there is no contra-side NBBO. This proposed rule text describes the same functionality as is described in current Rule 7.31(a)(1).<sup>10</sup>

The Exchange is not proposing to include in Rule 7.31P(a)(1) the rule text in Rule 7.31(a)(1) that a Market Order would not trade through the NBBO or Protected Quotations because this general order execution requirement is proposed to be set forth in Rule 7.37P(a)(2) and (a)(4).<sup>11</sup> The Exchange believes that consolidating these general

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<sup>10</sup> Rule 7.31(b)(3) defines the IOC Modifier as being available only for Limit Orders, and therefore currently, Market Orders cannot be designated with an IOC Modifier and therefore must be designated Day.

<sup>11</sup> See Pillar I Filing, supra note 4.

requirements in a single rule would promote transparency and make the Exchange's rules easier to navigate.

The Exchange proposes to further provide in new Rule 7.31P(a)(1) that unexecuted Market Orders would be ranked Priority 1 – Market Orders. This text reflects current functionality because, if an unexecuted Market Order is held at a Trading Collar or the NBBO, it is available to trade against incoming contra-side orders. In such case, resting Market Orders have priority over other orders at that price. Because the Exchange proposes this priority category in the Pillar I Filing in new Rule 7.36P,<sup>12</sup> the Exchange proposes to include this terminology in new Rule 7.31P.

The Exchange proposes to add text in Rule 7.31P(a)(1)(A) to use Pillar terminology to describe how a Market Order would be priced, traded, or routed consistent with the requirement not to trade through the NBBO. As proposed, on arrival, a Market Order to buy (sell) would be assigned a working price of the NBO (NBB) and would trade with all sell (buy) orders on the NYSE Arca Book<sup>13</sup> priced at or below (above) the NBO (NBB) before routing to the NBO (NBB) on an Away Market.<sup>14</sup> As further

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<sup>12</sup> See id. See also Rule 7.16(f)(viii) (providing that Market Orders have priority over all other order types).

<sup>13</sup> As defined in proposed Rule 1.1(aP), in Pillar, the term “NYSE Arca Book” would mean the NYSE Arca Marketplace’s electronic file of orders, which contains all orders entered on the NYSE Arca Marketplace. See Pillar I Filing, supra note 4. Rule 1.1(e) defines the term “NYSE Arca Marketplace” to mean the electronic securities communications and trading facility designated by the Board of Directors through which orders of Users are consolidated for execution and/or display.

<sup>14</sup> As defined in proposed Rule 1.1(ffP), in Pillar, the term “Away Market” would mean any exchange, alternative trading system (“ATS”) or other broker-dealer (1) with which the NYSE Arca Marketplace maintains an electronic linkage and (2) which provides instantaneous responses to orders routed from the NYSE Arca Marketplace. See Pillar I Filing, supra note 4.

proposed, the quantity of a Market Order to buy (sell) not traded or routed would remain undisplayed on the NYSE Arca Book at a working price of the NBO (NBB) and would be eligible to trade with incoming sell (buy) orders at that price. When the updated NBO (NBB) is displayed, the Market Order to buy (sell) would be assigned a new working price of the updated NBO (NBB) and would trade with all sell (buy) orders on the NYSE Arca Book priced at or below (above) the updated NBO (NBB) before routing to the updated NBO (NBB) on an Away Market. Such assessment would continue at each new contra-side NBBO until the order is filled or a Trading Collar is reached. The rule would further provide that if the NBBO becomes locked or crossed while the order is held undisplayed, the Market Order to buy (sell) would be assigned a working price of the NBB (NBO).

Proposed new Rule 7.31P(a)(1)(B)(i) – (ii) would set forth Trading Collars in Pillar. The proposed rule text includes both non-substantive and substantive differences from Rule 7.31(a)(1). The proposed substantive difference relates the price at which a Market Order would not trade or route. Currently, a Market Order to buy (sell) will not trade or route at a price above (below) the Trading Collar. As proposed in new Rule 7.31P(a)(1)(B), a Market Order to buy (sell) would not trade or route to an Away Market at a price *at or* above (below) the Trading Collar. The Exchange believes that preventing orders from executing at the Trading Collar would promote a fair and orderly market by further reducing the potential for executions that could be clearly erroneous.<sup>15</sup>

Specifically, because an execution that occurs at the numerical guideline percentage away from the reference price is considered a clearly erroneous execution pursuant to Rule

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<sup>15</sup> See Rule 7.10(c)(1).

7.10, the proposed difference to the Trading Collar functionality would prevent a Market Order from executing at the Trading Collar, which is based on the same numerical guideline.

The Exchange proposes non-substantive differences for Rule 7.31P(a)(1)(B)(i) – (ii) to streamline the rule text that is currently set forth in Rule 7.31(a)(1)(B) and (C). The proposed rule would not include text in Rule 7.31(a)(1)(A) that specifies that Trading Collars are available during the Market Order Auction. The current rule text is necessary because the Market Order Auction does not occur during the Core Trading Session. However, as proposed in the Pillar I Filing, the Core Open Auction would occur on the Pillar trading platform during the Core Trading Session.<sup>16</sup> Accordingly, it is unnecessary in rules applicable to trading on Pillar that Trading Collars would be applicable during an auction that occurs during the Core Trading Session.

Proposed Rule 7.31P(a)(1)(B)(i) would set forth the “Calculation of a Trading Collar” functionality that is currently in Rule 7.31(a)(1)(B), with non-substantive differences to update the cross reference to proposed Rule 7.31P and to add that when the consolidated last sale price is either increased or decreased by the specified percentage, it would be truncated to the MPV in the security.<sup>17</sup> Accordingly, the proposed rule would provide that the Trading Collar would be based on a price that is a specified percentage away from the consolidated last sale price and it would be continuously updated based on market activity. The specified percentage would be equal to the corresponding

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<sup>16</sup> See proposed Rule 7.34P(a)(2) (Core Open Auction occurs during Core Trading Session), in Pillar I Filing, supra note 4.

<sup>17</sup> The term “MPV” is defined in Rule 7.6 as the minimum price variation for quoting and entry of orders in securities traded on the NYSE Arca Marketplace.

“numerical guideline” percentage set forth in Rule 7.10P(c)(1) (Clearly Erroneous Executions) for the Core Trading Session. The upper boundary of the Trading Collar would be the consolidated last sale price increased by the specified percentage truncated to the MPV for the security, and the lower boundary would be the consolidated last sale price decreased by the specified percentage truncated to the MPV for the security. A halt, suspension, or pause in trading would zero out the Trading Collar values, and the Trading Collar would be recalculated with the first consolidated last sale after trading resumes. If there is no consolidated last sale price on the same trading day, the Exchange would use the last Official Closing Price for the security.<sup>18</sup>

Proposed Rule 7.31P(a)(1)(B)(ii) would provide for the same functionality as in current Rule 7.31P(a)(1)(C)(i) with a substantive difference to reflect the proposal that Market Orders would not trade or route at the Trading Collar price, and non-substantive differences to use new Pillar terminology. As proposed, the rule would provide that if a Trading Collar is triggered, the unexecuted quantity of a Market Order to buy (sell) would be held undisplayed and assigned a working price one MPV below (above) the Trading Collar. Currently, Market Orders are held undisplayed at the Trading Collar. To reflect the proposed new functionality, Market Orders would be assigned a working price one MPV inside the Trading Collar. Proposed Rule 7.31P(a)(1)(B)(ii) would further provide that the Market Order to buy (sell) would be available to trade with incoming orders to sell (buy) at that working price but would not trade with interest on the NYSE Arca Book or route until (i) additional opportunities to trade consistent with the Trading

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<sup>18</sup> The Exchange will be proposing to define the term “Official Closing Price” for use in Pillar in a separate rule filing.

Collar restriction become available, either on the Corporation<sup>19</sup> or an Away Market, or (ii) a new Trading Collar is calculated and the remaining quantity of the order(s) is then able to trade or route at prices consistent with the new Trading Collar and NBBO.

The Exchange does not propose to include the following rule text from current Rule 7.31(a)(1)(C)(ii) in new Rule 7.31P:

- The statement that multiple Market Orders that become restricted by the Trading Collar will be ranked in time priority because such priority is now set forth in proposed new Rule 7.36P(e)(1) and (f), which define the Priority 1 – Market Orders category and that within each priority category, orders would be ranked based on time priority.<sup>20</sup>
- The text that provides that a Market Order that becomes restricted by the Trading Collar will not be displayed because this functionality would now be set forth in the first sentence of proposed Rule 7.31P(a)(1)(B)(ii), described above.

Limit Orders: Current Rule 7.31(a)(2) defines a Limit Order as an order to buy or sell a stated amount of a security at a specified price or better and a “marketable” Limit Order is a Limit Order to buy (sell) at or above (below) the contra-side PBBO for the security. Rule 7.31(a)(2)(A) further provides that a Limit Order will not trade-through, lock or cross a Protected Quotation, except as provided in Rule 7.37(g)(1). Rule 7.31(a)(2)(B) sets forth Limit Order Price Protection, which provides that a Limit Order

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<sup>19</sup> The term “Corporation” is defined in Rule 1.1(k) to mean NYSE Arca Equities, Inc., as described in the NYSE Arca Equities, Inc.’s Certificate of Incorporation and Bylaws.

<sup>20</sup> See Pillar I Filing, supra note 4.

will be rejected if it is priced a specified percentage away from the contra-side NBB or NBO. The specified percentage is equal to the corresponding “numerical guideline” percentage set forth in paragraph (c)(1) of Rule 7.10 for the Core Trading Session and Limit Order Price Protection is not applied to Limit Orders entered before the Core Trading Hours that are designated for the Core Trading Session or the Market Order Auction.

Proposed Rule 7.31P(a)(2) would define Limit Orders in Pillar and would have one substantive difference from Rule 7.31(a)(2) relating to the price at which resting Limit Orders would be displayed if they were to become a BBO that would lock or cross the PBBO. Because of the additional terminology proposed to be available in the rules applicable to the Pillar trading platform, including new definitions and ranking and execution requirements set forth in proposed Rules 7.36P and 7.37P, the Exchange proposes new rule text to describe Limit Orders.

The Exchange proposes to define Limit Orders in proposed Rule 7.31P(a)(2) as an order to buy or sell a stated amount of a security at a specified price or better, which is the same as the first sentence of current Rule 7.31(a)(2). The Exchange does not propose to include the second sentence of current Rule 7.31(a)(2) in proposed Rule 7.31P(a)(2) because defining how a Limit Order is marketable is duplicative of the definition of “Marketable” in Rule 1.1.<sup>21</sup>

To reflect Pillar terminology, proposed Rule 7.31P(a)(2) would provide that unless otherwise specified, the working price and the display price of a Limit Order

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<sup>21</sup> The Exchange recently amended Rule 1.1(g) to define the term “Marketable” to mean, for a Limit Order, and order that can be immediately executed or routed. See 2015 Definition Filing, *supra* note 7.



would equal the limit price of the order, it would be eligible to be routed, and it would be ranked Priority 2 – Display Orders. Additional order types in Pillar would be based on a Limit Order, in that they are orders with a specified price, but as described in greater detail below, these additional order types may not be displayed, may have a display price that differs from its working price, or may not route.

The Exchange is not proposing to include in new Rule 7.31P(a)(2) the text in current Rule 7.31(a)(2)(A) because the requirement that a Limit Order not trade through, lock or cross a protected quotation would be set forth in proposed Rules 7.37P(a)(2), (a)(3), and (e)(2).<sup>22</sup> Instead, the Exchange proposes to add new Rule 7.31P(a)(2)(A) to use Pillar terminology to describe how a Limit Order would be priced, traded, or routed consistent with the requirement not to trade through the PBBO. As proposed, a marketable Limit Order to buy (sell) would trade with all sell (buy) orders on the NYSE Arca Book priced at or below (above) the PBO (PBO) before routing to the PBO (PBB) and may route to prices higher (lower) than the PBO (PBB) only after trading with sell (buy) orders on the NYSE Arca Book at each price point. Once no longer marketable, the Limit Order would be ranked and displayed on the NYSE Arca Book. The Exchange believes that proposed Rule 7.31P(a)(2)(A) would promote transparency regarding how Limit Orders would be priced, traded or routed on the Pillar trading platform.

Proposed Rule 7.31P(a)(2)(B) would set forth Limit Order Price Protection, and is based on Rule 7.31(a)(2)(B). As proposed, a Limit Order to buy (sell) would be rejected if it is priced at or above (below) the specified percentage away from the NBO (NBB). Proposed Rule 7.31P(a)(2)(B) would further provide that the specified percentage is

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<sup>22</sup> See Pillar I Filing, *supra* note 4.

equal to the corresponding “numerical guideline” percentage set forth in Rule 7.10P(c)(1) (Clearly Erroneous Executions) for the Core Trading Session. This language is based on current rule text with non-substantive differences regarding the cross-reference to Rule 7.10P. Proposed Rule 7.31P(a)(2)(B) would next provide that Limit Order Price Protection would not be applied to an incoming Limit Order to buy (sell) if there is no NBO (NBB), which is the same as current rule text, with a non-substantive difference not to use the term “contra-side NBBO.”

The last two sentences of proposed Rule 7.31P(a)(2)(B) would provide that Limit Order Price Protection would be applied when an order is eligible to trade and that a Limit Order entered before the Core Trading Session that is designated for the Core Trading Session only would become subject to the Limit Order Price Protection after the Core Open Auction. This proposed rule text is based on the last sentence of Rule 7.31(a)(2)(B), but with differences to incorporate the proposed changes to Rule 7.34P in the Pillar I Filing that the Core Open Auction would occur during the Core Trading Session. The Exchange believes that the proposed rule text would promote transparency of when the Limit Order Price Protection would be applicable to an incoming Limit Order on the Pillar trading platform. For example, a Limit Order designated for the Late Trading Session only that is entered during the Core Trading Session would not be subject to Limit Order Price Protection on arrival, but would be subject to the price test once the order becomes eligible to trade.

The Exchange proposes to add new Rule 7.31P(a)(2)(C) to provide for new functionality in Pillar that would re-price resting Limit Orders in order to prevent those orders from becoming a BBO that would lock or cross the PBBO. As proposed, if the

current BB (BO) is locked or crossed by an Away Market PBO (PBB), then the current BB (BO) is cancelled, executed, or routed and the next best-priced resting Limit Order(s) to buy (sell) on the NYSE Arca Book that would become the new BB (BO) would have a display price that would lock or cross the PBO (PBB), such Limit Order(s) to buy (sell) would be assigned a display price one MPV below (above) the PBO (PBB) and a working price equal to the PBO (PBB). For example, assume the Exchange BB is 10.00 and there is a resting, displayed Limit Order to buy at 9.99. Next, an Away Market displays a PBO priced at 9.99, which crosses the Exchange's 10.00 BB, and the Exchange bid of 10.00 is cancelled. In this scenario, under proposed Pillar rules, the Limit Order to buy priced at 9.99 would be displayed at 9.98, but would have a working price and be eligible to trade at 9.99.<sup>23</sup> By displaying such Limit Order(s) to buy (sell) one MPV below (above) the PBO (PBB), such orders would not be displayed at a price that would lock or cross the PBBO. In addition, by assigning a working price equal to the PBO (PBB), such orders would remain available for an execution on the Exchange closer to their limit price, and priced so that they would not cause a trade-through of the PBBO.

If a resting Limit Order is re-priced as described above, it would be re-priced again in one of two circumstances. First, if a Day ISO to buy (sell) arrives before the PBO (PBB) is updated, such re-priced resting Limit Order(s) to buy (sell) would be re-priced again to the lower (higher) of the display price of the Day ISO or the original price

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<sup>23</sup> This functionality represents a change from current rules. Currently, in this example, because the Away Market crossed the Exchange's BB, the Exchange would then display the 9.99 Limit Order to buy as its new BB. Although in this scenario, the Away Market was the initiator of a quote that crossed the Exchange's BB, when the 9.99 bid becomes the Exchange BB, it would lock the PBO.

of the Limit Order(s). As discussed in greater detail below, a Day ISO represents current functionality, set forth in Rule 7.31(e)(3), of a PNP Order designated ISO, which may lock or cross a Manual or Protected Quotation. In the example above, if while the PBO is at 9.99, the Exchange receives a Day ISO to buy priced at 9.99, the Exchange would display that Day ISO and assign a new display price of 9.99 to the Limit Order that was previously displayed at 9.98.

The second circumstance when a resting Limit Order that was re-priced would be re-priced again would be when the PBBO moves such that the original limit price of the order would no longer lock or cross the PBBO. Accordingly, the proposed rule would provide that when the PBO (PBB) is updated, the Limit Order(s) to buy (sell) would be re-priced consistent with the original terms of the order. In the example above, once the PBO changes to 10.00 or higher, the Limit Order to buy priced at 9.99 would be displayed at 9.99, which is its limit price.

Inside Limit Orders: Current Rule 7.31(a)(3) defines an Inside Limit Order as a Limit Order, which, if routed away pursuant to Rule 7.37(d), will be routed to the contra-side NBBO. Any unfilled portion of the order will not be routed to the next best price level until all quotes at the current contra-side NBBO are exhausted. Once each contra-side NBBO is exhausted, Exchange systems will display the order at the contra-side NBBO price and wait until the updated NBBO is displayed. If the contra-side NBBO is within the limit price of the Inside Limit Order, the Exchange will route to that single price point and continue such assessment at each new contra-side NBBO until the order is filled or no longer marketable. If the order is no longer marketable it will be ranked in the NYSE Arca Book pursuant to Rule 7.36.

Current Rule 7.31(a)(3)(A) provides that an Inside Limit Order is “marketable” when it is priced to buy (sell) at or above (below) the NBBO for the security.

Current Rule 7.31(a)(3)(B) provides that an Inside Limit Order designated as a Primary Until 9:45 Order or a Primary After 3:55 Order will follow the order processing of an Inside Limit Order only when the order is on the NYSE Arca Book. Current Rule 7.31(a)(3)(C) provides that an Inside Limit Order will not trade through the NBBO or Protected Quotations. Finally, current Rule 7.31(a)(3)(D) provides that an Inside Limit Order may not be designated as a Discretionary Order or as IOC, but may be designated as NOW.<sup>24</sup>

The Exchange is not proposing any functional differences to Inside Limit Orders in Pillar. However, the Exchange is proposing non-substantive differences for the rule text defining Inside Limit Orders in order to use Pillar terminology to describe how Inside Limit Orders would be priced, traded, and routed on the Pillar trading platform.

Proposed Rule 7.31P(a)(3) would define an Inside Limit Order as a Limit Order that is to be traded at the best price obtainable without trading through the NBBO. Because an Inside Limit Order functions similarly to a Market Order in that it is priced based on the NBBO and not the PBBO, the Exchange proposes to use terminology similar to the proposed rule text for Market Orders to describe how Inside Limit Orders would be priced, traded or routed on the Pillar trading platform consistent with the requirement not to trade through the NBBO.

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<sup>24</sup> Pursuant to current Rule 7.31(b)(5), a NOW Modifier refers to a Limit Order that is to be executed in whole or in part on the Corporation, and the portion not so executed shall be routed pursuant to Rule 7.37(d).

Proposed Rule 7.31P(a)(3)(A) would provide that on arrival, a marketable Inside Limit Order to buy (sell) would be assigned a working price of the NBO (NBB) and would trade with all sell (buy) orders on the NYSE Arca Book priced at or below (above) the NBO (NBB) before routing to the NBO (NBB) on an Away Market. Once the NBO (NBB) is exhausted, the Inside Limit Order to buy (sell) would be displayed at its working price and be eligible to trade with incoming sell (buy) orders at that price. When the updated NBO (NBB) is displayed, the Inside Limit Order to buy (sell) would be assigned a new working price of the updated NBO (NBB) and would trade with all sell (buy) orders on the NYSE Arca Book priced at or below the updated NBO (NBB) before routing to the updated NBO (NBB) on an Away Market. Such assessment would continue at each new NBO (NBB) until the order is filled, no longer marketable, or the limit price is reached. Once the order is no longer marketable, it would be ranked and displayed on the NYSE Arca Book.

The Exchange is not proposing to keep the text from Rule 7.31(a)(3)(A) in proposed new Rule 7.31P(a)(3). As discussed above, the Exchange proposes to define the term marketable just once in the Pillar rules, in Rule 1.1, as amended. Similarly, the Exchange is not proposing to keep the text from Rule 7.31(a)(3)(C) in proposed new Rule 7.31P(a)(3) because the requirement that an Inside Limit Order not trade through the NBBO or protected quotations is set forth in proposed Rules 7.37P(a)(2) and (4)<sup>25</sup> and proposed Rule 7.31P(a)(3)(A) would provide the specificity of how an Inside Limit Order would not trade through the NBBO.

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<sup>25</sup> See Pillar I Filing, supra note 4.

Proposed Rule 7.31P(a)(3)(B) would provide that an Inside Limit Order designated as a Primary Until 9:45 Order or a Primary Until 3:55 Order would follow the order processing of an Inside Limit Order only when the order is on the NYSE Arca Book. This rule text is based on Rule 7.31(a)(3)(B) without any differences.

Proposed Rule 7.31P(a)(3)(C) would provide that an Inside Limit Order may not be designated as a Limit IOC Order but may be designated as a Limit Routable IOC Order. This rule text is based on current Rule 7.31(a)(3)(D), but with non-substantive differences to use the proposed Pillar definitions, described in more detail below, to replace the term IOC with “Limit IOC Order,” and “NOW Modifier” with “Limit Routable IOC Order.” Finally, as noted above, because the Exchange is not proposing to offer Discretionary Order functionality in Pillar, the Exchange is not proposing to include references to Discretionary Orders in proposed Rule 7.31P(a)(3)(C).

In order to use Pillar terminology to describe how orders are priced, traded, or routed on the Pillar trading platform, proposed Rule 7.31P(a)(3)(C) would provide that an Inside Limit Order to buy (sell) designated as a Limit Routable IOC Order would trade with sell (buy) orders on the NYSE Arca Book priced at or below (above) the NBO (NBB) and the quantity not traded would be routed to the NBO (NBB). To reflect that the remaining quantity of the order would be cancelled after that first route, the proposed rule would further provide that any unfilled quantity not traded on the NYSE Arca Marketplace or an Away Market would be cancelled. The Exchange believes that the proposed rule text would promote transparency in Exchange rules regarding how Inside Limit Orders designated as a Limit Routable IOC Order would function on the Pillar trading platform.

### Time in Force Modifiers (Proposed Rule 7.31P(b))

Proposed Rule 7.31P(b) would set forth the Exchange's Time in Force Modifiers available in Pillar. As with Rule 7.31(b), the time-in-force modifiers would include the Day and IOC Modifiers. As noted above, at this time, the Exchange is not proposing to offer Open Modifiers (GTD or GTD) or the FOK Modifier in Pillar, and therefore these modifiers are included in proposed Rule 7.31P(b).

Day Modifier: Current Rule 7.31(b)(1) provides that any order to buy or sell designated with a Day Modifier, if not executed, will expire at the end of the day on which it was entered and a Day Modifier cannot be combined with any other Time in Force Modifier.

Proposed Rule 7.31P(b)(1) would provide that any order to buy or sell designated Day, if not traded, would expire at the end of the designated session on the day on which it was entered. This proposed text is based on current Rule 7.31(b)(1) but uses Pillar terminology and stylistic terms to reflect when the order would expire.<sup>26</sup> The proposed rule would further provide that a Day Order cannot be combined with any other Time in Force Modifier, which is based on the second sentence of current Rule 7.31(b)(1) without any differences.

IOC Modifier: Current Rule 7.31(b)(3) provides that a Limit Order designated with an IOC Modifier is to be executed in whole or in part as soon as such order is received, and the portion not so executed is to be treated as cancelled. The rule further provides that an order designated with an IOC Modifier does not route and the IOC Modifier will override any posting or routing instructions of orders that include the IOC

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<sup>26</sup> See also Pillar I Filing, supra note 4 at proposed Rule 7.34P(b)(2) and (3) regarding for which trading sessions a Day modifier would be deemed designated.



Modifier. Current Rule 7.31(b)(5) provides that a Limit Order designated with a NOW Modifier is to be executed in whole or in part on the Corporation, and the portion not so executed shall be routed pursuant to Rule 7.37(d) and that any portion not immediately executed by the NOW Recipient shall be cancelled. If an order designated NOW is not marketable when it is submitted to the Corporation, it shall be cancelled. An order designated NOW, if routed away pursuant to Rule 7.37(d), will be routed to all available quotations in the routing determination, including Protected Quotations, and the NOW Modifier will override any posting or routing instructions of orders that include the NOW Modifier.

The Exchange proposes to describe its IOC modifiers in proposed Rule 7.31P(b)(2). As proposed, the Exchange would offer two forms of IOC modifiers on the Pillar trading platform, a Limit IOC Order, which is based on the current IOC modifier functionality and would not route, and a Limit Routable IOC Order, which is based on the current NOW Modifier and would be eligible to route.<sup>27</sup> In Pillar, the Exchange proposes one substantive difference to provide for an MTS for a Limit IOC Order.

As proposed, new Rule 7.31P(b)(2) would describe the general requirements of an IOC Modifier on the Pillar trading platform and would provide that a Limit Order designated IOC is to be traded in whole or in part as soon as such order is received, and the quantity not so traded is cancelled. Proposed Rule 7.31P(b)(2) would further provide that the IOC Modifier would override any posting or routing instructions of orders that

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<sup>27</sup> On the Pillar trading platform, the Exchange would use the term “Away Market” instead of the term “NOW Recipient.” See Pillar I Filing, supra note 4 at proposed Rule 1.1(ffP). Because the current NOW modifier functions as an Limit Order with an IOC modifier that is eligible to route, on Pillar, the Exchange proposes to rename this as a Limit IOC Routable Order.

include the IOC Modifier. This text is based on current Rule 7.31(b)(3) with non-substantive differences to use to term “traded” instead of “executed,” “quantity” instead of “portion,” and not use the term “Modifier” in the first sentence of the rule text. Proposed Rule 7.31(b)(2) would further provide that a Limit Order designated IOC would not be eligible to participate in any auctions and, if it arrives during auction processing, it would be cancelled.<sup>28</sup>

Proposed Rule 7.31(b)(2)(A) would set forth the definition for a Limit IOC Order, which would be a Limit Order to be traded in whole or in part as soon as such order is received without routing, and the quantity not so traded would be cancelled. This proposed rule is based on Rule 7.31(b)(3).

The Exchange proposes to add new functionality in Pillar so that a Limit IOC Order to buy (sell) may be designated with an MTS. A Limit IOC Order to buy (sell) designated with an MTS would trade against sell (buy) orders in the NYSE Arca Book that in the aggregate, meet its MTS. A Limit IOC Order with an MTS that cannot be immediately traded at its minimum size would be cancelled in its entirety. This proposed functionality is based on existing NYSE Rule 13 governing Immediate or Cancel (“IOC”) Orders, which describe an IOC-MTS Order.<sup>29</sup> The proposed MTS functionality on the Exchange would operate similarly to the IOC-MTS Order on the NYSE because it would require the minimum size to be met on arrival or be cancelled. It would differ from the NYSE IOC-MTS Order because on the Exchange, the MTS instruction would not be available for a Limit Routable IOC Order or an IOC ISO, which is described in more

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<sup>28</sup> See also proposed Rule 7.34P(c)(1)(B) and (C), in Pillar I Filing, supra note 4.

<sup>29</sup> See NYSE Rule 13.

detail below.

Proposed Rule 7.31P(b)(2)(B) would describe the Limit Routable IOC Order, which as noted above, is intended to replace the rule text describing the NOW Modifier, with non-substantive differences. As proposed, a Limit Routable IOC Order would be a Limit Order to be traded in whole or in part as soon as the order is received, and the quantity not so traded would be routed to Away Market(s). Any quantity not immediately traded either on the NYSE Arca Marketplace or an Away Market would be cancelled. The rule would further provide that a Limit Routable IOC Order may not be designated with an MTS, which is current functionality for the NOW Modifier.

The Exchange believes proposed Rule 7.31(b)(2) would promote transparency regarding how the IOC Modifiers would function on the Pillar trading platform by defining the two available IOC modifiers – one that routes and one that does not – using Pillar terminology.

#### Auction-Only Orders (Proposed Rule 7.31P(c))

Proposed Rule 7.31P(c) would set forth the Exchange’s Auction-Only Orders available in Pillar. Current Rule 7.31(c) defines an Auction-Only Order as a Limit or Market Order that is to be executed within an Auction, and if not executed in the auction in which it participates, the balance of the order is cancelled.

Current Rule 7.31(c)(1) defines a Limit-on-Open Order (“LOO Order”) as a Limit Order that is to be executed only during the Market Order Auction. Current Rule 7.31(c)(2) defines a Market-on-Open (“MOO Order”) as a Market Order that is to be executed only during the Market Order Auction. Current Rule 7.31(c)(3) defines a Limit-on-Close Order (“LOC Order”) as a Limit Order that is to be executed only during the

Closing Auction. Current Rule 7.31(c)(4) defines a Market-on-Close (“MOC Order”) as a Market Order that is to be executed only during the Closing Auction.

Proposed Rule 7.31P(c) would define Auction-Only Orders in Pillar, with the following substantive differences from Rule 7.31(c):

- The Exchange would accept Auction-Only Orders in securities that are not eligible for an auction on the Exchange. Currently, the Exchange accepts Auction-Only Orders in securities that are not eligible for an auction on the Exchange only if such orders include a Primary Only Order instruction. As proposed, the Exchange would accept such orders and route them to the primary listing market without the Primary Only Order instruction.
- MOO and LOO Orders would be eligible to participate in a Trading Halt Auction.<sup>30</sup>

To reflect that the Exchange would accept Auction-Only Orders in securities not eligible for an auction on the Exchange, proposed Rule 7.31P(c) would provide that an Auction-Only Order is a Limit or Market Order that is to be traded only within an auction pursuant to Rule 7.35P or routed pursuant to Rule 7.34P.<sup>31</sup> Because Auction-Only Orders in securities that are not eligible for an auction would be routed, the Exchange

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<sup>30</sup> A Trading Halt Auction is currently defined in Rule 7.35 as an auction following a halt in a security. See Rule 7.35(f).

<sup>31</sup> As set forth in the Pillar I Filing, the Exchange proposes that if it receives an Auction-Only Order in a security that is not eligible for an auction, it would route that order directly to the primary listing market. If the primary listing market does not accept such order, the Exchange would cancel the order. See Pillar I Filing, supra note 4 at proposed Rules 7.34P(c)(1)(D), (2)(B), and (3)(B).

would not include in proposed Rule 7.31P(c) the current rule text that states that Auction-Only Orders are not routed to other exchanges.

Proposed Rule 7.31P(c) would further provide that any quantity of an Auction-Only Order that is not traded in the designated auction would be cancelled. This rule text is based on current rule text, with non-substantive differences to use the terms “quantity” and “traded” instead of “balance of order” and “executed. The Exchange would not include in proposed Rule 7.31P(c) the current rule text that it would reject Auction-Only Orders if a security is suspended pursuant to Rule 7.35(g). The Exchange will be submitting a separate rule filing to adopt proposed Rule 7.35P to govern auctions in Pillar, and will address in that rule how the Exchange would handle orders if an auction were suspended.

Proposed Rule 7.31P(c)(1) – (4) would set forth LOO, MOO, LOC and MOC Orders in Pillar and are based on current Rule 7.31(c)(1) – (4) with non-substantive differences to use the terms “traded” instead of “executed” and “Core Open Auction” instead of “Market Order Auction.” The Exchange is not proposing any substantive differences for the operation of LOO, MOO, LOC or MOC Orders with respect to the Core Open Auction or Closing Auction.

The Exchange proposes substantive differences for how LOO and MOO Orders would function in Pillar. Currently, the Exchange does not accept LOO or MOO Orders for Trading Halt Auctions. In Pillar, the Exchange would accept LOO and MOO Orders for Trading Halt Auctions. Accordingly, proposed Rules 7.31P(c)(1) and (c)(2) would provide that LOO and MOO Orders are orders that are to be traded only during the Core Open Auction or a Trading Halt Auction. As further proposed, LOO and MOO Orders

intended for a Trading Halt Auction would be accepted only during a trading halt.<sup>32</sup>

Because Limit Orders are eligible to trade in all trading sessions, proposed Rule 7.31P(c)(1) would provide that, LOO Orders intended for a Trading Halt Auction would be accepted only during trading halts, which may occur in any trading session. Because Market Orders are only eligible to trade in the Core Trading Session, proposed Rule 7.31P(c)(2) would provide that, MOO Orders intended for a Trading Halt Auction would be accepted only during trading halts that occur during the Core Trading Session.

Orders with a Conditional or Undisplayed Price and/or Size

Proposed Rule 7.31P(d) would set forth the Exchange's orders that would include a conditional instruction or an undisplayed size and/or price. Proposed Rule 7.31P(d) is similar to current Rule 7.31(d) with both non-substantive and substantive differences. As noted above, because the Exchange will not be using the term "Working Order" in Pillar, the Exchange proposes to describe this category as orders with a conditional or undisplayed price and/or size, which is descriptive of the type of orders that would be included in this category.

Current Rule 7.31(d) provides for five types of Working Orders:

- Discretionary Order (Rule 7.31(d)(1));
- Reserve Order (Rule 7.31(d)(2));
- Passive Liquidity Order (Rule 7.31(d)(3));

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<sup>32</sup> As proposed in Rule 7.34P(c)(2)(B), for MOO and LOO Orders in securities that are not eligible for an auction, the Exchange would not validate whether the primary listing market is accepting such orders and would route them on arrival. If the primary listing market does not accept such orders, e.g., if they are not in a trading halt, the Exchange would cancel such orders. See Pillar I Filing, supra note 4.

- Mid-Point Passive Liquidity Order (Rule 7.31(d)(4)); and
- MPL Order immediate-or-cancel (Rule 7.31(d)(5)).

As discussed above, the Exchange is not proposing to offer Discretionary Orders in Pillar and therefore proposed Rule 7.31P(d) would not include Discretionary Orders. In addition, the Exchange proposes to include Tracking Orders in proposed Rule 7.31P(d) because a Tracking Order is a conditional order with an undisplayed price and size.

Reserve Orders: The functionality of Reserve Orders is under the following current rules:

- Current Rule 7.31(d)(2) defines a Reserve Order as a Limit Order with a portion of the size displayed and with a reserve portion of the size (“reserve size”) that is not displayed on the Corporation. The rule further provides that the display quantity of a Reserve Order must be in round lots, a Reserve Order cannot be combined with an order type that could never be displayed on the Corporation, may not be designated IOC, and a Reserve Order shall not lock, cross, or trade-through a Protected Quotation.
- Rule 7.36(a)(1)(B) further provides that if the displayed portion of a Reserve Order is decremented such that 99 shares or fewer are displayed, the displayed portion of the Reserve Order shall be refreshed for (i) the displayed amount; or (ii) the entire reserve amount, if the remaining reserve amount is smaller than the displayed amount. Rule 7.36(a)(2)(A) provides that the reserve portion of Reserve Orders are ranked on the specified limit price and the time of original order entry and after the

displayed portion of a Reserve Order is refreshed from the reserve portion, the reserve portion remains ranked based on the original time of order entry, while the displayed portion is sent to the Display Order process with a new time-stamp.

- Finally, current Rule 7.37(a)(1) provides that the size of an incoming Reserve Order includes the displayed and reserve size and the size of the portion of the Reserve Order resident in the Display Order Process is equal to its displayed size.

For Pillar, the Exchange proposes to consolidate the description of Reserve Orders into proposed Rule 7.31P(d)(1), with both substantive and non-substantive differences from current rules. The proposed substantive difference in Pillar would be that the non-display quantity of a Reserve Order would replenish the display quantity any time an execution of the displayed interest reduces the display. This proposed change is not novel and is based on how Minimum Display Reserve Orders function on NYSE.<sup>33</sup>

As proposed, Rule 7.31P(d)(1) would provide that a Reserve Order is a Limit or Inside Limit Order with a quantity of the size displayed and with a reserve quantity of the size (“reserve interest”) that would not be displayed, which is based on the first sentence of current Rule 7.31(d)(2). A Reserve Order in Rule 7.31(d)(1) is defined only as a Limit Order. However, because an Inside Limit Order is a Limit Order, and a Reserve Order can currently be combined with an Inside Limit Order, the definition of a Reserve Order in proposed Rule 7.31P(d)(1), includes Inside Limit Orders, is not substantively different from current Exchange rules. In addition, to reflect proposed Pillar terminology set forth

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<sup>33</sup> See paragraph (c) of NYSE Rule 13 governing Reserve Order Types.



in proposed Rule 7.36P and to replace text currently set forth in Rules 7.36 and 7.37, the Exchange proposes to provide that the displayed quantity of a Reserve Order would be ranked Priority 2 – Display Orders and the reserve interest would be ranked Priority 3 – Non-Display Orders. These proposed ranking priorities are the same as under current Exchange rules. Proposed Rule 7.31P(d)(1) would further provide that both the display quantity and the reserve interest of an arriving marketable Reserve Order would be eligible to trade with resting interest in the NYSE Arca Book or route to Away Markets, which is current functionality set forth in Rule 7.37(a)(1), which provides that the size of an incoming Reserve Order includes the displayed and reserve size.

Consistent with Rule 7.31(d)(2), proposed Rule 7.31P(d)(1)(A) would provide that on entry, the display quantity of a Reserve order must be entered in round lots. In addition, this paragraph would also set forth the new functionality in Pillar that the displayed portion of a Reserve Order would be replenished following any execution. Further, the Exchange proposes to include in proposed Rule 7.31P(d)(1)(A) that the Exchange would display the full size of the Reserve Order when the unfilled quantity is less than the minimum display size for the order. This functionality does not represent a change from current rules, which is reflected in current Rule 7.36(a)(1)(B)(ii), but with non-substantive differences to reflect proposed Pillar terminology.

Proposed Rule 7.31P(d)(1)(B) would provide that each time a Reserve Order is replenished from reserve interest, a new working time would be assigned to the replenished quantity of the Reserve Order, while the reserve interest would retain the working time of original order entry. This proposed rule text reflects that same functionality set forth in current Rule 7.36(a)(1)(B) and (a)(2)(A), that each time reserve

interest replenishes a Reserve Order, it receives a new time, while the reserve portion remains ranked based on the original order entry time. The proposed new rule text would use the new Pillar “working time” terminology proposed Rule 7.36P.

Proposed Rule 7.31P(d)(1)(C) would provide that a Reserve Order must be designated Day and may be combined with the following orders only: Arca Only Order, Primary Pegged Order, or Q Order. Because Limit Orders, Inside Limit Orders, Arca Only Orders, Primary Pegged Orders, and Q Orders are all orders that are displayed, this proposed rule text is based on current rule text in Rule 7.31(d)(1)(2) that provides that a Reserve Order cannot be combined with an order type that could never be displayed on the Corporation.<sup>34</sup> The Exchange proposes to identify the specific order types that may be combined with a Reserve Order in proposed Rule 7.31P(d)(1) to consolidate in a single location all orders that are eligible to be designated as a Reserve Order. In addition, the Exchange proposes to state that a Reserve Order must be designated Day, rather than stating, as in Rule 7.31(d)(2), that a Reserve Order may not be designated IOC.

Finally, unlike Rule 7.31(d)(2), the Exchange does not propose to include text in new Rule 7.31P(d) that a Reserve Order would not lock, cross, or trade-through a Protected Quotation. As noted above, for trading on the Pillar platform, proposed Rule 7.37P(a) would set forth the general requirements that orders not lock, cross, or trade-

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<sup>34</sup> See also current Rules 7.31(e)(3) (only a PNP Blind Order combined with ALO may not be designated as a Reserve Order); (g)(1) (Pegged Orders may be designated as a Reserve Order); and (h)(3) (specifying a Reserve Q Order). As discussed below, in Pillar, the Exchange proposes a substantive difference that Market Pegged Orders would not be displayed. Because such orders would not be displayed in Pillar, they would not be eligible to be designated as a Reserve Order.

through Protected Quotations. Further, Reserve Orders would be Limit Orders or Inside Limit Orders and proposed Rules 7.31P(a)(2) and (a)(3) would set forth how Limit Orders and Inside Limit Orders, respectively, would be priced or routed to avoid locking, crossing or trading through the PBBO.

Limit Non-Displayed Order: Current Rule 7.31(d)(3) defines a Passive Liquidity Order as an Inside Limit Order to buy or sell a stated amount of a security at a specified, undisplayed price. Passive Liquidity Orders will not route and will be executed in the Working Order Process after all other Working Orders except undisplayed discretionary order interest. The rule further provides that Passive Liquidity Orders with a price superior to that of displayed orders will have price priority and will execute ahead of inferior priced displayed orders in the Display Order Process and a Passive Liquidity Order designated IOC shall be rejected. Rule 7.37(a)(1) further provides that Passive Liquidity Orders with a price superior to that of displayed orders will have price priority and will execute ahead of inferior priced displayed orders in the Display Order Process.

As noted above, the Exchange proposes that for trading on Pillar, the Passive Liquidity Order would be renamed a Limit Non-Displayed Order. Proposed Rule 7.31P(d)(2) would define a Limit Non-Displayed Order as a Limit Order that would not be displayed and would not route, which is current functionality set forth in current Rule 7.31(d)(3). As described in the 2015 Order Type Filing, the reference to Inside Limit Order in Rule 7.31(d)(3) refers to the identifier associated with entering Passive Liquidity Orders. The description of how Passive Liquidity Orders operate is in Rule 7.31(d)(3).<sup>35</sup>

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<sup>35</sup> See 2015 Order Type Filing, supra note 6; see also Securities Exchange Act Release No. 74415 (March 3, 2015), 80 FR 12537, 12539 (March 9, 2015) (SR-NYSEArca-2015-08) (Notice of Filing of 2015 Order Type Filing).

In Pillar, the Exchange would require for Limit Non-Displayed Orders the identifier associated with a Limit Order. However, as with the Passive Liquidity Order, proposed Rule 7.31P(d)(2) would describe how Limit Non-Displayed Orders would operate in Pillar. Accordingly, the Exchange proposes to define a Limit Non-Displayed Order in proposed Rule 7.31P(d)(2) as a Limit Order rather than defining it as an Inside Limit Order, as in current Rule 7.31(d)(3), which would not result in any differences in how this order type would function in Pillar.

Proposed Rule 7.31P(d)(2) would further provide that a Limit Non-Displayed Order must be designated Day, would be valid for any trading session, and would not participate in any auctions. This proposed rule text is based on rule text in current Rule 7.31(d)(3) that provides that a Passive Liquidity Order designated IOC shall be rejected, rule text in current Rule 7.34(d)(1)(F) that provides that Limited Priced Orders are eligible for execution in the Opening Session, and rule text in current Rule 7.34(d)(3)(A) that orders eligible for the Working Order Process are eligible for execution in the Late Trading Session.

The Exchange proposes two substantive differences for how Limit Non-Displayed Orders would function in Pillar.

- First, Limit Non-Displayed Orders would be ranked together with all other orders in the same priority category, and would not be ranked behind other non-displayed interest. To reflect this proposed substantive difference, proposed Rule 7.31P(d)(2) would provide that a Limit Non-Displayed Order would be ranked Priority 3 – Non-Display Orders, which would

mean that such orders would be ranked together with all other interest in that priority category.<sup>36</sup>

- Second, the Exchange would make available optional functionality for a Limit Non-Displayed Order to be designated with a Non-Display Remove Modifier, which would provide that an order so designated would trade with an incoming ALO Order. To reflect this proposed substantive difference, proposed Rule 7.31P(d)(2)(B) would provide that a Limit Non-Displayed Order may be designated with an optional Non-Display Remove Modifier and, if so designated, a Limit Non-Displayed Order to buy (sell) would trade as the liquidity-taking order with an incoming ALO Order to sell (buy) that has a working price equal to the working price of the Limit Non-Displayed Order. The Exchange proposes to add this functionality in Pillar to allow an ETP Holder that enters a Limit Non-Displayed Order the option to trade with an incoming ALO Order and to correlate to the proposed new functionality for ALO Orders, discussed in more detail below, which would provide that ALO Orders would not be rejected on arrival if marketable.<sup>37</sup>

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<sup>36</sup> The Exchange does not propose to include in proposed Rule 7.31P(d)(2) the text in current Rule 7.31(d)(3) that a superior-priced Passive Liquidity Order would trade ahead of an inferior-priced display order because this priority rule would be set forth in proposed Rule 7.36P. Specifically, as set forth in more detail in the Pillar I Filing, supra note 4, proposed Rule 7.36P(c) would provide that all non-marketable orders are ranked according to price-time priority, which means that an order with a superior price would always be ranked ahead of an order with an inferior price, regardless of the order's priority category.

<sup>37</sup> As discussed below in connection with the proposed ALO Order, if a Limit Non-Displayed Order is not designated with a Non-Display Remove Modifier, an ALO Order to buy (sell) may be assigned a working price that is the same as the

Finally, the Exchange proposes to use Pillar terminology in proposed Rule 7.31P(d)(2)(A) to describe how Limit Non-Displayed Orders would be priced so that they would not trade at prices that would trade through the PBBO, as provided for in proposed Rule 7.37P(c)(2).<sup>38</sup> Similar to the proposed Pillar rule text for Market Orders, Limit Orders, and Inside Limit Orders, described above, proposed Rule 7.31P(d)(2)(A) would use Pillar terminology and would provide that the working price of a Limit-Non-Displayed Order would be adjusted both on arrival and when resting on the NYSE Arca Book based on the limit price of the order. As proposed, if the limit price of a Limit Non-Display Order to buy (sell) is at or below (above) the PBO (PBB), it would have a working price equal to the limit price. If the limit price of a Limit Non-Displayed Order to buy (sell) is above (below) the PBO (PBB), it will have a working price equal to the PBO (PBB).

Mid-Point Liquidity Order: Current Rule 7.31(d)(4) defines a Mid-Point Passive Liquidity Order (“MPL Order”) as a Limit Order priced at the midpoint of the PBBO and not displayed and an order designated as an MPL Order will not route or trade-through a Protected Quotation. The rule further provides that an MPL Order shall have a minimum order entry size of one share and MPL Orders entered without a limit price or with an FOK modifier shall be rejected. Current Rule 7.31(d)(4)(A) – (E) set forth additional

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working price of a Limit Non-Displayed Order to sell (buy), and both orders would remain on the NYSE Arca Book at the same price, but not trade with each other.

<sup>38</sup> See Pillar I Filing, *supra* note 4. Current Rule 7.37(c) provides that the price of an order must be equal to or better than the PBBO for a Limit Order and if an order is not executable within that parameter, it may be routed away. Because Passive Liquidity Orders are not routable, they are priced so that they would not trade through the PBBO.

requirements for MPL Orders, including a minimum executable size for MPL Orders, eligibility of an MPL Order to trade in a locked or crossed market, ranking and session eligibility of MPL Orders, the “No Midpoint Execution” modifier for Limit Orders, and the MPL-ALO Order. Current Rule 7.31(d)(5) provides separately for an MPL-IOC Order.

Proposed Rule 7.31P(d)(3) would define Mid-Point Liquidity (“MPL”) Orders in Pillar. The Exchange proposes a number of non-substantive differences for MPL Orders, including renaming the order type as a “Mid-Point Liquidity Order” (but still using the short-hand of “MPL Order”). This difference in names would reflect that the Exchange would not use the term “Passive Liquidity Order” in Pillar. The Exchange proposes additional non-substantive difference to set forth all functionality relating to MPL Orders, including MPL-IOC and MPL-ALO Orders, in proposed Rule 7.31P(d)(3), and to use proposed Pillar terminology.

The Exchange also proposes the following substantive differences for MPL Orders in Pillar:

- An arriving MPL Order could receive price improvement from resting orders in the NYSE Arca Book priced better than the midpoint of the PBBO;
- The optional MTS would be required to be of a minimum of one round lot and if an MPL Order with an optional MTS is traded in part or reduced in size and the remaining quantity of the order is less than the MTS, the order would cancel; and

- MPL-ALO Orders on arrival will trade with interest priced better than the midpoint of the PBBO.

Proposed Rule 7.31P(d)(3) would provide that an MPL Order is a Limit Order that is not displayed and does not route, with a working price at the midpoint of the PBBO. This proposed rule text is consistent with current Rules 7.31(d)(4), but uses Pillar terminology to describe at what price an MPL Order would be eligible to trade.

Specifically, current Rule 7.31(d)(4) defines an MPL Order as a Limit Order priced at the midpoint of the PBBO and not displayed, and an order designated as an MPL Order does not route.

Proposed Rule 7.31P(d)(3) would further provide that an MPL Order would be ranked Priority 3 – Non-Display Orders. This priority is the same as under current Rule 7.36, which ranks Working Orders behind orders in the Display Order Process, but uses proposed Pillar terminology to specify how an MPL Order would be ranked. In addition, proposed Rule 7.31P(d)(3) would provide that MPL Orders would be valid for any session and would not participate in any auctions, which is the same as in current Rule 7.31(d)(4)(C).

Proposed Rule 7.31P(d)(3)(A) would provide that an MPL Order to buy (sell) must be designated with a limit price in the MPV for the security and would be eligible to trade only if the midpoint of PBBO is at or below (above) the limit price of the order. This does not represent a change from the way MPL Orders currently operate and is consistent with the rule text in the first sentence of current Rule 7.31(d)(4)(C) that provides that an MPL Order is ranked for execution so long as the midpoint is within the



limit range of the order, and rule text in current Rule 7.31(d)(3) that requires that an MPL Order be entered with a limit price.<sup>39</sup>

Proposed Rule 7.31P(d)(3)(B) would provide that if there is no PBB, PBO, or the PBBO is locked or crossed, both an arriving and resting MPL Order would wait for a PBBO that is not locked or crossed before being eligible to trade. This represents current functionality and is based on rule text in current Rule 7.31(d)(4)(B) that provides that if the market is locked or crossed, the MPL Order will wait for the market to unlock or uncross before becoming eligible to trade again, and rule text in current Rule 7.31(d)(3) that provides that an MPL Order is priced at the midpoint of the PBBO. Proposed Rule 7.31P(d)(3)(B) would include that an MPL Order would not be eligible to trade when there is no PBB or PBO because if there is only a one-sided PBBO, there would be no midpoint and it would not be possible to trade an MPL Order at a midpoint price.

In addition, proposed Rule 7.31P(d)(3)(B) would provide that if a resting MPL Order(s) to buy (sell) trades with an MPL Order(s) to sell (buy) after there is an unlocked or uncrossed PBBO, the MPL Order with the later working time would be the liquidity-removing order. Because the Exchange's fees vary based on whether an order is liquidity providing or liquidity removing, the Exchange believes it is important to specify which MPL Order following the unlocking or uncrossing of the PBBO would be the liquidity-taking order.

Proposed Rule 7.31P(d)(3)(C) would describe how MPL Orders would trade both on arrival and when resting. Unlike current Rule 7.31(d)(4)(C), which provides that MPL

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<sup>39</sup> The requirement for a limit price is also set forth in the proposed Rule 7.31P(d)(3) requirement that an MPL Order be a Limit Order, which includes the requirement for a limit price.

Orders always execute at the midpoint and do not receive price improvement, the Exchange proposes a substantive difference in Pillar to provide price improvement for arriving MPL Orders. As proposed, Rule 7.31P(d)(3)(C) would provide that on arrival, an MPL Order to buy (sell) that is eligible to trade (i.e., the midpoint of the PBBO is within the limit price of the order, see proposed Rule 7.31P(d)(3)(A)) would trade with resting orders to sell (buy) with a working price at or below (above) the midpoint of the PBBO. This functionality would be new in Pillar and differs from current Rule 7.31(d)(4)(C) requirement that MPL Orders do not receive price improvement, but is similar to order functionality available on another exchange.<sup>40</sup> As under current Rule 7.31(d)(4)(C), pursuant to proposed Rule 7.31P(d)(3)(C), resting MPL Orders to buy (sell) would trade at the midpoint of the PBBO against all incoming orders to sell (buy) priced at or below (above) the midpoint of the PBBO.

The last sentence of proposed Rule 7.31P(d)(3)(C) would provide that an incoming Limit Order may be designated with a “No Midpoint Execution” modifier, in which case the incoming Limit Order would not trade with resting MPL Orders and may trade through such MPL Orders. This proposed rule reflects the same functionality as in current Rule 7.31(d)(4)(D),<sup>41</sup> with non-substantive differences to describe that such Limit Orders could trade through resting MPL Orders.

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<sup>40</sup> See, e.g., EDGA Exchange, Inc. (“EDGA”) Rule 11.8(d) (defining a MidPoint Peg Order, which can trade at prices other than the midpoint of the NBBO); NASDAQ Stock Market LLC (“Nasdaq”) Rule 4702(b)(5)(A) (defining a Midpoint Peg Post-Only Order, which can trade at prices other than the midpoint of the NBBO).

<sup>41</sup> Current Rule 7.31(d)(4)(D) provides that Users may mark incoming Limit Orders with a “No Midpoint Execution” modifier and so marked, those Limit Orders will ignore MPL Orders and trade against the rest of the book in the ordinary course.

Proposed Rule 7.31P(d)(3)(D) would set forth how MPL Orders with an optional MTS would function in Pillar. The new proposed rule would provide that an MPL Order may be designated with an MTS of a minimum of one round lot and would be rejected on arrival if the MTS is larger than the size of the MPL Order. The proposed minimum of one round lot is a substantive difference from current Rule 7.31(d)(4)(A), which provides that an MPL Order may have an MTS of only one share.

In addition, the last sentence of proposed Rule 7.31P(d)(3)(D) to provide that if an MPL Order with an MTS is traded in part or reduced in size and the remaining quantity of the order is less than the MTS, the MPL Order would be cancelled. This would be a substantive difference from current Rule 7.31(d)(4)(A), which provides that should the leaves quantity become less than the minimum size, the minimum size restriction will no longer be enforced on executions. The Exchange is proposing that the Pillar rule be different in this regard because it would more closely align the function of an MPL Order with an MTS with the User's instruction that the trades be executed only in a minimum trade size.

The remaining text in proposed Rule 7.31P(d)(3)(D) is not substantively different from Rule 7.31(d)(4)(A). Proposed Rule 7.31P(d)(3)(D) would provide that on arrival, an MPL Order to buy (sell) with an MTS would trade with sell (buy) orders in the NYSE Arca Book that in the aggregate, meets its MTS. If the sell (buy) orders do not meet the MTS, the MPL Order to buy (sell) would not trade on arrival and would be ranked in the NYSE Arca Book. The proposed rule would further provide that once resting, an MPL Order to buy (sell) with an MTS would trade with an order to sell (buy) that meets the MTS and is priced at or below (above) the midpoint of the PBBO. If an order does not

meet an MPL Order's MTS, the order would not trade with and may trade through such MPL Order. This proposed Pillar rule text is based on current Rule 7.31(d)(4)(A), but with non-substantive differences to use MTS terminology rather than "minimum executable size" and to describe how orders with an MTS interact with contra-side orders with more specificity.

Proposed Rule 7.31P(d)(3)(E) would provide that an MPL Order could be designated IOC ("MPL-IOC Order"), which is based on current rule 7.31(d)(5). As proposed, subject to IOC instructions, an MPL-IOC Order would follow the same trading and priority rules as an MPL Order, except that an MPL-IOC Order would be rejected if (i) the order entry size is less than one round lot, or (ii) there is no PBBO or the PBBO is locked or crossed. The proposed rule is the same as current Rule 7.31(d)(5) with the following non-substantive differences: to streamline the rule text; replace the term "execution" with "trading"; and add that an MPL-IOC Order would be rejected both if the PBBO is locked or crossed and if there is no PBBO, which represents current functionality set forth in current Rule 7.31(d)(5) that an MPL-IOC order is priced at the midpoint of the PBBO. The Exchange proposes to further add that an MPL-IOC Order cannot be designated ALO or with a Non-Display Remove Modifier, which is based on current functionality set forth in Rule 7.31(d)(5) that an MPL-IOC Order cancels if it does not trade on arrival, and therefore the ALO or Non-Display Remove Modifier would be inconsistent with the IOC instruction.

Proposed Rule 7.31P(d)(3)(F) would provide that an MPL Order may be designated with an ALO Modifier ("MPL-ALO Order") and is based on current Rule 7.31(c)(4)(E), which provides for MPL-ALO Orders on the current trading platform. As

discussed in greater detail below, in Pillar, the Exchange is proposing substantive differences for how Limit Orders designated ALO would operate, including that if marketable on arrival against resting contra-side non-displayed orders, they would trade with such orders if the resting order would provide price improvement over the limit price of the ALO Order. The Exchange proposes that MPL-ALO Orders in Pillar would similarly, on arrival, trade with resting orders that provide price improvement over the midpoint of the PBBO. Thus, as proposed, an MPL-ALO Order to buy (sell) would trade with resting orders to sell (buy) with a working price below (above) the midpoint of the PBBO, but would not trade with resting orders to sell (buy) priced at the midpoint of the PBBO. The Exchange believes that providing a trading opportunity on arrival for an MPL-ALO Order that provides price improvement over the midpoint of the PBBO would be consistent with the terms of the order because the trade(s) would be at prices better than the midpoint of the PBBO and the order would not take liquidity priced at the midpoint of the PBBO. Proposed Rule 7.31P(d)(3)(F) would further provide that a resting MPL-ALO Order to buy (sell) would trade with an arriving order to sell (buy) that is eligible to trade at the midpoint of the PBBO.

Proposed Rule 7.31P(d)(3)(G) would provide that MPL Orders designated Day and MPL-ALO Orders may be designated with a Non-Display Remove Modifier, which is based on current functionality set forth in current Rule 7.31(e)(1)(C), but naming this functionality in Pillar as a “Non-Display Remove Modifier.” As proposed, on arrival, an MPL Order or MPL-ALO Order to buy (sell) with a Non-Display Remove Modifier would trade with resting non-displayed MPL Orders to sell (buy) priced at the midpoint of the PBBO and be the liquidity taker, regardless of whether the resting order to sell

(buy) also has a Non-Display Remove Modifier. As further proposed, a resting MPL Order or MPL-ALO Order with a Non-Display Remove Modifier would be the liquidity taker when trading with arriving MPL Orders, including MPL-ALO Orders, that do not include a Non-Display Remove Modifier. This proposed functionality is based on rule text in current Rule 7.31(e)(1)(C), which provides that a User can specify that an MPL Order or MPL-ALO Order may execute against an arriving marketable MPL-ALO Order, and as further described in the rule filing to adopt the current rule text.<sup>42</sup>

Tracking Order: Current Rule 7.31(e)(6) defines a Tracking Order and sets forth how it is executed. Additional functionality relating to the Tracking Order Process is in current Rule 7.37(c).

In Pillar, the Exchange proposes to consolidate all functionality associated with Tracking Orders in proposed Rule 7.31P(d)(4). The Exchange proposes two substantive differences to functionality of Tracking Orders:

- Tracking Orders would be priced based on the PBBO instead of the NBBO; and
- STP Modifiers would be available for Tracking Orders.

To reflect the consolidation of two different rules, together with use of new Pillar terminology, the Exchange proposes all new rule text to describe Tracking Orders.

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<sup>42</sup> See Securities Exchange Act Release No. 67652 (Aug. 14, 2012), 77 FR 50189 (Aug. 20, 2012) (SR-NYSEArca-2012-83) (Notice of filing of proposed rule change to provide that an arriving marketable MPL-ALO Order may be designated to interact with a resting MPL or MPL-ALO Order. An arriving MPL-ALO Order is the liquidity-providing order unless it has been designated to interact with resting MPL Orders, in which case the arriving MPL-ALO Order is the liquidity-taking order).

Except for the two substantive differences, the proposed rule describes the same functionality as in current Rule 7.31(e)(6) and 7.37(c).

Proposed Rule 7.31P(d)(4) would define a Tracking Order as 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 would trade only with an order to sell (buy) that is eligible to route. This proposed rule text describes the same functionality as the first sentence of current Rule 7.31(e)(6), using Pillar terminology and specifying that Tracking Orders do not route, which is consistent with how they trade in the Tracking Order Process pursuant to current Rule 7.37(c). The proposed definition would not use the term “Limit Order,” and the requirement for a Tracking Order to include a limit price would not mean that it would operate the same as a Limit Order, but rather, would function as provided for in proposed Rule 7.31P(d)(4).

Proposed Rule 7.1P(d)(4) would further provide that the working price of a Tracking Order to buy (sell) would be the PBB (PBO), provided that such price is at or below (above) the limit price of the Tracking Order. The proposed rule describes the same functionality as the rule text in current Rule 7.31(e)(6) that “[a] Tracking Order will execute at the same price as the same-side NBBO provided that such price shall not trade-through a Protected Quotation or the price of the Tracking Order,” except that the Exchange is proposing a substantive difference that Tracking Orders would trade at prices based on the PBBO. Because Tracking Orders would trade based on the PBBO, proposed Rule 7.31P(d)(4) would provide that a Tracking Order would not be eligible to trade if the PBBO is locked or crossed. The Exchange proposes not to include in proposed Rule 7.31P(d)(4) the text in current Rule 7.31(e)(6) that a Tracking Order

would not trade-through a Protected Quotation, because this requirement would be set forth in proposed Rule 7.37P(a)(3).<sup>43</sup> Finally, proposed Rule 7.31P(d)(4) would provide that a Tracking Order may trade in odd lot or mixed lot quantities, which is consistent with Rule 7.38, which provides that Tracking Orders may not be entered in odd lots, but does not prohibit a Tracking Order from trading in odd lot or mixed lot quantities.

As discussed in the Pillar I Filing, the Exchange proposes to eliminate the term “Tracking Order Process” in Pillar, and proposed new Rule 7.36P would describe the priority categories for orders on the Exchange.<sup>44</sup> As proposed in Rule 7.31P(d)(4), Tracking Orders would be subject to Priority 4 – Tracking Orders and would have priority only after other priority categories are exhausted at each price level.

Proposed Rule 7.31P(d)(4)(A) would further provide that a Tracking Order to buy (sell) would not trade on arrival and would be triggered to trade by an order to sell (buy) that (i) has exhausted all other interest eligible to trade at the Exchange, (ii) has a remaining quantity equal to or less than the size of a resting Tracking Order, and (iii) would otherwise route to an Away Market. The rule would further provide that a Tracking Order would trade with the entire unexecuted quantity of the contra-side order, not just the quantity being routed. The proposed rule text describes the same functionality as in current Rule 7.31(e)(6), which provides that a Tracking Order is eligible for execution in the Tracking Order Process against a contra-side order that is eligible to route pursuant to Rule 7.37(d) and is equal to or less than the size of a resting Tracking Order, and as in current Rule 7.37(c), which provides that if an order that is

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<sup>43</sup> See Pillar I Filing, supra note 4.

<sup>44</sup> Id.



eligible to route to an away market has not been executed in its entirety pursuant to paragraphs (a) and (b) of Rule 7.37, the NYSE Arca Market Place shall match and execute any remaining part of such order in the Tracking Order Process in price/time priority.

Proposed Rule 7.31P(d)(4)(B) would provide that each time a Tracking Order is traded in part, any remaining quantity of the Tracking Order would be assigned a new working time and that a Tracking Order with a later working time would trade ahead of a Tracking Order with an earlier working time that does not meet the size requirement of an incoming order. This describes the same functionality as in current Rule 7.31(e)(6), which provides that a Tracking Order is assigned a new time priority upon each reposting, but uses Pillar terminology, and in particular the term “working time,” to describe when a Tracking Order would have priority.

Proposed Rule 7.31P(d)(4)(C) would provide that a Tracking Order may be designated with an MTS of one round lot or more, which is consistent with the requirement in the first sentence of current Rule 7.31(e)(6) that Tracking Orders must be entered in round lots, i.e., because the size of a Tracking Order cannot be less than a round lot, the MTS would need to be at least the size of the Tracking Order, which is in round lots. The proposed rule would further provide that if an incoming order cannot meet the MTS, a Tracking Order with a later working time could trade ahead of the Trading Order designated with the MTS with an earlier working time. The rule would further provide that if a Tracking Order with an MTS is traded in part or reduced in size and the remaining quantity is less than the MTS, the Tracking Order would be cancelled. This rule text describes the same functionality as set forth in the second and third

sentences of current Rule 7.31(e)(6), which provide that an ETP Holder may specify a minimum executable size for a Tracking Order and if a Tracking Order with a minimum size requirement is executed but not exhausted and the remaining portion of the order is less than the minimum size requirement, the Tracking Order shall be cancelled, but with non-substantive differences to use Pillar terminology, including the term “MTS” instead of “minimum executable size.”

Finally, in Pillar, the Exchange would no longer ignore STP Modifiers for Tracking Orders. Accordingly, the Exchange is not proposing to include in proposed Rule 7.31P(d)(4) the rule text in current Rule 7.31(e)(6) that STP Modifiers are ignored for Tracking Orders. Because Tracking Orders would not have different treatment than other orders with respect to STP Modifiers, the Exchange would not mention STP Modifiers in proposed Rule 7.31P(d)(4).

#### Orders with Instructions Not to Route (Proposed Rule 7.31P(e))

Proposed Rule 7.31P(e) would set forth orders with instructions not to route and is based in part on the orders specified in current Rule 7.31(e). Current Rule 7.31(e) includes the following orders:

- Adding Liquidity Only (“ALO”) Order (Rule 7.31(e)(1));
- ISO (Rule 7.31(e)(2));
- PNP Order (Post No Preference) (Rule 7.31(e)(3));
- PNP Blind (Rule 7.31(e)(4));
- Cross Order (Rule 7.31(e)(5)); and
- Tracking Order (Rule 7.31(e)(6)).

As discussed above, the Exchange proposes that Cross Orders and Tracking Orders would be set forth elsewhere in proposed Rule 7.31P.<sup>45</sup> In addition, the Exchange is not proposing to offer a PNP Order in Pillar. The Exchange proposes that Rule 7.31P(e) would include:

- Arca Only Order, which are what PNP Blind Orders would be renamed;
- ALO Orders; and
- ISO Orders.

In Pillar, the Exchange proposes a substantive difference that ALO Orders would not reject if marketable on arrival and instead would re-price and/or trade, depending on the contra-side interest.<sup>46</sup> The Exchange also proposes to provide for a Non-Display Remove Modifier for Arca Only Orders so that they may trade with an incoming ALO Order and to conform ALO functionality available for ISOs that are designated Day to operate consistent with the proposed ALO Order functionality in Pillar.

Arca Only Order: Current Rule 7.31(e)(4) defines a PNP Blind Order as a PNP Order that re-prices if it would create a violation of Rule 610(d) of Regulation NMS by locking or crossing the protected quotation of an external market or would cause a violation of Rule 611 of Regulation NMS.

Proposed Rule 7.31P(e)(1) would set forth Arca Only Orders in Pillar, which would function the same as PNP Blind Orders. Proposed Rule 7.31P(e)(1) would use Pillar terminology to describe how such orders would be priced and ranked. The

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<sup>45</sup> See proposed Rules 7.31P(d)(4) (Tracking Orders) and 7.31P(g) (Cross Orders).

<sup>46</sup> ALO Orders in Pillar would be based in part on current PNP Blind Orders designated ALO (“PNPB-ALO”) functionality set forth in current Rule 7.31(e)(4), which do not reject on arrival if they would trade through an Away Market PBBO.

Exchange also proposes a substantive difference for Arca Only Orders that would allow such orders to be designated with a Non-Display Remove Modifier.

Proposed Rule 7.31P(e)(1) would define an Arca Only Order as a Limit Order that does not route. Because the only primary order type for an Arca Only Order is a Limit Order, an Inside Limit Order cannot also be an Arca Only Order.<sup>47</sup>

Proposed Rule 7.31P(e)(1)(A) would provide that an Arca Only Order to buy (sell) that, at the time of entry and after trading with any sell (buy) orders in the NYSE Arca Book priced at or below (above) the PBO (PBB), would create a violation of Rule 610(d) of Regulation NMS<sup>48</sup> by locking or crossing the protected quotation of an Away Market or would cause a violation of Rule 611 of Regulation NMS,<sup>49</sup> would be re-priced. This rule text is based on current Rule 7.31(e)(4) with non-substantive differences to provide more specificity that an Arca Only Order would trade with contra-side orders on the NYSE Arca Book before being evaluated for re-pricing.

The Exchange also proposes to describe how an Arca Only Order would be re-priced by using Pillar terminology to specify the working price and display price of an Arca Only Order and refer to an Away Market PBO or PBB. The Exchange believes that the proposed non-substantive differences would make the rule easier to navigate of when the working price and/or display price of an Arca Only Order would change.

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<sup>47</sup> As described in proposed Rule 7.31P(a)(2) and (a)(3), an Inside Limit Order differs from a Limit Order because it is priced based on the NBBO, and therefore routes differently than a Limit Order. Because an Arca Only Order would not route, the differing routing treatment applicable to Inside Limit Orders would not be operative for Arca Only Orders.

<sup>48</sup> 17 CFR 242.610(d).

<sup>49</sup> 17 CFR 242.611.

- Proposed Rule 7.31P(e)(1)(A)(i) would provide that on arrival and after trading with orders in the NYSE Arca Book priced below (above) the PBO (PBB), an Arca Only Order to buy (sell) would have a working price of the PBO (PBB) of an Away Market and a display price one MPV below (above) the PBO (PBB). The proposed assignment of a working price and display price in Pillar is how a PNP Blind Order is priced when it is first posted to the NYSE Arca Book, as described in current Rule 7.31(e)(4).
- Proposed Rule 7.31P(e)(1)(A)(ii) would provide that if the PBO (PBB) of an Away Market re-prices higher (lower), an Arca Only Order to buy (sell) would be assigned a new working price of the updated PBO (PBB) and a new display price of one MPV below (above) that updated PBO (PBB). This proposed re-pricing is how a PNP Blind order is re-priced if the PBO (PBB) moves higher (lower), as described in the first sentence of current Rule 7.31(e)(4)(A).
- Proposed Rule 7.31P(e)(1)(A)(iii) would provide that if the PBO (PBB) of an Away Market re-prices to be equal to or lower (higher) than the Arca Only Order's last display price, an Arca Only Order to buy (sell)'s display price would not change, but the working price would be adjusted to be equal to its display price. This re-pricing is currently how a PNP Blind order is re-priced if the PBO (PBB) moves to be equal to or lower (higher) than the last display price of a PNP Blind order to buy (sell), as set forth in the second sentence of current Rule 7.31(e)(4)(A), but using Pillar

terminology to distinguish between the working and display price of the order.

- Proposed Rule 7.31P(e)(1)(A)(iv) would provide that if an Arca Only Order's limit price no longer locks or crosses the PBO (PBB) of an Away Market, an Arca Only Order to buy (sell) would be assigned a working price and display price equal to its limit price and would not be assigned a new working price or display price based on changes to the PBO (PBB). This proposed re-pricing is how a PNP Blind order is re-priced when it no longer locks or crosses the PBBO, as described in the third sentence of current Rule 7.31(e)(4)(A), but using Pillar terminology.

Rule 7.31(e)(4) provides that a PNP Blind order will retain its original limit price irrespective of the prices at which such order is priced and displayed. The Exchange does not propose to include this language in proposed Rule 7.31P(e)(1) because it is proposing to define the working price and display price as terms separate from the limit price,<sup>50</sup> and as proposed, only the working price and display price of an Arca Only Order would be adjusted. In addition, the last sentence of current Rule 7.31(e)(4) provides that a PNPB-ALO is not cancelled if it is marketable against the PBBO and may not be designated as a Reserve Order. This text would not be included in proposed Rule 7.31P(e)(1) because in Pillar, functionality relating to ALO Orders for Arca Only Orders will be set forth in proposed Rule 7.31P(e)(2) and which orders may be combined with a Reserve Order would be set forth in proposed Rule 7.31P(d)(1)(C).<sup>51</sup>

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<sup>50</sup> See Pillar I Filing, supra note 4 at proposed Rule 7.36P(a).

<sup>51</sup> Consistent with current Rule 7.31(e)(4), an ALO Order in Pillar would not be allowed to be designated as a Reserve Order.

Proposed Rule 7.31P(e)(1)(B) would provide that an Arca Only Order with a working price different from the display price would be ranked Priority 3-Non-Display Orders and an Arca Only Order with a working price equal to the display price would be ranked Priority 2-Display Orders. This proposed rule text uses Pillar terminology to describe the priority ranking of Arca Only Orders and is the same priority described in current Rule 7.31(e)(4)(B). Rule 7.31(e)(4)(B) provides that PNP Blind orders are governed by the Exchange's Display Order Process set forth in Rule 7.36 and that marketable contra orders will execute first against PNP Blind orders, only at superior prices, then the rest of the book. In addition, all PNP Blind orders that are re-priced and re-displayed will retain their priority as compared to other PNP Blind orders based upon the time such orders were initially received by the Exchange, regardless of the price of the order. Under Pillar rules, because a Priority 3 – Non-Display Order that is better priced than a Priority 2 – Display Order would have priority pursuant to proposed Rule 7.36P(c) – (e), the Exchange would not repeat this priority requirement in proposed Rule 7.31P(e)(1)(B). Similarly, because Arca Only Orders would be subject to the Exchange's proposed general requirement set forth in proposed Rule 7.36P(f)(2) that an order is assigned a new working time any time the working price of an order changes, the Exchange would not repeat this requirement in proposed Rule 7.31P(e)(1)(B).

Proposed Rule 7.31P(e)(1)(C) would provide that an Arca Only Order may be designated with an optional Non-Display Remove Modifier. This proposal would be new functionality available in Pillar to provide that a resting Arca Only Order that has an undisplayed working price could trade with an incoming ALO Order, and in such case, the resting Arca Only Order would be considered the liquidity-taking order and the ALO

Order would be able to meet its terms to be the liquidity-providing order. Accordingly, as proposed, if designated with a Non-Display Remove Modifier, an Arca Only Order to buy (sell) with a working price, but not display price, equal to the working price of an ALO Order to sell (buy) would trade as the liquidity taker against such ALO Order.

ALO Order: Current Rule 7.31(e)(1) defines an ALO Order as a Limit Order that is accepted and placed on the NYSE Arca book only where the order adds liquidity to the NYSE Arca Book and an ALO Order will be rejected on arrival if it would lock or cross the market or is marketable, except as provided for in section (e)(1)(C) of the Rule, which states that an MPL-ALO Order may be designated to trade with another MPL-ALO Order.

Proposed Rule 7.31P(e)(2) would define ALO Orders in Pillar. The Exchange does not propose in Rule 7.31P(e)(2) that an ALO Order would be rejected on arrival if it is marketable or if it would lock or cross the market. Rather, the Exchange proposes a substantive difference in Pillar, such that an ALO Order would re-price rather than trade with displayed liquidity or route to a protected quotation. The Exchange proposes a further substantive difference in Pillar to provide that an ALO Order could either trade with non-displayed orders or be displayed at a price that would lock contra-side non-displayed orders on the NYSE Arca Book.

Proposed Rule 7.31P(e)(2) would define an ALO Order as an Arca Only Order that, except as specified in proposed Rule 7.31P(e)(2)(C), would not remove liquidity from the NYSE Arca Book.<sup>52</sup> By proposing to define an ALO Order as an Arca Only Order in Pillar, all of the requirements of an Arca Only Order would be applicable to an

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<sup>52</sup> The ALO Order in Pillar is based in part on the current PNPB-ALO order described in the last sentence of Rule 7.31(e)(4).



ALO Order, including that an ALO Order would not route, which is consistent with how ALO Orders currently function as set forth in the second and third sentences of current Rule 7.31(e)(1). The proposed requirement that an ALO Order be an Arca Only Order is also consistent with the current requirement in Rule 7.31(e)(1) that an ALO Order be either a PNP Order, PNP Blind order, or MPL Order. In Pillar, because the Exchange would not be offering PNP Orders and functionality relating to MPL Orders designated ALO would be set forth in proposed Rule 7.31P(d)(3), having ALO Orders based on Arca Only Orders is consistent with the current functionality that requires an ALO Order to be a PNP Blind order.

Proposed Rule 7.31P(e)(2) would further provide that upon entry, an ALO Order must have a minimum of one displayed round lot. This represents a new requirement for ALO Orders in Pillar and is based on how ALO Orders operate on the NYSE.<sup>53</sup> Because an ALO Order is an order that is intended to be displayed, the Exchange believes that the round lot minimum requirement would promote the display of an ALO Order.

Proposed Rule 7.31P(e)(2)(A) would specify that ALO Orders may participate in auctions, but the ALO designation would be ignored and that an ALO Order that has not traded in an auction would be assigned a working price and display price, described below. In the current trading platform, an ALO Order that has been accepted and placed on the NYSE Arca Book pursuant to Rule 7.31(e)(1) is eligible to participate in an auction. Because in Pillar, the Exchange proposes a substantive difference to re-price ALO Orders, the Exchange proposes to add rule text regarding how ALO Orders would

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<sup>53</sup> See paragraph (a) governing ALO Orders in NYSE Rule 13 (“Upon entry, limit orders designated ALO must have a minimum of one displayable round lot.”)

be re-priced following an auction. The proposed rule text is based on how ALO Orders operate on the NYSE.<sup>54</sup>

Proposed Rule 7.31P(e)(2)(B)(i) – (iv) would specify how an ALO Order to buy (sell) would be re-priced if, at the time of entry, it would be marketable against the BO (BB) or would lock or cross a protected quotation in violation of Rule 610(d) of Regulation NMS.<sup>55</sup>

- Proposed Rule 7.31P(e)(2)(B)(i) would provide that if the BO (BB) is higher (lower) than the PBO (PBB), an ALO Order to buy (sell) would have a working price of the PBO (PBB) and a display price one MPV below (above) the PBO (PBB). As proposed, for an ALO Order to buy, if the BO is higher than the PBO, the order would be priced the same as a straight Arca Only Order, because such order would not be marketable against the BO or route to the PBO. The proposed re-pricing would assure that the ALO Order would not lock the PBO.
- Proposed Rule 7.31P(e)(2)(B)(ii) would provide that if the BO (BB) is equal to the PBO (PBB), an ALO Order to buy (sell) would have a working price and a display price one MPV below (above) the PBO (PBB). This proposed rule text reflects that an ALO Order could not trade

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<sup>54</sup> See paragraph (a) governing ALO Orders in NYSE Rule 13 (“Limit orders designated ALO may participate in the open or close, but the ALO designation shall be ignored”).

<sup>55</sup> 17 CFR 242.610(d). The proposed re-pricing functionality for an ALO Order in Pillar is similar to how orders operate on other exchanges. See, e.g., paragraph (b) governing ALO Orders in NYSE Rule 13; Nasdaq Rule 4702(b)(4)(A) (defining a “Post-Only Order”).

at the contra-side BBO, nor would the Exchange assign a working price to an ALO Order that would lock the Exchange's BBO.

- Proposed Rule 7.31P(e)(2)(B)(iii) would provide that if the PBO (PBB) re-prices higher (lower), an ALO Order to buy (sell) would be assigned a new working price and display price consistent with proposed Rule 7.31P(e)(2)(B)(i) and (ii). Accordingly, as the PBO moves, the re-pricing of the ALO Order would function the same as it would on arrival. Accordingly, each time the PBBO moves, the Exchange would evaluate both the BBO and the PBBO to determine which working and display price should be assigned to the ALO Order.
- Proposed Rule 7.31P(e)(2)(B)(iv) would provide that if the PBO (PBB) re-prices lower (higher) to be equal to or lower (higher) than the ALO Order's last display price or if its limit price no longer locks or crosses the PBO (PBB), an ALO Order to buy (sell) would be priced pursuant to proposed Rule 7.31P(e)(1)(A)(iii) and (iv). Accordingly, as proposed, an ALO Order would follow the re-pricing instructions of a straight Area Only Order if the PBBO moves into the price of the order or if it is displayed at its limit price. As such, the ALO Order would not re-price but would remain at its displayed price.

Proposed Rule 7.31P(e)(2)(C) would provide how an ALO Order to buy (sell) would either trade with or lock orders priced below (above) the BO (BB), which, for purposes of this section of the Rule would be referred to as “non-displayed order(s).”<sup>56</sup>

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<sup>56</sup> By defining “non-displayed order(s)” as any interest priced inferior to the BBO, it

This proposed functionality would be a substantive difference from how an ALO Order functions on the current trading platform, which, as provided for in Rule 7.31(e)(1)(C), will be rejected where, at the time of entry, it would interact with un-displayed orders on NYSE Arca.

- Proposed Rule 7.31P(e)(2)(C)(i) would provide that if the limit price of an ALO Order to buy (sell) is higher (lower) than the working price of resting non-displayed order(s) to sell (buy), it would trade as the liquidity taker with such order(s). This proposed functionality would provide price improvement to an incoming ALO Order and is consistent with how other markets currently function.<sup>57</sup>
- Proposed Rule 7.31P(e)(2)(C)(ii) would provide that if the limit price of an ALO Order to buy (sell) is equal to the working price of resting non-displayed order(s) to sell (buy), it would post to the NYSE Arca Book and would not trade with such order(s), unless such order(s) is a Limit Non-Displayed Order or Arca Only Order to sell (buy) that has been designated with a Non-Display Remove Modifier. As described above, the ALO Order would be considered the liquidity-providing order when trading

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would include Limit Non-Displayed Orders, Arca Only Orders with a non-displayed working price, ALO Orders with a non-displayed working price, and odd-lot orders. As proposed in Rule 7.31P(e)(2)(D), ALO Orders would not trigger an MPL Order to trade, and therefore MPL Orders would not be considered a “non-displayed order” for purposes of this definition.

<sup>57</sup> See, e.g., BATS Exchange, Inc. (“BATS”) Rule 11.9(c)(6) (BATS Post Only Order will remove contra-side liquidity from the BATS Book if the value of such execution when removing liquidity equals or exceeds the value of such execution if the order instead posted the BATS book and subsequently provided liquidity, including the applicable fees charged or rebates provided); see also Nasdaq Rule 4702(b)(5)(A) (Post-Only Orders will trade on arrival if economically beneficial).

with an order designated with a Non-Display Remove Modifier.<sup>58</sup>

Accordingly, subject to this exception, if the non-displayed order(s) would not provide price improvement over the limit price of the ALO Order, i.e., they are at the same price, the ALO Order would not trade with such interest and instead would be displayed at that price. This proposed functionality would be new for Pillar and is similar to how other markets operate.<sup>59</sup>

Proposed Rule 7.31P(e)(2)(D) would provide that an ALO Order would not trigger a contra-side MPL Order to trade. This functionality is the same as current Rule 7.31(e)(1)(C), which provides that an ALO Order will ignore MPL Orders.<sup>60</sup> The Exchange proposes to revise how to reflect this functionality in proposed Rule 7.31P(e)(2)(D) and the proposed language is based on paragraph (d) governing ALO Orders in NYSE Rule 13.

ISO: Rules 7.31(e)(2) and (e)(4), together with Rules 7.37(e)(3)(C) and (g)(1), set forth how ISOs function on the current trading platform.

Proposed Rule 7.31P(e)(3) would define ISOs in Pillar. The Exchange proposes non-substantive differences to the rule text to define separately an “IOC ISO” and a “Day

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<sup>58</sup> ETP Holders that elect to use the optional Non-Display Remove Modifier would be the liquidity-taking order if trading with an ALO Order.

<sup>59</sup> Id.

<sup>60</sup> Current Rule 7.31(e)(1)(C) further specifies how MPL or MPL-ALO Orders may interact. As described above, the Exchange proposes to set forth in proposed Rule 7.31P(d)(3)(G) how MPL and MPL-ALO Orders would interact if designated with a Non-Display Remove Modifier, and does not propose to repeat this text in the definition of an ALO Order.

ISO,” each of which are existing order types. The proposed structure of the rule is based on NYSE Rule 13 governing ISOs.

As proposed, Rule 7.31P(e)(3) would define an ISO as a Limit Order that does not route and meets the requirements of Rule 600(b)(3) of Regulation NMS.<sup>61</sup> This definition is the same as current Rule 7.31(e)(2). Proposed Rule 7.31P(e)(3)(A) would further provide that an ISO may trade through a protected bid or offer, and would not be rejected or cancelled if it would lock, cross, or be marketable against an Away Market provided that it meets the requirements specified in proposed Rule 7.31P(e)(3)(A)(i) and (ii). This rule text reflects the same functionality as in current Rules 7.31(e)(2) and 7.37(g)(1).

Proposed Rule 7.31P(e)(3)(A)(i) – (ii) would specify additional requirements related to ISOs that are based on the Regulation NMS definition of an ISO<sup>62</sup> and requirements specified in current Rules 7.37(e)(3)(C) and (g)(1). As proposed, an ISO would need to be identified as an ISO in the manner prescribed by the Exchange and, simultaneously with the routing of an ISO to the Exchange, the ETP Holder routes one or more additional Limit Orders, as necessary, to trade against the full displayed size of any protected bids (for sell orders) or protected offers (for buy orders) on Away Markets and these additional routed orders must be identified as ISO.<sup>63</sup>

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<sup>61</sup> 17 CFR 242.600(b)(3).

<sup>62</sup> Id.

<sup>63</sup> This proposed rule text is based on paragraphs (a)(i) and (ii) governing ISOs in NYSE Rule 13, which is also based on the Regulation NMS definition of an ISO. The Exchange proposes a non-substantive difference from the NYSE rule to specify in proposed Rule 7.31P(e)(3)(A)(ii) that an ETP Holder is responsible for routing the additional Limit Orders as ISO, as it is the responsibility of the entering firm and not the Exchange to route those additional ISOs. In addition,

Proposed Rule 7.31P(e)(3)(B) would set forth IOC ISOs in Pillar, which would not function any differently in Pillar than they do on the current trading platform.<sup>64</sup> As proposed, an IOC ISO would be traded with contra-side interest in the NYSE Arca Book up to its full size and limit price and the quantity not so traded would be immediately and automatically cancelled. The Exchange proposes in Pillar to separately provide for IOC ISOs in proposed Rule 7.31P(e)(3) to distinguish this functionality from a Day ISO. Because the Exchange proposes to add MTS functionality for Limit IOC Orders, the Exchange proposes to specify in proposed Rule 7.31P(e)(3)(C) that an IOC ISO may not be designated with an MTS.

Proposed Rule 7.31P(e)(3)(C) would set forth Day ISOs in Pillar. Current Rule 7.31(e)(3) provides for ISO functionality within the definition of a PNP Order. As set forth in the second sentence of this rule, a PNP Order marked as an ISO may lock and cross and trade-through Manual and Protected Quotations, but only if the User has complied with Rule 7.37(e)(3)(C).<sup>65</sup> Accordingly, a PNP ISO currently functions as an

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the Exchange will not include in proposed Rule 7.31P(e)(3) the current rule text from Rule 7.31(e)(2) that provides “any inbound order received over NMS Linkage will constitute an ISO” because “NMS Linkage” is an obsolete reference.

<sup>64</sup> As provided for in Commentary .01 to Rule 7.31, Users may combine order types and modifiers, and IOC ISO functionality is currently available by combining an ISO pursuant to Rule 7.31(e)(2) with the IOC modifier set forth in Rule 7.31(b)(3). See also Securities Exchange Act Release No. 54549 (Sept. 29, 2006), 71 FR 59179, 59181 (Oct. 6, 2006) (SR-NYSEArca-2006-59) (“2006 Arca Filing”) (Order approving adoption of ISOs, including an ISO that may be marked IOC).

<sup>65</sup> Rule 7.37(e)(3)(C) provides for an exception to locking or crossing a protected quotation when the ETP Holder simultaneously routes an ISO to execute against the full size of any locked or crossed Protected Quotation, and therefore is an exception that is available only on arrival, when the other ISOs are simultaneously routed to Protected Quotations.

ISO with a Day modifier.<sup>66</sup> The Exchange proposes in Pillar to refer to such orders as Day ISOs and to set forth the functionality for Day ISOs together with other ISO functionality in proposed Rule 7.31P(e)(3). As proposed in Pillar, a Day ISO, if marketable on arrival, would be immediately traded with contra-side interest in the NYSE Arca Book up to its full size and limit price. Any untraded quantity of a Day ISO would be displayed at its limit price and may lock or cross a protected quotation that was displayed at the time of arrival of the Day ISO.<sup>67</sup> Consistent with current Rule 7.37(e)(3)(C), a Day ISO would be eligible to lock or cross a protected quotation only on arrival.

Proposed Rule 7.31P(e)(3)(D) would set forth the ALO modifier functionality for Day ISOs in Pillar, which would be defined as a “Day ISO ALO.” As provided for in Commentary .01 to Rule 7.31, a PNP ISO may be combined with an ALO Order, and if so designated, pursuant to Commentary .02 to Rule 7.31, such order would reject on arrival if marketable against orders on the NYSE Arca Book. If not rejected, such order would function as a Day ISO.<sup>68</sup>

The Exchange proposes substantive differences for a Day ISO ALO in Pillar to

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<sup>66</sup> See 2006 Arca Filing, supra note 64 at 59180 (describing ISO PNP Orders, which post to the NYSE Arca book and may lock or cross protected quotations).

<sup>67</sup> The proposed rule text is based on paragraph (c) governing ISOs in NYSE Rule 13.

<sup>68</sup> Commentary .02 to Rule 7.31 provides that if two order types are combined that include instructions both for operation on arrival (e.g., ALO Order) and for how the order operates while resting on the Exchange’s book (e.g., PNP ISO), the instructions governing functionality while incoming will be operative upon arrival and functionality governing how the order operates while resting on the Exchange’s book will govern any remaining balance of the order that is not executed upon arrival.



provide that such order would not be rejected if marketable against orders on the NYSE Arca Book and would instead re-price, consistent with how the proposed ALO Order would function in Pillar. The Exchange proposes an additional substantive difference to require that a Day ISO ALO be entered with a minimum of one displayed round lot. This requirement is consistent with the Exchange's proposed functionality for ALO Orders generally, which, as proposed in Rule 7.31P(e)(2), must be entered with a minimum of one displayed round lot.

Proposed Rule 7.31P(e)(3)(D) would further provide how a Day ISO ALO would operate on arrival, which, consistent with an ALO Order in Pillar, would not trade with the contra-side BBO, but consistent with the Day ISO instruction, could trade through or lock or cross a protected quotation.<sup>69</sup> As proposed, a Day ISO ALO to buy (sell) that, at the time of entry, is marketable against the BO (BB) would not trade with orders on NYSE Arca Book priced at the BO (BB) or higher (lower), but may trade through or lock or cross a protected quotation that was displayed at the time of arrival of the Day ISO ALO. The rule would further provide how a Day ISO ALO would be priced and traded, which would be new functionality in Pillar that would correlate to the proposed new functionality for ALO Orders.

- Proposed Rule 7.31P(e)(3)(D)(i) would provide that on arrival, a Day ISO ALO to buy (sell) would be assigned a working price and display price one MPV below (above) the BO (BB) and would trade with non-displayed order(s) pursuant to proposed Rule 7.31P(e)(2)(C). This pricing on arrival is consistent with how a non-ISO ALO Order in Pillar would be priced on

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<sup>69</sup> See also paragraph (c) governing ISOs in NYSE Rule 13.

arrival and how it would interact with non-displayed orders. Accordingly, a Day ISO ALO to buy would trade similarly to a non-ISO ALO order with respect to sell orders priced below the BO, including Arca Only Orders or Limit Non-Displayed Orders designated with a Non-Display Remove Modifier.

- Proposed Rule 7.31P(e)(3)(D)(ii) would provide that after being displayed, a Day ISO ALO to buy (sell) would be re-priced and re-displayed based on changes to the PBO (PBB) consistent with proposed Rules 7.31P(e)(2)(B)(iii) – (iv). This proposed rule text would therefore provide that after its initial posting on the NYSE Arca Book, which may trade through or lock or cross a protected quotation, any further re-pricing of the order would not trade-through or lock or cross protected quotations. Therefore, a Day ISO ALO would, if required to re-price, function as if it were a regular ALO Order.

#### Orders with Specified Routing Instructions (Proposed Rule 7.31P(f))

Proposed Rule 7.31P(f) would set forth the orders with specific routing instructions and includes the same orders that are set forth in current Rule 7.31(f), which include Primary Only (“PO”) Orders (Rule 7.31(f)(1)), Primary Until 9:45 Orders (Rule 7.31(f)(2)), and Primary After 3:55 Orders (Rule 7.31(f)(3)). The Exchange proposes substantive differences for when the Exchange would accept Primary Only Orders, which order instructions would be required to be included on a Primary Only Order, and to provide for Primary Only Orders that may be designated as a Reserve Order.

Primary Only Order: Current Rule 7.31(f)(1) provides that a Primary Only Order (“PO Order”) is a Market or Limit Order that is to be routed to the primary market.

Proposed Rule 7.31P(f)(1) would define Primary Only Orders in Pillar. As currently set forth in Rule 7.31(f)(1), a Primary Only Order in Pillar would be a Market or Limit Order that on arrival is routed directly to the primary listing market without being assigned a working time or interacting with interest on the NYSE Arca Book. The Exchange proposes non-substantive differences in proposed Rule 7.31P(f)(1) to use the term “primary listing market” instead of “primary market” and to provide greater specificity that a Primary Only Order would not be assigned a working time. The proposed rule would further provide that a Primary Only Order must be designated for the Core Trading Session, which is based on current Rule 7.31(f)(1), which provides that Primary Only Orders may be entered at any time or until a cut-off time as determined from time to time by the Corporation, which currently, is the end of the Core Trading Session.<sup>70</sup> Because the Exchange currently accepts Primary Only Orders designated for the Core Trading Session only, the Exchange proposes to include this requirement in proposed Rule 7.31P(f)(1).

The rule would further provide that the primary listing market would validate whether the order is eligible to be accepted by that market and if the primary listing market rejects the order, the order would be cancelled. This requirement would be a substantive difference from Rule 7.31(f)(1)(A), which requires a PO Order entered for

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<sup>70</sup> Pursuant to proposed Rule 7.34P(b)(1), during the Early Trading Session, the Exchange would accept orders, including Primary Only Orders, designated for the Core Trading Session. Pursuant to proposed Rules 7.34P(c)(1)(A) and (c)(3)(C), Primary Only Orders designated for the Early or Late Trading Sessions would be rejected. See Pillar I Filing, supra note 4.

participation in the primary market opening to be entered before 6:28 a.m. (Pacific Time). Instead, in Pillar, the Exchange would accept such an order and route it directly to the primary listing market without validating whether the primary listing market is accepting orders.<sup>71</sup> Proposed Rule 7.31P(f)(1) would also provide that a Primary Only Order instruction on a security listed on the Exchange would be ignored, which is how the Exchange currently processes Primary Only Orders submitted in Exchange-listed securities.

The Exchange proposes substantive differences to the operation of Primary Only Orders in Pillar to eliminate the requirement that PO Orders be entered at specific times or that PO Orders that are intended to remain on the primary listing market after an opening auction must include a PO+ modifier. Accordingly, rule text set forth in current Rules 7.31(f)(1)(A) – (C), which describes these requirements, would not be included in new Rule 7.31P(f)(1). The Exchange also proposes a substantive difference to provide that specified Primary Only Orders would be eligible to be designated as a Reserve Order.

The Exchange also proposes non-substantive differences to the rule text in order to streamline the rule by defining three forms of Primary Only Orders, which would be the order instructions that would be required to be included when entering a Primary Only Order in Pillar. Proposed Rule 7.31P(f)(1)(A) - (C) would set forth the different types of order instructions that would be available for Primary Only Orders, with non-substantive differences to rename the order types to correlate to the type of functionality associated with the respective Primary Only Order.

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<sup>71</sup> See *id.* at proposed Rules 7.34P(c)(1)(D) and (c)(2)(B).

- Proposed Rule 7.31P(f)(1)(A) would provide for the Primary Only MOO/LOO Order, which would be a Primary Only Order designated for participation in the primary listing market’s opening or re-opening process as a MOO or LOO Order. This represents functionality set forth in current Rule 7.31(f)(1)(A) and (B) that a PO Order may be entered for participation in the primary market opening or re-opening, with a non-substantive difference to rename this as a “Primary Only MOO/LOO Order.” As further proposed, once routed, the Primary Only MOO or LOO Order would follow the rules of the primary listing market regarding how such orders would participate in the respective auction.
- Proposed Rule 7.31P(f)(1)(B) would provide for a Primary Only Day/IOC Order, which would be a Primary Only Order designated Day or IOC. A Primary Only Order designated Day would be similar to the current PO+ modifier set forth in current Rule 7.31(f)(1)(C), which provides that a PO Order entered for participation in the primary market, other than for participation in the primary market opening or primary market re-opening, must be marked with the modifier PO+. As with current functionality, a Primary Only Day Order entered before 9:30 a.m. Eastern Time would be eligible to participate in an opening auction consistent with the rules of the respective primary listing market. A Primary Only Day Order entered after the primary listing market opens would be used for participation in continuous trading on the primary listing market, similar to a PO+ Order that would be entered after the primary listing market opens.

Proposed Rule 7.31P(f)(1)(B) would further provide that a Primary Only Day Order may be designated as a Reserve Order. The proposal to allow Primary Only Day Orders to be designated as a Reserve Order is a substantive difference from current Rule 7.31(f)(1), which prohibits Primary Only Orders from being designated as Reserve Orders. If designated as a Reserve Order, the Primary Only Day Order would follow the Reserve Order functionality of the primary listing market to which it is routed.

As under the current rule for Primary Only Orders, the default in proposed Rule 7.31P(f)(1)(B) would be to route the order as a non-routable order type, and it would remain on the Away Market until executed or cancelled. The Exchange would continue to offer that for NYSE- and NYSE MKT-listed securities, a Primary Only Day/IOC Order could be sent as a routable order, in which case the order would remain at the NYSE or NYSE MKT until executed, routed away, or cancelled. This treatment of Primary Only Orders in NYSE- and NYSE MKT-listed securities is the same as set forth in the fourth through seventh sentences of current Rule 7.31(f)(1),<sup>72</sup> but with non-substantive differences to streamline the rule text. The Exchange also proposes non-substantive differences to the rule text to provide that a Primary Only Day/IOC Order in NYSE- or NYSE MKT-listed securities may include an instruction that the order is a

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<sup>72</sup> Current Rule 7.31(f)(1) states that the Exchange designates Primary Only Orders routed to the NYSE or NYSE MKT as Do No Ship (“DNS”), a designation specified to the NYSE and NYSE MKT that restricts the NYSE or NYSE MKT from routing the order to away market centers.

routable order, rather than requiring the User to “override the DNS designation,” as under current Rule 7.31(f)(1).

Proposed Rule 7.31P(f)(1)(C) would provide for a Primary Only MOC/LOC Order, which would be a Primary Only Order designated for participation in the primary listing market’s closing process as a MOC or LOC Order. This functionality is based on the second paragraph of current Rule 7.31(f)(1), which describes that PO Orders may be designated as MOC or LOC, and specifically provides for how PO Orders that are designated MOC or LOC in NYSE- and NYSE MKT-listed securities operate.<sup>73</sup> As further proposed, once routed, the Primary Only MOC or LOC Order would follow the rules of the primary listing market regarding how such orders would participate in the respective auction.

Primary Until 9:45 Order: Current Rule 7.31(f)(2) sets forth the Primary Until 9:45 Order, which is a Limit Order entered for participation on the primary market until 9:45 am Eastern Time (6:45 a.m. Pacific Time) after which time the order is cancelled on the primary market and entered on the NYSE Arca Book. The Primary Until 9:45 Order may be Day only and may not be designated GTC or GTD. Orders that return to the

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<sup>73</sup> Rule 7.31(f)(1) provides that PO Orders routed to the NYSE or NYSE MKT that are designated as MOC or LOC Orders may not be electronically cancelled or reduced in size after 3:45 p.m. ET, or in the case of an early scheduled close, 15 minutes before the close and electronic submissions after 3:45 p.m. ET (or in the case of an early scheduled close, 15 minutes before the close) to cancel or reduce in size a PO Order that has been routed to the NYSE or NYSE MKT and designated as MOC or LOC will be automatically rejected and must be entered manually. As set forth in the Pillar I Filing, the Exchange would move the functionality associated with this rule, with non-substantive differences, to proposed Rule 7.37P(b)(7)(C). See supra note 4.

NYSE Arca Book after routing to the primary market will retain their original order attributes.

Proposed Rule 7.31P(f)(2) would set forth the Primary Until 9:45 Order in Pillar. The Exchange does not propose any substantive differences to how this order would function in Pillar, but proposes non-substantive differences to use Pillar terminology. As proposed, a Primary Until 9:45 Order would be a Limit or Inside Limit Order that, on arrival and until 9:45 a.m. Eastern, routes to the primary listing market.<sup>74</sup> As further proposed, after 9:45 a.m. Eastern Time, the order would be cancelled on the primary listing market and entered on the NYSE Arca Book. A Primary Until 9:45 Order would be required to be designated Day and orders that return to the NYSE Arca Book after routing to the primary listing market would retain their original order attributes and be assigned a working time based on when the order is returned from the primary listing market and entered on the NYSE Arca Book. The Exchange proposes to further add that a Primary Until 9:45 Order may be combined with a Primary After 3:55 Order, which represents current functionality.

The Exchange proposes non-substantive differences to use the term “primary listing market” instead of “primary market” and eliminate references to Pacific Time. In addition, the Exchange is not proposing that GTC or GTD time in force modifiers would be offered in Pillar, therefore, the Exchange would not refer to those modifiers in the proposed Pillar rule.

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<sup>74</sup> In Pillar, the Exchange proposes a non-substantive difference to define a Primary Until 9:45 Order to include an Inside Limit Order, which is consistent with current Rule 7.31(a)(3)(B), which describes how Inside Limit Orders that are designated as a Primary Until 9:45 Order operate.



Primary After 3:55 Order: Current Rule 7.31(f)(3) sets forth the Primary After 3:55 Order, which is a Limit Order entered for participation on the Exchange until 3:55 pm Eastern Time (12:55 pm Pacific Time) after which time the order is cancelled on the Exchange and an order is entered for participation on the primary market. The Primary After 3:55 Only Order may be Day only and may not be designated GTC or GTD. Orders that route to the primary market at 3:55 pm Eastern Time will retain their original order attributes.

Proposed Rule 7.31P(f)(3) would set forth the Primary After 3:55 Order in Pillar. The Exchange does not propose any substantive differences to how this order would function in Pillar, but proposes non-substantive differences to provide more specificity in the rule text. As proposed, a Primary After 3:55 Order would be a Limit or Inside Limit Order entered on the Exchange until 3:55 p.m. Eastern Time after which time the order would be cancelled on the Exchange and routed to the primary listing market.<sup>75</sup> The Primary After 3:55 Order would be required to be designated Day and orders that route to the primary listing market at 3:55 p.m. Eastern Time would retain their original order attributes.

The Exchange proposes non-substantive differences to use the term “primary listing market” instead of “primary market,” eliminate references to Pacific Time, and refer to the order being “routed to” the primary listing market rather than being “entered for participation on” the primary market.

Cross Orders (Proposed Rule 7.31P(g))

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<sup>75</sup> In Pillar, the Exchange proposes a non-substantive difference to define a Primary After 3:55 Order to include an Inside Limit Order, which is consistent with current Rule 7.31(a)(3)(B), which describes how Inside Limit Orders that are designated as a Primary After 3:55 Order operate.

Proposed Rule 7.31P(g) would set forth Cross Orders in Pillar. Current Rule 7.31(e)(5) provides for Cross Orders within the group of orders with instructions not to route. Because the Exchange is proposing a substantive difference in Pillar to provide for a Cross Order that would trade with displayed interest either on the NYSE Arca Book or Away Markets before trading at the cross price, the Exchange proposes to create a separate category in new Rule 7.31P for Cross Orders, which would define Cross Orders generally and then define separately the two forms of proposed Cross Orders.

Proposed Rule 7.31P(g) would define Cross Orders in Pillar as a two-sided order with instructions to match the identified buy-side with the identified sell-side at a specified price (the “cross price”). This text is based on current Rule 7.31(e)(5) without any differences. The rule would further provide that a Cross Order would not be eligible to participate in any auctions, and if it arrives during auction processing, it would be cancelled. This represents current functionality, and is consistent with the terms of a Cross Order, which is a Limit Order designated IOC, because orders designated IOC do not participate in auctions at the Exchange.

Proposed Rule 7.31P(g)(1) would set forth the definition for a Limit IOC Cross Order, which is a Cross Order that must trade in full at its cross price, would not route and would cancel at the time of order entry if the cross price is not between the BBO or if it would trade through the PBBO. This proposed rule text is based on the same functionality that is currently described as the requirement that the cross price not be marketable against the BBO (current Rule 7.31(e)(5)(A)) and the requirement that the cross price would not trade through the PBBO (current Rule 7.31(e)(5)(B)).<sup>76</sup> The

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<sup>76</sup> Current Rule 7.31(e)(5)(B) also provides that a the cross price may not cause an

Exchange does not propose to include in proposed Rule 7.31P(g)(1) the rule text in current Rule 7.31(e)(5)(C), which provides that the cross price be between the BBO and improve the BBO by the minimum price increment above or below the BBO, because Rule 7.6 sets forth the quoting and entry of order MPVs for all securities, to which Cross Orders are subject.

Proposed Rule 7.31P(g)(2) would set forth the definition for a Limit IOC Routable Cross Order, which would be a new order type offered in Pillar. As proposed, a Limit IOC Routable Cross Order would be a Cross Order that trades at its cross price only after trading with or routing to displayed interest on the NYSE Arca Book or Away Markets.

Proposed Rule 7.31P(g)(2)(A) would further provide that on arrival, if the buy (sell) side of a Limit IOC Routable Cross Order is marketable against sell (buy) orders ranked Priority 1 – Market Orders and/or Priority 2 – Display Orders on the NYSE Arca Book or displayed sell (buy) interest on Away Markets, including the PBO (PBB), the buy (sell) side of the order would trade with or route to such interest and the remaining quantity would trade at the cross price. The rule would further provide that a Limit IOC Routable Cross Order would route to prices higher (lower) than the PBO (PBB) only after trading with contra-side interest on the NYSE Arca Book at each price point. This proposed text is consistent with proposed Rule 7.37P(b), which provides that an order

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execution at a price that trades through the PBBO, except as provided for in Rule 7.37. The reference to Rule 7.37 is an obsolete reference that relates to when the Exchange offered a PNP Cross Order that was eligible to be designated as ISO and therefore trade through the PBBO provided that the ETP Holder met the requirements of Rule 7.37. See 2014 Deletion Filing, supra note 6.

that is eligible to route would not route until after being matched for execution with contra-side orders in the NYSE Arca Book.<sup>77</sup>

Proposed Rule 7.31P(g)(2)(B) would provide that the quantity of the Limit IOC Routable Cross Order that does not trade at the cross price or with contra-side interest on the NYSE Arca Book, or that is returned unfilled from an Away Market, would be cancelled. The Exchange believes that this proposed provision is consistent with the operation of an order designated IOC and would provide the entering ETP Holder with certainty regarding how much of the Limit IOC Routable Cross Order would be traded at the cross price.

Proposed Rule 7.31P(g)(2)(C) would provide that a Limit IOC Routable Cross Order would not trade with resting orders ranked Priority 3 – Non-Display Orders or Priority 4 – Tracking Orders. By not trading with such orders, a Limit IOC Routable Cross Order would skip orders in these priorities at each price point. This proposed rule text complements proposed Rule 7.31P(g)(2)(A), discussed above, that an incoming Limit IOC Routable Cross Order would only trade with resting orders ranked Priority 1 or 2 and provides clarity regarding which orders would not be eligible to trade with an incoming Limit IOC Routable Cross Order, and therefore could be traded through. The Exchange believes that an ETP Holder entering a Limit IOC Routable Cross Order would be seeking certainty regarding how much of the proposed Cross Order would trade at the cross price and would be able to view whether there is any displayed interest, including odd lot orders, on NYSE Arca Book via the Exchange’s proprietary data feeds. By limiting the interaction of Limit IOC Routable Cross Orders with such displayed orders,

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<sup>77</sup> See Pillar I Filing, supra note 4.

the Exchange would be providing the entering firm with greater control and certainty of the prices at which the Limit IOC Routable Cross Order would trade. The Exchange also proposes that Limit IOC Routable Cross Orders would trade with resting Market Orders because such orders would be ranked higher than displayed orders, even though they would not be displayed.

Pegged Orders (Proposed Rule 7.31P(h))

Proposed Rule 7.31P(h) would set forth Pegged Orders. As noted above, Pegged Orders currently are included in the category “Additional Order Instructions and Modifiers” in current Rule 7.31(g)(1), which include Market Pegged Orders (Rule 7.31(g)(1)(A)) and Primary Pegged Orders (Rule 7.31(g)(1)(B)). The Exchange proposes to create a separate category in proposed Rule 7.31P(h) to set forth Pegged Orders.

Current Rule 7.31(g)(1) provides that a Pegged Order is a Limit Order to buy or sell a stated amount of a security at a display price set to track the current bid or ask of the NBBO in an amount specified by the User. Rule 7.31(g)(1)(A) provides that a Market Pegged Order is a buy order that is pegged to the National Best Offer or a sell order that is pegged to the National Best Bid. To avoid locking the market, an offset value is required for a Market Pegged Order. Rule 7.31(g)(1)(B) provides that a Primary Pegged Order is a buy order that is pegged to the National Best Bid or a sell order that is pegged to the National Best Offer and an offset value is permitted on a Primary Pegged Order, but is not required.

Proposed Rule 7.31P(h) would define Pegged Orders in Pillar, with the following substantive differences:

- Both Primary and Market Pegged Orders would peg to the PBBO instead of the NBBO.
- Both Primary and Market Pegged Orders would be cancelled when resting if there is no side of the PBBO to which they are to peg.
- Pegged Orders would be required to include a limit price and if the limit price is outside of the PBBO, the Pegged Order would have a working price of the limit price instead of the PBBO.
- Market Pegged Orders would not be displayed. As a result, Market Pegged Orders would no longer require an offset value, but could include an offset value. In addition, because there would be no display quantity, Market Pegged Orders may not also be a Reserve Order. Finally, as an undisplayed order, Market Pegged Orders would function similarly to MPL Orders when the PBBO is locked or crossed and would not receive a new working price or be eligible to trade until there is a PBBO that is not locked or crossed.
- Primary Pegged Orders would be required to be entered with a minimum of one round lot displayed, would be eligible to participate in auctions at their limit price, and could not include an offset value. As a displayed order, when the PBBO is locked or crossed, a Primary Pegged Order would remain displayed at its prior displayed price and would not be assigned a working price based on the locked or crossed PBBO, and would remain eligible to trade at its prior displayed price.

- During a Sell Short Period, Pegged Orders would not be rejected or cancelled.

The Exchange also proposes non-substantive differences to how Pegged Orders would be set forth in proposed Rule 7.31P(h)(1) – (2) to use Pillar terms.

Proposed Rule 7.31P(h) would define a Pegged Order as a Limit Order that does not route with a working price that is pegged to a dynamic reference price. This proposed rule text is based on the first sentence of current Rule 7.31(g)(1) with the following substantive differences:

- The Exchange would not include in proposed Rule 7.31P(h) the following text from Rule 7.31(g)(1) defining a Pegged Order as “[a] Limit Order to buy or sell a stated amount of a security at a display price set to track the current bid or ask of the NBBO in an amount specified by the User.” This rule text, while referring to a Limit Order, specifies different behavior from a Limit Order because it requires a stated amount for the order, but with respect to price, only says that a Pegged Order has a display price that tracks the NBBO in an amount specified by the User. In Pillar, the Exchange would require a limit price to be included with a Pegged Order, and therefore, the Exchange proposes to not include this rule text, and instead would refer only to a Pegged Order as being a Limit Order. Because the definition of a Limit Order defines that the order specify a stated amount and price, referencing a Limit Order in the Pillar definition, without restating requirements relating to price or size of the order for

Pegged Orders, would mean that all requirements of a Limit Order, including a limit price, would be applicable to Pegged Orders.

- The Exchange proposes to use the term “dynamic reference price” in proposed Rule 7.31P(h)(1) instead of NBBO, as used in Rule 7.31(g)(1), because the Exchange would specify the relevant reference price for each type of Pegged Order in the sub-paragraphs to the rule.

The second sentence of proposed Rule 7.31P(h) would provide that if the designated reference price is higher (lower) than the limit price of a Pegged Order to buy (sell), the working price would be the limit price of the order. The Exchange proposes to include this requirement in Pillar because Pegged Orders would be required to have a limit price, and thus would have a ceiling or floor past which such an order could not peg. For example, if a Pegged Order to buy has a limit price of \$10.00, and the designated reference price is \$10.01, the Pegged Order would be assigned a working price of \$10.00, and therefore be eligible to trade, at its limit price, i.e., \$10.00, instead of the reference price of \$10.01. This proposed text would use Pillar terminology, including “designated reference price,” “limit price,” and “working price,” to describe how a Pegged Order would not be assigned a working price outside of its specified limit price. The Exchange believes that including this detail in the proposed Pillar rule would provide clarity regarding at what price a Pegged Order to buy (sell) with a limit price that is lower (higher) than the reference price would be eligible to trade.

Proposed Rule 7.31P(h)(1) would define Market Pegged Orders in Pillar. As proposed, a Market Pegged Order would be a Pegged Order to buy (sell) with a working price that is pegged to the PBO (PBB). This rule text represents current functionality that



a Market Pegged Order pegs to the contra-side reference price, but with the substantive difference from Rule 7.31(g)(1)(A) that the reference price would be the PBBO instead of the NBBO. The Exchange also proposes non-substantive differences to streamline the rule text and use Pillar terminology.

The second sentence of proposed Rule 7.31P(h)(1) would provide that a Market Pegged Order to buy (sell) would be rejected on arrival, or cancelled when resting, if there is no PBO (PBB) against which to peg. This proposed text is based on the third to last sentence of Rule 7.31(g)(1), which provides that if an NBBO does not exist at the time of entry, a Pegged Order shall be rejected, with a proposed substantive difference in Pillar to use the PBBO instead of the NBBO as the reference price. For example, a Market Pegged Order to buy (sell) would not be rejected if there is a PBO but no PBB. The Exchange is also proposing a substantive difference from current rules to provide that the Exchange would cancel resting Market Pegged Orders if the reference price against which it pegs no longer exists. The Exchange believes that if there is no reference price against which to peg, a Pegged Order is not operational, and thus the proposal to cancel such Market Pegged Order is appropriate and consistent with the current and proposed functionality to reject an incoming Pegged Order when there is no price against which to peg. Finally, the Exchange is proposing that Market Pegged Orders in Pillar would not participate in any auctions, which is current functionality for Pegged Orders.

- Proposed Rule 7.31P(h)(1)(A) would set forth the substantive difference in Pillar that Market Pegged Orders would not be displayed, which is consistent

with how Market Pegged Orders function on other exchanges.<sup>78</sup> The rule would further define the priority ranking of Market Pegged Orders in Pillar, which, as not displayed orders, would be ranked Priority 3 – Non-Display Orders.<sup>79</sup> Because Market Pegged Orders would not be displayed in Pillar, they would not be eligible to be designated as a Reserve Order, which is a substantive difference of how Market Pegged Orders would operate in Pillar and differs from current Rule 7.31(g)(1), which provides that Pegged Orders may be a Reserve Order.<sup>80</sup>

- Proposed Rule 7.31P(h)(1)(B) would specify in Pillar how a Market Pegged Order would function when the PBBO is locked or crossed, which would be new functionality in Pillar. As proposed, if the PBBO is locked or crossed, both an arriving and resting Market Pegged Order would wait for a PBBO that is not locked or crossed before the working price would be adjusted and the order would become eligible to trade. This proposed functionality is based on how MPL Orders would operate in Pillar.<sup>81</sup> The Exchange proposes that Market Pegged Orders would operate similarly to

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<sup>78</sup> See BATS Rule 11.9(c)(8)(B); BATS-Y Exchange, Inc. (“BATS-Y”) Rule 11.9(c)(8)(B).

<sup>79</sup> The Exchange would not include in proposed Rule 7.31P(h) the text from the third sentence of Rule 7.31(g)(1), which relates to when a Pegged Order would receive a new time entry, because proposed Rule 7.36P(f)(2) sets forth when working times are assigned to orders, including Pegged Orders. See Pillar I Filing, supra note 4.

<sup>80</sup> As proposed in Rule 7.31P(d)(1), a Reserve Order must include a display quantity.

<sup>81</sup> See proposed Rule 7.31P(d)(3)(B).

MPL Orders when the PBBO is locked or crossed because both are undisplayed orders that are pegged to a reference price.

- Proposed Rule 7.31(h)(1)(C) would set forth the substantive difference in Pillar of that offset values could be used with Market Pegged Orders, but would not be required, and thus differs from current Rule 7.31(g)(1)(A). As proposed, a Market Pegged Order to buy (sell) may include an offset value that would set the working price below (above) the PBO (PBB) by the specified offset, which may be specified up to two decimals. The proposed offset value is based on current Rule 7.31(g)(1) without any differences.

Proposed Rule 7.31P(h)(2) would define Primary Pegged Orders in Pillar. As proposed, a Primary Pegged Order would be a Pegged Order to buy (sell) with a working price that is pegged to the PBB (PBO), with no offset allowed. This rule text represents current functionality that Primary Pegged Orders peg to the same-side reference price, but with substantive differences from Rule 7.31(g)(1)(B) that the reference price would be the PBBO instead of the NBBO and no offset values would be permitted for Primary Pegged Orders.

The second sentence of proposed Rule 7.31P(h)(2) would provide that a Primary Pegged Order to buy (sell) would be rejected on arrival, or cancelled when resting, if there is no PBB (PBO) against which to peg. This proposed text is based on the third to last sentence of Rule 7.31(g)(1), which provides that if an NBBO does not exist at the time of entry, a Pegged Order shall be rejected, with a proposed substantive difference in Pillar to use the PBBO instead of the NBBO as the reference price. The Exchange is also

proposing a substantive difference from current rules to provide that the Exchange would cancel resting Primary Pegged Orders if the reference price against which it pegs no longer exists. The Exchange believes that if there is no reference price against which to peg, a Pegged Order is not operational, and thus the proposal to cancel such Primary Pegged Order is appropriate and consistent with the current and proposed functionality to reject an incoming Pegged Order when there is no price against which to peg. Finally, the rule would provide that a Primary Pegged Order would be eligible to participate in auctions at the limit price of the order, which would be new in Pillar.

- Proposed Rule 7.31P(h)(2)(A) would set forth the requirement that a Primary Pegged Order must include a minimum of one round lot displayed. This would be new functionality in Pillar and is consistent with the proposed substantive difference in Pillar that a Primary Pegged Order may be combined with a Reserve Order.<sup>82</sup> The rule would further provide that the working price of a Primary Pegged Order would equal the display price and the display quantity would be ranked Priority 2 – Display Orders and the reserve interest would be ranked Priority 3 – Non-Display Orders.<sup>83</sup> This rule text is based on the fourth sentence of Rule 7.31(g)(1), which provides that a Pegged Order may be designated as a Reserve Order, with non-substantive differences to use Pillar terminology to describe the pricing and priority ranking of a Primary Pegged Order.

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<sup>82</sup> See proposed Rule 7.31P(d)(1)(A).

<sup>83</sup> See Pillar I Filing, *supra* note 4.

- Proposed Rule 7.31P(h)(2)(B) would provide that a Primary Pegged Order would be rejected if the PBBO is locked or crossed, which would be new functionality in Pillar. The Exchange proposes that Primary Pegged Orders would operate differently from Market Pegged Orders in Pillar because Primary Pegged Orders would be required to have a display quantity, but would not route. Therefore, the Exchange proposes to reject a Primary Pegged Order rather than display it at a locking or crossing price. By contrast, because Market Pegged Orders would not be displayed, the Exchange would accept such order if the PBBO is locked or crossed, but it would not be priced or eligible to trade until there is a PBBO that is no longer locked or crossed.

The rule would further provide that if after arrival, the PBBO becomes locked or crossed, the Primary Pegged Order would wait for a PBBO that is not locked or crossed before the working price would be adjusted, but would remain eligible to trade at its current working price. This proposed rule text uses Pillar terminology to describe how a previously-displayed Limit Order may remain displayed if an Away Market locks or crosses the PBBO and would remain eligible to trade at its last display price. To avoid displaying a Primary Pegged Order at a price that would lock or cross the PBBO, the Exchange would wait for a PBBO that is not locked or crossed before assigning a new working price and display price to such order.

The proposed Pillar rule would not include rule text from Rule 7.31(g)(1) relating to Discretionary Orders because the Exchange will not be offering Discretionary Orders in Pillar. In addition, the Exchange proposes to address in proposed Rule 7.34P which sessions a Pegged Order would not be able to participate, and would not include in proposed Rule 7.31P(h) rule text from Rule 7.31(g)(1) that provides that Pegged Orders may only be entered during the Core Trading Session.<sup>84</sup> Finally, the Exchange proposes to address how Pegged Orders would operate during a Short Sale Period in proposed Rule 7.16P, and therefore would not include text from the eighth sentence of Rule 7.31(g)(1) in proposed Rule 7.31P(h).<sup>85</sup>

Additional Order Instructions and Modifiers (Proposed Rule 7.31P(i))

Proposed Rule 7.31P(i) would set forth the Exchange's Additional Order Instructions and Modifiers, and is similar to current Rule 7.31(g). Rule 7.31(g) currently provides for:

- Pegged Orders (Rule 7.31(g)(1));
- Proactive if Locked Modifier (Rule 7.31(g)(2));
- Do Not Reduce Modifier (Rule 7.31(g)(3));
- Do Not Increase Modifier (Rule 7.31(g)(4)); and
- Self-Trade Prevention ("STP") Modifier (Rule 7.31(g)(5)).

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<sup>84</sup> See Pillar I Filing, supra note 4, at proposed Rules 7.34P(c)(1)(A) and (c)(3)(A).

<sup>85</sup> The Exchange would also not include in proposed Rule 7.31P(h) the second sentence of current Rule 7.31(g)(1), which relates to how the Exchange track the Consolidated Quote information. Rather, proposed Rule 7.37P(d) specifies which data feeds the Exchange uses for the handling and execution of orders. See Pillar I Filing, supra note 4; see also Securities Exchange Act Release No. 74409 (March 2, 2015), 80 FR 12221 (March 6, 2015) (SR-NYSEArca-2015-11) (Notice of Filing).

As discussed above, Pegged Orders would have a separate category in proposed Rule 7.31P, and therefore would not be included in proposed Rule 7.31P(i). In addition, because the Exchange is not proposing to offer Open Modifiers at this time in Pillar, the Do Not Reduce and Do Not Increase Modifiers would not be included in proposed Rule 7.31P(i). Accordingly, proposed Rule 7.31P(i) would include only the Proactive if Locked/Crossed Modifier and STP Modifiers.

Proactive if Locked/Crossed Modifier: Current Rule 7.31(g)(2) provides that a Limit Order designated with a Proactive if Locked Modifier will route to another market center pursuant to NYSE Arca Equities Rule 7.37(d) for the away market's displayed size.

Proposed Rule 7.31P(i)(1) would define the Proactive if Locked/Crossed Modifier in Pillar, with the following non-substantive differences from current Rule 7.31(g)(2):

- Because this modifier would result in a resting order routing when an Away Market either locks or crosses the display price, the Exchange proposes to rename this modifier as the "Proactive if Locked/Crossed Modifier." The current rule specifies that this functionality is available for when another market has locked the price of the order. Because the purpose of this modifier is to prevent a resting displayed order from being locked by another market, and the same rationale supports preventing a resting displayed order from being crossed by another market, when designated with a Proactive if Locked Modifier, an order that has been crossed by another market also routes.
- The Exchange proposes to streamline the rule text relating to this modifier

in order to use proposed Pillar terms, e.g., “Away Market” instead of “other market center” and eliminate obsolete text.

- Because the Exchange would not be monitoring whether the locking market has resolved the locked market in a timely manner, and would instead route an order with this modifier immediately upon being locked or crossed, the Exchange would not include in proposed Rule 7.31P(i)(1) the text in Rule 7.31(g)(2) that the order would be routed only if another market center has locked the order and not resolved the lock in a timely manner based upon average response times.
- The Exchange proposes to specify that this modifier is available for any Limit Order or Inside Limit Order that is displayed and eligible to route. The Exchange proposes to add in proposed Rule 7.31P(i)(1) that this modifier is available for Inside Limit Orders because the functionality is currently available for all Limit Orders that are routable, which include Inside Limit Orders. The Exchange believes this proposed text would provide clarity that Inside Limit Orders may be designated with a Proactive if Locked/Crossed Modifier.
- The Exchange would not include text from current Rule 7.31(g)(1) that provides that the Proactive if Locked/Crossed Modifier will apply only to exchange-listed securities because the Exchange only trades securities listed on an exchange, and thus this is unnecessary rule text.

Accordingly, as proposed, Rule 7.31P(i)(1) would provide that a Limit Order or Inside Limit Order that is displayed and eligible to route and designated with a Proactive



if Locked/Crossed Modifier would route to an Away Market if the Away Market locks or crosses the display price of the order. The rule would further provide that if any quantity of the routed order returns unexecuted, the order would be displayed in the NYSE Arca Book. The Exchange believes that the proposed rule text provides greater specificity regarding which orders may include a Proactive if Locked/Crossed Modifier and if so designated, how the modifier would function. Because this modifier would be available for all securities that trade on the Exchange, the Exchange would not include in proposed Rule 7.31P(i)(1) text from the last sentence of Rule 7.31(g)(2)

Self Trade Prevention Modifier (“STP”): Current Rule 7.31(g)(5) provides that any incoming order designated with an STP modifier will be prevented from executing against a resting opposite side order also designated with an STP modifier and from the same ETP ID. The STP modifier on the incoming order controls the interaction between two orders marked with STP modifiers. Orders marked with an STP modifier will not be prevented from interacting during any Auction as defined by Rule 7.35. Rule 7.31(g)(5)(A) – (D) defines the following STP modifiers:

- Current Rule 7.31(g)(5)(A) sets forth the STP Cancel Newest (“STPN”) modifier. Any order marked with the STPN modifier will not execute against opposite side resting interest marked with any of the STP modifiers from the same ETP ID. The incoming order marked with the STPN modifier will be cancelled back to the originating ETP Holder. The resting order marked with one of the STP modifiers will remain on the NYSE Arca Book.

- Current Rule 7.31(g)(5)(B) sets forth the STP Cancel Oldest (“STPO”) modifier. Any order marked with the STPO modifier will not execute against opposite resting interest marked with any of the STP modifiers from the same ETP ID. The resting order marked with the STP modifier will be cancelled back to the originating ETP Holder. The incoming order marked with the STPO modifier will remain on the NYSE Arca Book.
- Current Rule 7.31(g)(5)(C) sets forth the STP Decrement and Cancel (“STPD”) modifier. Any incoming order marked with the STPD modifier will not execute against opposite side resting interest marked with any of the STP modifiers from the same ETP ID. If both orders are equivalent in size, both orders will be cancelled back to the originating ETP Holders. If the orders are not equivalent in size, the equivalent size will be cancelled back to the originating ETP Holders and the larger order will be decremented by the size of the smaller order with the balance remaining on the NYSE Arca Book.
- Current Rule 7.31(g)(5)(D) sets forth the STP Cancel Both (“STPC”) modifier. Any incoming order marked with the STPD modifier will not execute against opposite side resting interest marked with any of the STP modifiers from the same ETP ID. The entire size of both orders will be cancelled back to the originating ETP Holder.

Proposed Rule 7.31P(i)(2)(A) – (D) would set forth STP modifiers for Pillar, including STPN, STPO, STPD, and STPC, which would function the same in Pillar as under current Rule 7.31(g)(5)(A) – (D). Accordingly, the Exchange is not proposing any

substantive differences to proposed Rule 7.31P(i)(2) as compared to Rule 7.31(g)(5).

The Exchange proposes the following non-substantive differences for Rule

7.31P(i)(2)(A) – (D):

- To replace the term “execute against” with the term “trade with”;
- To replace references to “opposite side resting interest” and instead describe the STP modifiers by referring to an incoming order to buy (sell) that would not trade with resting interest to sell (buy) marked with an STP modifier from the same ETP ID;
- To change the term “ETP Holders” to “ETP Holder” in the singular in proposed Rule 7.31P(i)(2)(C), which is based on Rule 7.31(g)(5)(C), because matching STP modifiers would come from a single ETP Holder; and
- In the last sentence of new Rule 7.31P(i)(2), to end after the term “auctions,” which would begin with a lower-case letter, and not include a cross reference to Rule 7.35 because the only rule that sets forth how auctions operate is current Rule 7.35, and for Pillar, would be proposed Rule 7.35P and thus, the cross reference is unnecessary.

#### Q Orders (Proposed Rule 7.31P(j))

Proposed Rule 7.31P(j) would set forth Q Orders in Pillar. Current Rule 7.31(h) defines a Q Order as a Limit Order submitted to the NYSE Arca Marketplace by a Market Maker, and designated by a Market Maker as a “Q Order” through such means as the Corporation shall specify. Current Rule 7.34(b) sets forth Market Makers obligations to enter Q Orders in securities in which they are registered in accordance with Rule 7.23,

beginning at the start of the Core Trading Session or at such earlier time during the Opening Session as determined from time to time by the Corporation, and continuing until the end of the Core Trading Session.<sup>86</sup>

Proposed Rule 7.31P(j) would define Q Orders in Pillar and would be based on Rule 7.31(h) and Rule 7.34(b). Rule 7.31P(j) would provide that a Q Order is a Limit Order submitted to the NYSE Arca Marketplace by a Market Maker, and designated by a Market Maker as a “Q Order” through such means as the Corporation would specify. This rule text is based on current Rule 7.31(h), with non-substantive differences to use the term “will” instead of “shall.” Current Rule 7.31(h) provides that Market Makers may enter Q Orders. The Exchange is proposing to specify in proposed Rule 7.31P(j) that the Exchange would reject a Q Order entered by an ETP Holder that is not registered in the security as a Market Maker.

The Exchange is not proposing at this time to offer Auto Q Order functionality. Accordingly, the rule text regarding the function of an Auto Q Order, which is in current Rules 7.31(h)(1) and (h)(2) would not be included in proposed Rule 7.31P(j).<sup>87</sup>

Proposed Rule 7.31P(j)(1) would provide that a Q Order must have a minimum of one round lot displayed on entry, must be designated Day, and would not route. Current Rule 7.31(h)(3) and (4) similarly include requirements that Q Orders do not route and will be rejected if in odd-lot size. In Pillar, rather than state that the order would be rejected if odd-lot sized, the Exchange proposes to state instead that a Q Order must have

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<sup>86</sup> As discussed in the Pillar I Filing, the Exchange is not proposing to include in proposed Rule 7.34P the text from Rule 7.34(b). See supra note 4.

<sup>87</sup> Rule 7.31(h)(1) sets forth the instructions that may be included with an Auto Q Order that is entered before 6:28 a.m. Pacific Time. Rule 7.31(h)(2) sets forth how Auto Q Orders repost.

a minimum of one round lot displayed. The Exchange is also proposing to add to the rule text in Pillar that Q Orders must be designated Day.

The proposed rule would further provide that a Q Order to buy (sell) would be rejected if it has a limit price at or above (below) the PBO (PBB). This proposed rule text is based on current Rule 7.31(h)(4), which provides that Q Orders that are marketable on arrival are rejected.<sup>88</sup> In Pillar, the Exchange would use Pillar terminology to describe that Q Orders that are marketable against the contra-side PBBO would be rejected, but Q Orders that have a limit price equal to non-displayed contra-side orders (e.g., a Limit Non-Displayed Order) would be accepted and trade. Therefore, a Q Order would trade with such non-displayed contra-side orders rather than be displayed at a price that would lock such interest.

The proposed rule would also provide that a Q Order to buy (sell) would be rejected if it is designated as an Arca Only Order, ALO Order, or ISO. Current Rule 7.31(h)(4) similarly provides that Q Orders designated as ISO are rejected, and the Exchange proposes to add in Pillar that a Q Order would be rejected if combined with an Arca Only Order or an ALO Order.

The Exchange does not propose to include in new Rule 7.31P(j) rule text from current Rule 7.31(h)(3), which provides that Q Orders will not lock, cross, or trade-through protected quotations, because proposed Rule 7.37P(a) would set forth these

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<sup>88</sup> When Rule 7.31(h)(4) was adopted, the term “Marketable” was defined in Rule 1.1(u) to mean, for a Limited Price Order, when the price matches or crosses the NBBO on the other side of the market. See 2015 Definition Filing, supra note 6. Therefore, under that definition of “Marketable,” an incoming buy (sell) order is not marketable if the contra-side order is a non-displayed sell (buy) orders priced below (above) the NBO (NBB). Consistent with this definition of marketable, under current functionality, Q Orders on arrival may trade with non-displayed orders priced better than the contra-side NBBO.

requirements.<sup>89</sup> Similarly, the Exchange does not propose to include in new Rule 7.31P(j) rule text from current Rule 7.31(h)(3) describing a “Reserve Q Order,” because proposed Rule 7.31P(d)(1)(C) would specify that a Q Order may be combined with a Reserve Order.

Proposed Rule 7.31P(j)(2) would provide that Q Orders are only eligible to participate in the Core Trading Session. This is current functionality as described in the first sentence of current Rule 7.34(b)(1), which states that Q Orders may be entered beginning at the start of the Core Trading Session or at such earlier time during the Opening Session as determined from time to time by the Corporation, and continuing until the end of the Core Trading Session. The Pillar rule would use new, simplified rule text without any substantive differences. Proposed Rule 7.31P(j)(2) would further provide that Market Makers must enter Q Orders in securities in which they are registered in accordance with Rule 7.23, beginning at the start of the Core Trading Session and continuing until the end of the Core Trading Session, and Market Makers would not be obligated to enter Q Orders in securities in which they are registered during the Early or Late Trading Sessions. This proposed rule text is based on current Rule 7.34(b)(1) with non-substantive differences to specify which trading sessions a Market Maker would not be obligated to enter Q Orders rather than stating that the Corporation would determine the time for entry of Q Orders.

Finally, proposed Rule 7.31P(j)(2) would provide that nothing in Rule 7.31P would be construed to relieve a Market Maker of any of its obligations pursuant to Rule 7.23, which is the same requirement as under current Rule 7.31(h)(5).

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<sup>89</sup> See Pillar I Filing, supra note 4.

### Commentaries

Current Rule 7.31 includes Commentary .01 and .02. Commentary .01 to Rule 7.31 provides that Users may combine order types and modifiers, unless the terms of the proposed combination are inconsistent. Commentary .02 to Rule 7.31 provides that if two order types are combined that include instructions both for the operation on arrival and for how the order operates while resting on the Exchange's book, the instructions governing functionality while incoming will be operative upon arrival. The Commentary further provides that functionality governing how the order operates while resting on the Exchange's book will govern any remaining balance of the order that is not executed on arrival.

Proposed Rule 7.31P would similarly include Commentary .01 and .02 and the proposed text for these Commentaries would be based on current Rule 7.31 Commentaries without any substantive differences. The Exchange proposes a non-substantive difference for proposed Commentary .02 to use the term "NYSE Arca Book" instead of "Exchange's book." The Exchange proposes to include these Commentaries in proposed Rule 7.31P because during the first phase of Pillar implementation, the Exchange's customer access gateways will not be changing, and therefore the Exchange would continue to accept order instructions from ETP Holders in the same manner as the current trading platform.

### Proposed New Rule 7.44P – Retail Liquidity Program

Rule 7.44 sets forth the Exchange's Retail Liquidity Program ("RLP" or "Program"). The Exchange proposes to adopt new Rule 7.44P to provide for the Program in Pillar. The Exchange proposes a substantive difference for the Program to provide that

a Retail Order may not be designated with a No Midpoint Execution modifier. The Exchange also proposes a substantive difference regarding the priority and allocation of orders in the Program to align it with the priority and allocation of orders outside of the Program, and therefore provide that odd-lot orders ranked Priority 2 – Display Orders would have priority over orders ranked Priority 3 – Non-Display Orders, and Limit Non-Displayed Orders would no longer be ranked behind other non-display orders.

Proposed Rules 7.44P(a)(1) – (3), 7.44P(b), 7.44P(c), 7.44P(d), 7.44P(e), 7.44P(f), 7.44P(g), 7.44(h), 7.44P(i), and 7.44P(j) would be based on current Rules 7.44(a)(1) – (3), 7.44(b), 7.44(c), 7.44(d), 7.44(e), 7.44(f), 7.44(g), 7.44(h), 7.44(i), and 7.44(j), respectively, with minor non-substantive differences to replace the term “shall” with “will” and update internal cross-references to the Pillar rule. The Exchange also proposes a non-substantive difference for proposed Rule 7.44P(i)(2), which is based on current Rule 7.44(i)(2), to reference the “Exchange’s Chief Regulatory Officer,” rather than the “NYSE’s Chief Regulatory Officer,” and to use the phrase “two qualified Exchange employees,” instead of “officers of the Exchange designated by the Co-Head of U.S. Listings and Cash Execution.” The Exchange proposes not to include specific titles, other than Chief Regulatory Officer, in Pillar rules because the Exchange has restructured and no longer has a position referred to as a Co-Head of U.S. Listings and Cash Execution. In addition, as a result of the restructuring, the title of “officer” is no longer used by employees who were previously designated for this role. The Exchange believes that the term “qualified Exchange employees” would provide the Exchange with discretion to delegate this responsibility to appropriate Exchange staff.



Rule 7.44(a)(4): Proposed Rule 7.44P(a)(4) would define the Retail Price Improvement Order. The rule text is based on current Rule 7.44(a)(4) and the Exchange is not proposing any substantive in how RPIs would operate in Pillar. However, the proposed rule would include non-substantive differences to use Pillar terminology to describe how RPIs are priced and ranked.

Proposed Rule 7.44P(a)(4) would provide for the same functionality as Rule 7.44(a)(4), with a non-substantive difference to use sub-paragraph numbering. As proposed, new Rule 7.44P(a)(4) would provide that an RPI would be 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. This rule text is based on the first sentence of current Rule 7.44(a)(4), with non-substantive differences to use the terms PBB and PBO and delete the reference to Regulation NMS definition as redundant of the definition of PBB/PBO in Rule 1.1(dd). The Exchange also proposes to replace the term “is priced better than” the PBB or PBO to “would trade at prices better than” the PBB or PBO. Because RPI interest does not need to be priced better than the PBB or PBO on arrival, but could trade in sub-penny increments, the Exchange believes the proposed non-substantive difference describes how RPIs would operate in Pillar.

Proposed Rule 7.44P(4)(A) would provide that an RPI would remain non-displayed in its entirety and would be ranked Priority 3 – Non-Display Orders. This proposed rule text is based on the fifth sentence of current Rule 7.44(a)(4), which provides that an RPI remains non-displayed in its entirety, but uses Pillar terminology to describe the priority category to which RPIs would belong.

Proposed Rule 7.44P(a)(4)(B) would provide that Exchange systems would monitor whether RPI buy or sell interest would be eligible to trade with incoming Retail Orders. As with current functionality, an RPI would only be eligible to trade if it is priced between the PBBO. If it is priced at or outside the PBBO, the RPI would not be eligible to trade with an incoming Retail Order. Accordingly, the proposed rule would provide that an RPI to buy (sell) with a limit price at or below (above) the PBB (PBO) or at or above (below) the PBO (PBB) would not be eligible to trade with incoming Retail Orders to sell (buy), and such an RPI would cancel if a Retail Order to sell (buy) trades with all displayed liquidity at the PBB (PBO) and then attempts to trade with the RPI. If not cancelled, an RPI to buy (sell) with a limit price that is no longer at or below (above) the PBB (PBO) or at or above (below) the PBO (PBB) would again be eligible to trade with incoming Retail Orders. This rule text is based on the second through fourth sentences of current Rule 7.44(a)(4) with non-substantive differences to use the term “eligible to trade” instead of “eligible to interact,” and replace references to “priced inferior to” the PBBO with references to buy (sell) orders and the PBO (PBB), as appropriate.

Proposed Rule 7.44P(a)(4)(C) would provide that, for securities to which it is assigned, an RLP may only enter an RPI in its RLP capacity, and that an RLP would be permitted, but not required, to submit RPIs for securities to which it is not assigned, and would be treated as a non-RLP ETP Holder for those particular securities. Additionally, the rule would provide that ETP Holders other than RLPs would be permitted, but not required, to submit RPIs. This proposed rule text is based on the sixth through eighth sentences of current Rule 7.44(a)(4) without any substantive differences.

Proposed Rule 7.44P(a)(4)(D) would provide that an RPI may be an odd lot, round lot, or mixed lot and must be designated as either a Limit Non-Displayed Order or MPL Order, and an order so designated would interact with incoming Retail Orders only and would not interact with either a Type 2- Retail Order Day or Type 2- Retail Order Market that is resting on the NYSE Arca Book. These requirements are the same as under the ninth and tenth sentences of current Rule 7.44(a)(4) with a non-substantive difference to reference a Limit Non-Displayed Order instead of a PL Order. The Exchange also proposes to provide greater specificity regarding the circumstances in which an RPI would not interact with a Retail Order. As with current functionality, specified Retail Orders, after trading on arrival with resting contra-side RPIs, convert to regular Market or Limit Orders. Once converted, such Market or Limit Orders would no longer be eligible to trade with RPIs. The Exchange proposes to include this detail in Rule 7.44P(a)(4)(D) to provide greater clarity regarding when an RPI would be eligible to trade.

Rule 7.44(k): Rule 7.44(k) provides for the different types of Retail Orders under the Program and how each type of Retail Order interacts with available contra-side interest. Current Rule 7.44(k)(1) sets forth the Type 1-designated Retail Order, which is a limit order that will interact only with available contra-side Retail Price Improvement Orders and all other non-displayed liquidity and displayable odd lot interest priced better than the PBBO on the opposite side of the Retail Order, excluding contra-side Retail Orders, but will not interact with other available contra-side interest in Exchange systems or route to other markets. The portion of a Type 1-designated Retail Order that does not

execute against contra-side Retail Price Improvement Orders or other price-improving liquidity will be immediately and automatically cancelled.

Current Rule 7.44(k)(2) sets forth three different “Type 2” designated Retail Orders, which may be marked as Immediate or Cancel, Day, or Market. Current Rule 7.44(k)(2)(A) provides that a Type 2-designated Retail Order marked as Immediate or Cancel is a limit order that will interact first with available contra-side Retail Price Improvement Orders and all other non-displayed liquidity and displayable odd lot interest priced better than the PBBO on the opposite side of the Retail Order, excluding contra-side Retail Orders. Any remaining portion of the Retail Order will interact with the NYSE Arca Book at prices equal to or better than the PBBO and will be executed as a limit order marked as IOC, pursuant to Rule 7.31(e)(2) and such a Retail Order will not trade through Protected Quotations and will not route.

Current Rule 7.44(k)(2)(B) provides that a Type 2-designated Retail Order marked as Day is a limit order that will interact first with available contra-side Retail Price Improvement Orders and all other non-displayed liquidity and displayable odd lot interest priced better than the PBBO on the opposite side of the Retail Order, excluding contra-side Retail Orders. Any remaining portion of the Retail Order will interact with the NYSE Arca Book and will route to Protected Quotations and any unfilled balance of such an order will post to the NYSE Arca Book.

Current Rule 7.44(k)(2)(C) provides that a Type 2-designated Retail Order marked as Market will interact first with available contra-side Retail Price Improvement Orders and all other nondisplayed liquidity and displayable odd lot interest priced better

than the PBBO on the opposite side of the Retail Order, excluding contra-side Retail Orders and any remaining portion of the Retail Order will function as a Market Order.

Proposed Rule 7.44P(k), which is based on current Rule 7.44(k), would define the different types of Retail Orders under the Program in Pillar and how each Retail Order would trade with available contra-side interest. To reflect the proposed substantive difference in Pillar that Retail Orders may not be designated with a “No Midpoint Execution” Modifier, the Exchange is proposing to include in proposed Rule 7.44P(k) that a Retail Order may not be designated with a “No Midpoint Execution Modifier.”<sup>90</sup> The Exchange proposes this difference in Pillar in order to increase the orders with which an incoming Retail Order would be eligible to trade and eliminate opportunities for a Retail Order to skip resting contra-side MPL Orders.

Proposed Rule 7.44P(k)(1) would provide that a Type 1- Retail Order to buy (sell) would be a Limit IOC Order that would trade only with available Retail Price Improvement Orders to sell (buy) and all other orders to sell (buy) with a working price below (above) the PBO (PBB) on the NYSE Arca Book and would not route. The rule would further provide that the quantity of a Type 1- Retail Order to buy (sell) that does not trade with eligible orders to sell (buy) would be immediately and automatically cancelled and a Type-1 designated Retail Order would be rejected on arrival if the PBBO is locked or crossed.

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<sup>90</sup> For the same reason, the Exchange would not include in proposed Rule 7.44P(k) rule text in current Rule 7.44(k) that Retail Orders designated with a "No Midpoint Execution" Modifier, pursuant to Rule 7.31(h)(5), will not execute against resting MPL Orders but will execute against eligible Retail Price Improvement Orders that are also designated as MPL Orders.

The proposed rule text is based on current Rule 7.31(k)(1), but with the following non-substantive differences:

- To use the term “trade” instead of “interact”;
- To refer to contra-side orders with a working price inside the PBBO, rather than specific order types (i.e., non-displayed liquidity and displayable odd lot interest) because the proposed rule text would include all the order types currently specified in Rule 7.44(k)(1), streamlined by using Pillar terminology, thereby eliminating the need to enumerate the orders;
- To refer to a Retail Order to buy (sell) and how it relates to orders priced off of the PBO (PBB), rather than referring to “inferior priced” or “contra-side” PBBO;
- To not include current rule text that a Retail Order does not trade with contra-side Retail Orders priced better than the contra-side PBBO. As with current functionality, in Pillar, there would be no opportunity for two Retail Orders to trade because buy and sell Retail Orders that are marketable against one another and received at the same time would be processed one at a time and would not be matched for execution. Because this is standard order processing, i.e., that each order is processed as it arrives and does not wait for the next incoming order before being processed, the Exchange does not believe it is necessary to restate this general principal in proposed Rule 7.44P(k); and
- To not include in proposed Rule 7.44P(k)(1) that a Retail Order does not

trade through Protected Quotations because by definition this order would only trade with interest inside the PBBO.<sup>91</sup>

Proposed Rule 7.44P(k)(2) would specify the Exchange's Type 2 Retail Orders. The Exchange proposes a non-substantive difference to use Pillar terminology to provide that a Type 2- Retail Order may be a Limit Order designated IOC or Day or a Market Order, instead of the text in current Rule 7.44(k)(2), which provides that a Type-2 Retail Order may be marked as Immediate or Cancel, Day, or Market. This proposed difference is consistent with how orders would be defined in proposed Rule 7.31P(a).

The Type 2-Retail Orders in Pillar would be:

- Proposed Rule 7.44P(k)(2)(A) would describe the Type 2-Retail Order IOC and is the same order type as that described in current Rule 7.44(k)(2)(A). The Exchange proposes a non-substantive difference in Pillar to refer to this order as a Type 2- Retail Order IOC and define it as a Limit Order that would trade first with available Retail Price Improvement Orders to sell (buy) and all other orders to sell (buy) with a working price below (above) the PBO (PBB) on the NYSE Arca Book. Any remaining quantity of the Retail Order would trade with orders to sell (buy) on the NYSE Arca Book at prices equal to or above (below) the PBO (PBB) and would be traded as a Limit IOC Order and would not route. The first sentence of proposed Rule 7.44P(k)(2)(A) would be similar to the first sentence of proposed rule 7.44P(k)(1), discussed above, by describing the

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<sup>91</sup> Trading in the Program would remain subject to proposed Rule 7.37P(a), which also provides that orders at the Exchange would not trade through the PBBO. See Pillar I Filing, supra note 4.

contra-side orders with which it could trade based on their working price. The second sentence of proposed Rule 7.44P(k)(2)(A) would specify, without any differences from current Rule 7.44(k)(2)(A), how the order would function after trading with non-displayed interest. The Exchange proposes non-substantive differences to use the new Pillar term of “Limit IOC Order,” which is defined in proposed Rule 7.31P(b)(2)(A), to describe that a Type 2- Retail IOC Order would function as a Limit Order designated IOC order that would not route.

- Proposed Rule 7.44P(k)(2)(B) would describe the Type 2-Retail Order Day and is the same order type as that described in current Rule 7.44(k)(2)(B). The Exchange proposes a non-substantive difference in Pillar to refer to this order as a Type 2- Retail Order Day and define it as a Limit Order that would trade first with available Retail Price Improvement Orders to sell (buy) and all other orders to sell (buy) with a working price below (above) the PBO (PBB) on the NYSE Arca Book. This rule text is the same as the rule text proposed for Rules 7.44P(k)(1) and (k)(2)(A). The rule would further provide that any remaining quantity of the Retail Order, if marketable, would trade with orders to sell (buy) on the NYSE Arca Book or route, and if non-marketable, would be ranked in the NYSE Arca Book as a Limit Order. This text is based on current Rule 7.44(k)(2)(B), but with more specificity that this type of Retail Order, once no longer marketable, is ranked on the NYSE Arca Book as a Limit Order and is no longer eligible to operate as a Retail Order.



- Proposed Rule 7.44P(k)(2)(C) would describe the Type 2-Retail Order Market and is the same order type as that described in current Rule 7.44(k)(2)(C). The Exchange proposes a non-substantive difference to refer to this order as a Type 2 – Retail Order Market and define it as a Market Order that would trade first with available Retail Price Improvement Orders to sell (buy) and all other orders to sell (buy) with a working price below (above) the NBO (NBB). The rule would further provide that any remaining quantity of the Retail Order would function as a Market Order.

The Exchange proposes a substantive difference to the rule text, but not functionality, of a Type 2 – Retail Order Market to provide that on arrival, a Retail Order to buy (sell) would trade with available RPIs to sell (buy) priced below (above) the NBO (NBB) rather than the PBBO. This is consistent with how Market Orders function currently, and as proposed in Pillar.<sup>92</sup> Pursuant to proposed Rule 7.37P(a)(2), a Type 2 – Retail Order Market would not trade at prices that trade through a protected quotation.<sup>93</sup>

Rule 7.44(l): Current Rule 7.44(l) provides for the priority and allocation of RPIs in the Program. The first paragraph specifies that RPIs in the same security shall be ranked and allocated together with all other non-displayed interest and displayable odd lot interest according to price then time of entry into Exchange systems, except PL

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<sup>92</sup> See Proposed Rule 7.31P(a)(1).

<sup>93</sup> See Pillar I Filing, *supra* note 4.

Orders will be ranked behind all other equally priced interest. The rule further provides that any remaining unexecuted RPI interest will remain available to interact with other incoming Retail Orders and any remaining unexecuted portion of the Retail Order will cancel, execute, or post to the NYSE Arca Book in accordance with Rule 7.44(k).

As discussed above, the Exchange proposes substantive differences to the priority and allocation of RPIs in the Program. The proposed differences would align the priority and allocation in the Program with the priority and allocation of orders outside of the Program. Currently, in the Program, odd lot orders are ranked together with RPIs and PL Orders (now Limit Non-Displayed Orders), and PL Orders are ranked behind all other non-displayed orders. In Pillar, the Exchange is proposing that all orders in the Program would be ranked based on their priority category, pursuant to proposed Rule 7.36P, and would not have different ranking in the Program. Accordingly, Rule 7.44P(l) would provide that Retail Price Improvement Orders in the same security would be ranked together with all other interest ranked as Priority 3 – Non-Display Orders. To reflect that odd lot orders would no longer be treated differently in the Program, the rule would further provide that odd-lot orders ranked as Priority 2 – Display Orders would have priority over orders ranked Priority 3 – Non-Display Orders at each price. The Exchange believes that the proposed substantive difference to the priority and allocation of orders in the Program would reduce potential confusion because the Program would no longer have different priority and allocation rules than orders outside the Program.

The last two sentences of proposed Rule 7.44P(l) would provide that any remaining unexecuted RPI interest would remain available to trade with other incoming Retail Orders and any remaining unfilled quantity of the Retail Order would cancel,

execute, or post to the NYSE Arca Book in accordance with Rule 7.44P(k). This proposed text is the same as current rule text in Rule 7.44(l).

The remaining paragraphs of section (l) of Rule 7.44 set forth examples of priority and allocation in the Program. The Exchange would include these examples in proposed Rule 7.44P(l) with both substantive and non-substantive differences. The substantive difference would be to revise the example that includes odd lot orders in order for the example to track the how priority and allocation in the Program would operate in Pillar.

As proposed, the fourth example in proposed Rule 7.44P(l) would reflect how odd-lot orders would be ranked in RLP allocations in Pillar. As proposed, the original assumption would be:

PBBO for security ABC is \$10.00 - \$10.05

RLP 1 enters a Retail Price Improvement Order to buy ABC at \$10.01 for 500

RLP 2 then enters a Retail Price Improvement Order to buy ABC at \$10.02 for 500

500 RLP 3 then enters a Retail Price Improvement Order to buy ABC at \$10.03 for 500

The fourth example in proposed Rule 7.44P(l) would assume these facts, except that LMT 1 would enter a displayed odd lot limit order to buy ABC at \$10.02 for 60. The incoming Retail Order to sell for 1,000 would trade first with RLP 3's bid for 500 at \$10.03, because it is the best-priced bid, then with LMT 1's bid for 60 at \$10.02 because it is the next best-priced bid and is ranked Priority 2 – Display Orders and would have priority over same-priced RPIs. The incoming Retail Order would then trade 440 shares

with RLP 2's bid for 500 at \$10.02 because it would be the next priority category at that price, at which point the entire size of the Retail Order to sell 1,000 would be depleted. The balance of RLP 2's bid would remain on the NYSE Arca Book and be eligible to trade with the next incoming Retail Order to sell.

The Exchange proposes non-substantive differences to the other examples in proposed Rule 7.44P(l) to use the term "trade with" instead of "execute against," to use the proposed Pillar defined terms for different types of Retail Orders, and replace the phrase "nondisplayed liquidity," with "non-displayed orders and odd-lot orders."

Rule 7.44(m): Current Rule 7.44(m) provides that Rule 7.44 shall operate for a pilot period set to expire on September 30, 2015. During the pilot period, the Program will be limited to trades occurring at prices equal to or greater than \$1.00 per share, and Exchange systems will reject Retail Orders and RPIs priced below \$1.00. However, Type 2-designated Market Retail Orders may interact at prices below \$1.00 with liquidity outside the Program in the Exchange's regular order book. The current rule further provides that the RLP Program will operate only during the Core Trading Session and the Exchange will accept Retail Orders and Retail Price Improvement Orders only after the official opening price for the security has been disseminated.

Proposed Rule 7.44P(m) would set forth the pilot program for the RLP Program in Pillar, and is based on current Rule 7.44(m) with both substantive and non-substantive differences. The proposed substantive difference would be to accept RPIs before the start of Core Trading Hours. The Exchange proposes this difference for Pillar in order for ETP Holders to enter RPIs before the Core Trading Session, thereby building a book of

RPIs that would be available to provide price improvement once the Exchange begins accepting Retail Orders.

For non-substantive differences, the Exchange proposes to use the term “NYSE Arca Book,” which is a defined term, instead of term “the Exchange’s regular order book.” In addition, rather than specify that the Exchange would wait for an official opening price for a security to be disseminated before accepting Retail Orders and RPIs, the Exchange proposes to accept such orders during Core Trading Hours, which is defined as between 9:30 a.m. Eastern Time and 4:00 p.m. Eastern Time, and correlates to the Core Trading Session.<sup>94</sup> Accordingly, proposed Rule 7.44P(m) would provide that the Program would operate only during the Core Trading Session and Retail Orders would be accepted during Core Trading Hours only.

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As discussed above and in the Pillar I Filing, because of the technology changes associated with the migration to the Pillar trading platform, the Exchange will announce by Trader Update when rules with a “P” modifier will become operative and for which symbols. The Exchange believes that keeping existing rules pending the full migration of Pillar will reduce confusion because it will ensure that the rules governing trading on the current trading platform will continue to be available pending the full migration.

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),<sup>95</sup> in general, and furthers the objectives of Section

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<sup>94</sup> See Rule 1.1(j).

<sup>95</sup> 15 U.S.C. 78f(b).

6(b)(5),<sup>96</sup> in particular, because it is 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. The Exchange believes that proposed Rules 7.31P and 7.44P, together with the rules proposed in the Pillar I Filing, would remove impediments to and perfect the mechanism of a free and open market because they would promote transparency by using consistent terminology for rules governing equities trading, thereby ensuring that members, regulators, and the public can more easily navigate the Exchange's rulebook and better understand how equity trading would be conducted on the Pillar trading platform. Adding new rules with the modifier "P" to denote those rules that would be operative for the Pillar trading platform would remove impediments to and perfect the mechanism of a free and open market by providing transparency of which rules govern trading once a symbol has been migrated to the Pillar platform.

More specifically, the proposed use of new Pillar terminology would promote consistency in the Exchange's rulebook regarding how orders would be priced, ranked, traded, or routed in Pillar. In addition, the use of Pillar terminology, such as display price, limit price, working price, working time, and the priority categories proposed in Rule 7.36P, would promote transparency in Exchange rules regarding how orders and modifiers would function in Pillar. For example, the proposed use of Pillar terminology for Market Orders, Limit Orders, Inside Limit Orders, Limit Non-Displayed Limit

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<sup>96</sup> 15 U.S.C. 78f(b)(5).

Orders, Arca Only Orders, and ALO Orders, would promote consistency by using common terms to describe how such orders would be priced, ranked, traded, and or routed consistent with the general requirements set forth in proposed Rule 7.37P(a) that such orders not trade-through the PBBO or lock or cross protected quotations. Similarly, the proposed use of Pillar terminology would promote consistency by using common terms to describe how ISO Orders would be priced consistent with Regulation NMS. More generally, the use of Pillar terminology for all order types would promote consistency in terminology throughout Pillar rules.

With respect to proposed Rule 7.31P, the Exchange believes that the proposed substantive differences to functionality being proposed for Pillar would remove impediments to and perfect the mechanism of a fair and orderly market for the following reasons:

- Market Orders: The proposed substantive difference to prevent Market Orders from trading at the Trading Collar, and not just through the Trading Collar, would reduce the potential for Market Orders to trade at prices that would be considered clearly erroneous executions.
- Limit Orders: The proposed substantive difference to re-price resting Limit Orders would reduce the potential for the Exchange to publish a BBO that would lock or cross an Away Market PBBO that was locking or crossing a prior BBO of the Exchange.
- Limit Order Designated IOC: The proposed substantive difference to add optional MTS functionality for Limit IOC Orders would provide ETP

Holders with greater certainty regarding the trade size of an IOC Order, and is based on existing order types available on another market.<sup>97</sup>

- Auction-Only Orders: The proposed substantive difference to accept Auction-Only Orders in non-auction-eligible symbols and route them to the primary listing market would promote liquidity on the primary listing markets for their respective auctions. The proposed change would also protect investors and the public interest by enabling such orders to reach a destination where it is more likely to obtain an execution opportunity or participate in an auction. In addition, the proposed substantive difference to accept Auction-Only Orders for Trading Halt Auctions on the Exchange would promote liquidity for Exchange Trading Halt Auctions by adding additional order types that an ETP Holder could use that would participate only in an auction.
- Reserve Orders: The proposed substantive difference to replenish the display quantity of a Reserve Order after any trade that depletes the display quantity would promote the display of liquidity on the Exchange, because the Exchange would not wait for the display quantity to be depleted before replenishing from reserve interest. In addition, this proposed functionality is similar to how Reserve Orders function on another market.<sup>98</sup>

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<sup>97</sup> See supra note 29.

<sup>98</sup> See supra note 33.



- Limit Non-Displayed Orders: The proposed substantive difference to rank Limit Non-Displayed Orders with all other orders ranked Priority 2 – Non-Display Orders would streamline the Exchange’s priority and allocation methodology and eliminate a separate allocation category for a single order type. In addition, the proposed substantive difference to add an optional Non-Display Remove Modifier would provide ETP Holders with a tool to enable a Limit Non-Displayed Order to trade with an incoming ALO Order rather than have its working price be locked by the display price of an ALO Order. The proposed Non-Display Remove Modifier would also provide price improvement to the contra-side ALO Order with which it would trade.
- MPL Orders: The proposed substantive difference to provide that arriving MPL and MPL-ALO Orders would trade with contra-side orders priced better than the midpoint of the PBBO would provide price improvement opportunities for MPL Orders and is consistent with how orders priced at the midpoint operate on other markets.<sup>99</sup> In addition, the proposed substantive differences to the optional MTS functionality to cancel or reject an MPL Order with an MTS smaller than the size of the order would eliminate the possibility for an MPL Order to trade in a size smaller than the MTS. Finally, the proposed substantive difference to require a minimum of a round lot for the MTS would align the MTS functionality with the proposed MTS functionality for Limit IOC Orders, thereby

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<sup>99</sup> See supra note 40.

streamlining the Exchange's rules and making the available modifiers consistent across multiple order types.

- Tracking Orders: The proposed substantive difference to price Tracking Orders based on the PBBO instead of the NBBO would conform how Tracking Orders are priced to how other orders at the Exchange are priced in Pillar, e.g., Limit Orders, MPL Orders, and Pegged Orders. In addition, this proposed change may increase the opportunity for Tracking Orders to trade because by being priced based on the same-side PBBO, a Tracking Order would not be restricted from trading because a price based on the NBBO would trade-through the PBBO. The proposed substantive difference to allow STP Modifiers for Tracking Orders would provide additional tools for ETP Holders to prevent wash sales between orders entered from the same ETP ID.
- Arca Only Orders: The proposed substantive difference to add an optional Non-Display Remove Modifier for Arca Only Orders would provide ETP Holders with a tool to enable an Arca Only Order to trade with an incoming ALO Order rather than have its working price be locked by the display price of an ALO Order. The proposed Non-Display Remove Modifier would also provide price improvement to the contra-side ALO Order with which it would trade. The proposed substantive difference to not offer PNP Orders in Pillar would streamline the order types available at the Exchange.

- ALO Orders: The proposed substantive difference to re-price ALO Orders that would trade with the BBO or lock or cross the PBBO, rather than reject such orders if marketable, would promote additional displayed liquidity on a publicly registered exchange, and therefore promote price discovery. The Exchange further believes that the proposed re-pricing and re-displaying of an ALO Order would remove impediments to and perfect the mechanism of a free and open market because it assures that such order would meet its intended goal to be available on the Exchange's NYSE Arca Book as displayed liquidity without locking or crossing a protected quotation in violation of Rule 610(d) of Regulation NMS.<sup>100</sup> The proposed re-pricing and re-displaying of ALO Orders is consistent with how other exchanges currently operate.<sup>101</sup> In addition, as set forth in the Pillar I Filing, any time the working price of an order changes, it receives a new working time.<sup>102</sup> The proposed re-pricing of ALO Orders would be subject to this general requirement, and therefore re-priced ALO Orders would not have time priority over orders in the same priority category that may have an earlier working time. The Exchange further believes that the proposed substantive differences for ALO Orders to trade on arrival with non-displayed orders that would provide price improvement over the limit price of the ALO Order, but not trade with

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<sup>100</sup> 17 CFR 242.610(d).

<sup>101</sup> See supra note 55.

<sup>102</sup> See Pillar I Filing, supra note 4 at proposed Rule 7.36P(f)(2).

non-displayed orders priced equal to the limit price of the ALO Order, is consistent with how other exchanges operate, and therefore offering this functionality in Pillar would promote competition.<sup>103</sup>

- ISO: The proposed substantive difference to use the ALO Order functionality proposed for Pillar for ISOs would similarly promote additional displayed liquidity on the Exchange by allowing Day ISO ALO Orders to be re-priced for display rather than rejected if they are marketable against the BBO on arrival and is consistent with functionality on another exchange.<sup>104</sup>
- Primary Only Orders: The proposed substantive difference to route all Primary Only Orders to the primary listing market would promote liquidity on the primary listing market and provide an opportunity for ETP Holders to participate in trading on the primary listing market. In addition, the proposed substantive difference to permit Primary Only Day Orders to be designated as a Reserve Order would provide ETP Holders with more options of order types that could be routed directly to the primary listing market, which would promote liquidity on the primary listing market.
- Cross Orders: The proposed substantive difference to offer the Limit IOC Routable Cross Order in Pillar would provide ETP Holders with more tools to effect a proposed Cross Order at the Exchange without trading

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<sup>103</sup> See supra note 57.

<sup>104</sup> See supra note 69.

through the PBBO. The current Cross Order offering of a Limit IOC Cross Order rejects in its entirety if the cross price is marketable against the BBO or would trade through the PBBO. By contrast, the proposed Limit IOC Routable Cross Order would trade with displayed orders on the Exchange or route to an Away Market, thus allowing the proposed Cross Order to trade the maximum volume possible at the proposed cross price without trading through either the Exchange's displayed orders or protected quotations. By trading only with orders ranked Priority 1 or Priority 2 pursuant to proposed Rule 7.36P, the Exchange believes the proposed Limit IOC Routable Cross Order would remove impediments to and perfect the mechanism of a free and open market by providing the entering ETP Holder with greater certainty of the volume that would trade at the cross price, while at the same time ensuring compliance with Regulation NMS.

- Pegged Orders: The proposed substantive difference to use the PBBO instead of the NBBO as the dynamic reference price for Pegged Orders would conform how Pegged Orders are priced consistent with how other orders are priced in Pillar, e.g., Limit Orders, MPL Orders, and Tracking Orders. The proposed substantive differences for Market Pegged Orders in Pillar, to provide that they would be undisplayed and no longer require an offset, would be consistent with how other exchanges operate.<sup>105</sup>

Finally, the proposed substantive difference for Market Pegged Orders not

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See supra note 78.

to assign a working price to such order or have it eligible to trade when the PBBO is locked or crossed would reduce the potential for a Market Pegged Order to trade when the market is locked or crossed.

The proposed substantive difference for Primary Pegged Orders to no longer permit an offset value would promote the additional display of liquidity at the PBBO, rather than at prices inferior to the PBBO. The additional proposed substantive difference for Primary Pegged Orders to reject an arrival when the PBBO is locked or crossed, or to not assign a new working price to a resting Primary Pegged Order if the market becomes locked or crossed, would reduce the potential for the Exchange to display an order that would lock or cross the PBBO. Because Primary Pegged Orders would be displayed orders, the Exchange further proposes that if the PBBO locks or crosses, a resting Primary Pegged Order could remain displayed at its prior working price, which is consistent with how displayed orders that are locked or crossed by another market function on the Exchange.

- Q Orders: The proposed substantive difference to eliminate Auto Q Orders would streamline the Exchange's rules and reduce complexity regarding how orders and modifiers function on the Exchange.

With respect to proposed Rule 7.44P, similar to proposed rule 7.31P, the proposed non-substantive differences to use Pillar terminology would remove impediments to and perfect the mechanism of a fair and order market because the proposed differences would promote transparency through the use of consistent terminology in Pillar rules. The

proposed substantive difference to the priority and allocation of orders that trade against Retail Orders in proposed Rule 7.44P(l) would remove impediments to and perfect the mechanism of a fair and orderly market because it would align the priority and allocation of orders in the Program with the priority and allocation of orders outside of the Program. This proposed substantive difference would therefore promote transparency in Exchange rules and reduce potential confusion because the Program would no longer operate differently from the priority and allocation of orders outside the Program. The proposed substantive difference for proposed Rule 7.44P(m), to accept RPIs before the Core Trading Session begins, would remove impediments to and perfect the mechanism and a free and open market by allowing the entry of RPIs to build a book of liquidity that would be available to provide price improvement to incoming Retail Orders as soon as the Core Trading Session begins.

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. The proposed change is not designed to address any competitive issue but rather to adopt new rules to support the Exchange's new Pillar trading platform. As discussed in detail above, the Exchange proposes to adopt rules for Pillar relating to orders and modifiers and the Retail Liquidity Program, which would be based on current rules, with both substantive and non-substantive differences. The proposed substantive differences proposed for these rules as compared to the current rules would promote competition because the Exchange would be offering order type functionality that is

already available on other markets.<sup>106</sup> The proposed non-substantive differences include using new Pillar terminology to describe the Exchange's orders and modifiers. The Exchange believes that the proposed rule change would promote consistent use of terminology to support the Pillar trading platform, making the Exchange's rules easier to navigate.

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 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 the 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

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<sup>106</sup> See supra notes 29, 33, 40, 53, 54, 55, 57, 69, and 78.



<http://www.sec.gov/rules/sro.shtml>); or

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEARCA-2015-56 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-2015-56. 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, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing will also be available for inspection and copying at the NYSE's principal office and on its Internet website at [www.nyse.com](http://www.nyse.com). 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-2015-56 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.<sup>107</sup>

Robert W. Errett  
Deputy Secretary

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<sup>107</sup> 17 CFR 200.30-3(a)(12).