SR-NYSEArca-2016-123; Partial Amendment No. 1

NYSE Arca, Inc. ("NYSE Arca" or the "Exchange), through its wholly-owned corporation, NYSE Arca Equities, Inc. ("NYSE Arca Equities") submits this Partial Amendment No. 1 to SR-NYSEArca-2016-123 (the "Filing") in which the Exchange proposes to amend Rule 7.46 to describe system functionality requirements necessary to implement the Plan to Implement a Tick Size Pilot Program submitted to the Commission pursuant to Rule 608 of Regulation NMS under the Act (the "Plan").[1] The Exchange proposes the following amendments to the Filing:

1. Indicative Match Price.

The Exchange proposes to amend pages 56-57 of the Exhibit 5 to delete Rule 7.35P and the proposed changes to that rule from the Filing. The Exchange recently filed a separate proposed rule change to amend Rule 7.35P regarding Indicative Match Price, which is now operative.[2] In the Rule 7.35P Filing, the Exchange proposed the same amendments to Rule 7.35P as are proposed to Rule 7.35P in the Filing. Because those proposed rule changes are now operative, the Exchange proposes to remove the proposed change to Rule 7.35P from the Filing.

To reflect this change, the Exchange proposes to amend the first full paragraph and the last paragraph on page 16 of the Filing (first full paragraph on page 44 of the Exhibit 1 and first full paragraph on page 45 of the Exhibit 1) as follows (new text underlined; deleted text bracketed):

> The Exchange also proposes amendments to Rule 7.11P, which governs the Limit Up/Limit Down ("LULD") price controls pursuant to the NMS Plan to Address Extraordinary Market Volatility ("LULD Plan")[,][3] and Rule 7.31P(a)(2)(B) governing Limit Order Price Protection[, and Rule 7.35P(a)(8) governing the definition of Indicative Match Price]. These proposed rule changes are designed to facilitate compliance with the Plan and would be applicable across all securities that trade at the Exchange, regardless of the applicable MPV.
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> The Exchange also proposes to amend Rule 7.31P(a)(2)(B), which describes the circumstance under which a Limit Order would be rejected, to specify that Limit Order Price Protection for both buy and sell orders that are not in the MPV for the security, as defined in Rule 7.6, would be rounded down to the nearest price at the applicable MPV. [The Exchange further proposes to amend Rule 7.35P regarding

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[1]   17 CFR 242.608.

[2]   See Securities Exchange Act Release No. 78861 (September 16, 2016) (SR-NYSEArca-2016-129) ("Rule 7.35P Filing").

[3]   See Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (File No. 4-631).

Indicative Match Price. Under Rule 7.35P(a)(8), Indicative Match Price means the best price at which the maximum volume of shares, including non-displayed quantity of Reserve Orders, is tradable in the applicable auction, subject to the Auction Collars. The Exchange proposes to specify, as proposed in Rule 7.35P(a)(8)(F), that unless the Indicative Match Price is based on the midpoint of an Auction NBBO, if the Indicative Match Price is not in the MPV for the security, it would be rounded to the nearest price at the applicable MPV.] In [both] such rounding scenario[s], for Tick Pilot Securities, pursuant to proposed Rule 7.46(f)(2)(A), references to MPV in the[se] rule[s] would instead mean the quoting MPV specified in Rules 7.46(c), (d), and (e).

The Exchange further proposes to amend the first full paragraph on page 20 of the Filing (first full paragraph on page 50 of the Exhibit 1) in the Statutory Basis section (new text underlined; deleted text bracketed):

> The Exchange further believes that the proposed amendments to Rules 7.11P[,] and 7.31P(a) [and 7.35P] would remove impediments to and perfect the mechanism of a free and open market and a national market system as they provide transparency regarding (1) how the Exchange would calculate and round Price Bands under the LULD Plan after the Exchange opens or reopens an Exchange-listed security but before receiving Price Bands from the SIP, and (2) that Limit Order Price Protection for both buy and sell orders that are not in the MPV for the security will be rounded down to the nearest price at the applicable MPV[, and (3) when the Exchange would round down the Indicative Match Price if it is not in the MPV for an applicable security]. The Exchange proposes to implement these changes for all securities, not only Pilot Securities under the Plan. As provided for in proposed Rule 7.46(f)(2)(A), any references to MPV in these rules would instead mean the quoting MPV specified in Rule 7.46(c), (d), and (e).

The Exchange also proposes to delete references to Rule 7.35P and proposed new Rule 7.35P(a)(8)(F) from pages 56-57 of the Exhibit 5 of the Filing.

2. Market Pegged Orders.

The Exchange proposes to amend the Filing to address the manner in which Market Pegged Orders in all Pilot Securities would be treated under the Plan. To reflect this change, the Exchange proposes the following amendments:

(a) The Exchange proposes to amend the first full paragraph on page 8 of the Filing (page 30 of the Exhibit 1) as follows (deleted text bracketed):

> The Exchange proposes to add paragraph (f) of Rule 7.46 to describe changes to system functionality necessary to implement the Plan. Paragraph (f) of Rule 7.46 would set forth the Exchange's specific procedures for handling, executing, re-pricing and displaying of certain order types and order type

instructions applicable to Pilot Securities [in Test Groups One, Two, and Three].

(b) The Exchange proposes to delete the heading and the bulleted paragraph relating to proposed Rule 7.46(f)(3) on page 10 of the Filing (page 34 of the Exhibit 1) and replace it with the following (new text underlined):

Proposed Rule 7.46(f)(3) – All Pilot Securities

Proposed Rule 7.46(f)(3) would describe the procedures for handling, executing, re-pricing and displaying of certain order types and order type instructions applicable to all Pilot Securities.

- A Market Pegged Order to buy (sell), as set forth in Rule 7.31P(h)(1), once resting on the NYSE Arca Book, is a non-displayed order with a working price pegged to the contra-side PBBO that may, but is not required, to include an offset. A Market Pegged Order without an offset is designed to be in compliance with Rule 611 to trade at a non-displayed price that price-matches protected quotations. Because Market Pegged Orders are designed as non-displayed resting orders that could price-match protected quotations, the Exchange believes that without an offset, such orders would be inconsistent with the Trade-at Prohibition. Therefore, the Exchange proposes that Market Pegged Orders would not be available for all Pilot Securities. Proposed Rule 7.46(f)(3) would therefore provide that Market Pegged Orders in all Pilot Securities would be rejected. Because of technology changes associated with the proposed rule change, the Exchange will announce by Trader Update the implementation date of the changes associated with Market Pegged Orders.

(c) The Exchange proposes to amend the paragraphs relating to proposed Rule 7.46(f)(5)(H), starting on page 15 of the Filing (starting on page 42 of the Exhibit 1) as follows (new text underlined; deleted text bracketed):

- Proposed Rule 7.46(f)(5)(H) would provide that [Market Pegged Orders and] Tracking Orders would be rejected. The Exchange proposes to reject [these]this order type[s] for Pilot Securities in Test Group Three because it is [they are] designed in compliance with Rule 611 to be a non-displayed order[s] that price matches protected quotations, which would be prohibited under the Trade-at Prohibition.

  As described in Rule 7.31P(d)(4), a Tracking Order is an order that is not displayed, does not route, and will trade only with an order that is eligible to trade. The working price of a Tracking Order is the same-side PBBO. As further described in Rule 7.31P(d)(4)(A), a Tracking Order does not trade on arrival and is triggered to trade by a contra-side order that has (i) exhausted all other interest eligible to trade at the Exchange, (ii) has a remaining quantity equal to or less than the size of the resting Trading

Order, and (iii) would otherwise route to an Away Market. As such, the Tracking Order is designed in compliance with Rule 611 to be resting non-displayed interest, priced at the PBBO, and that would be triggered to trade only by an order that would otherwise route and in so doing, price-matches Away Market protected quotations.

[Similarly, as described in Rule 7.31P(h)(1), once resting on the NYSE Arca Book, a Market Pegged Order is a non-displayed order with a working price pegged to the contra-side PBBO. As such, the Market Pegged Order is designed to be in compliance with Rule 611 to price match protected quotations.] As discussed above, unlike Rule 611(b) of Regulation NMS, the Trade-At Prohibition applicable for Pilot Securities in Test Group Three prevents a trading center that was not quoting from price-matching protected quotations. Because [both] Tracking Orders [and Market Pegged Orders] are designed as non-displayed resting orders that price-match protected quotations, which would not be permitted in Test Group Three, [these]this order type[s are]is inconsistent with the Plan. Therefore, the Exchange proposes not to make [these]this order type[s] available in Test Group Three. As proposed, Tracking Orders [or Market Pegged Orders] entered in Test Group Three Pilot Securities would be rejected. The Exchange believes that rejecting such orders in Pilot Securities for Test Group Three would promote transparency in the Exchange's rule book that the Tracking Order [and Market Pegged Order] functionality would not be available under the Trade-at Prohibition.

(d) The Exchange proposes to amend the sixth sentence of the first full paragraph on page 19 of the Filing (sixth sentence on the carryover paragraph on 50 of the Exhibit 1) in the Statutory Basis Section as follows (deleted text bracketed):

As such, the Exchange proposes to reject [those order types]Tracking Orders in Pilot Securities in Test Group Three and reject Market Pegged Orders in all Pilot Securities.

(e) To reflect the treatment of Market Pegged Orders in all Pilot Securities, the Exchange proposes to replace proposed Rule 7.46(f)(3) on page 59 of the Exhibit 5 of the Filing, and proposed Rule 7.46(f)(5)(H) on page 60 of the Exhibit 5 of the Filing, with the following (original proposed text underlined; new text double-underlined; deleted text in strike through):

(3) For all Pilot Securities ~~in Test Groups One, and Two, offsets included with a Market Pegged Order must be in pricing increments of $0.05,~~ Market Pegged Orders will be rejected.

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(H) ~~Market Pegged Orders and~~ Tracking Orders will be rejected.

3. Technical, Non-Substantive Amendments.

The Exchange proposes the following technical, non-substantive amendments to fix typographical errors in the filing.

(a) The Exchange proposes to fix the rule reference in footnote 4 of the Filing (footnote 5 of the Exhibit 1) as follows (new text underlined):

4/5   Rule 7.46(e)(4)(A) defines the "Trade-at Prohibition" to mean the prohibition against executions by a Trading Center of a sell order for a Pilot Security at the price of a Protected Bid or the execution of a buy order for a Pilot Security at the price of a Protected Offer during regular trading hours.

(b) The Exchange proposes to fix rule references in the fourth and fifth sentences of the second bulleted paragraph on page 13 of the Filing (page 39 of the Filing) as follows (new text underlined; deleted text bracketed):

Accordingly, proposed Rule 7.46(f)(5)(F)(i)(a)[(A)] would provide that on arrival, Day ISOs would be eligible for the exception set forth in Rule 7.46(e)(4)(C)(ix). Additionally, proposed Rule 7.46(f)(5)(F)(i)(b)[(B)] would provide that an IOC ISO to buy (sell) would not trade with orders to sell (buy) ranked Priority 1 – Market Orders or Priority 3 – Non-Display Orders that are the same price as a protected offer (bid) unless the limit price of such IOC ISO is higher (lower) than the price of the protected offer (bid).

(c) The Exchange proposes to fix a rule reference in the first sentence of the second bulleted paragraph on page 14 of the Filing (page 40 of the Filing) as follows (new text underlined; deleted text bracketed):

Proposed Rule 7.46(f)(5)(F)(iii) would provide that once an Arca Only Order or ALO Order to buy (sell) is resting on the NYSE Arca Book, such orders would not be eligible to trade with later-arriving orders to sell (buy) ranked Priority 2 – Display Orders priced equal to the PBO (PBB).

(d) The Exchange proposes to fix a non-capitalized reference to the term "Pilot Period" in proposed Rule 7.46(f) on page 58 of the Exhibit 5 as follows (new text double-underlined; deleted text in strike-through):

(f) Exchange handling of orders during the pPilot pPeriod for the Plan.

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All other representations in the Filing remain unchanged as stated therein and no other changes are being made.