SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-81888; File No. SR-NYSEArca-2017-118)

October 17, 2017

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rule 6.76A-O to Adopt Additional Self-Trade Prevention Modifiers

Pursuant to Section 19(b)(1)[1] of the Securities Exchange Act of 1934 (the "Act"),[2] and Rule 19b-4 thereunder,[3] notice is hereby given that on October 3, 2017, 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 and II 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 the Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 6.76A-O (Order Execution – OX). The proposed rule change is available on the Exchange's website at 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 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

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

2 15 U.S.C. 78a.

3 17 CFR 240.19b-4.

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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the filing is to amend Commentary .01 to NYSE Arca Rule 6.76A-O (Order Execution - OX) regarding the Exchange's Self-Trade Prevention ("STP") functionality.[4] The Exchange currently offers a basic form of self-trade prevention[5] pursuant to which the Exchange cancels any resting Market Maker quote(s) and order(s)[6] to buy (sell) that are priced equal to or higher (lower) than an incoming Market Maker quote, order or both to sell (buy) entered under the same trading permit identification ("TPID").[7]

The Exchange proposes to expand the self-trade functionality by adopting three STP modifiers. The proposed STP modifiers are designed to prevent incoming Market Maker order(s) or quote(s) designated with an STP modifier from executing against an opposite side

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4 Self-Trade Prevention is only applicable to electronic trading on the Exchange.

5 See Securities Exchange Act Release No. 66386 (February 13, 2012), 77 FR 9721 (February 17, 2012) (SR-NYSEArca-2012-08).

6 Self-Trade Prevention currently is applicable to the following order types used by Market Makers: "PNP Orders," "PNP–Blind Orders," and "PNP–Light Orders." PNP Orders, PNP–Blind Orders, and PNP–Light Orders are defined in NYSE Arca Rule 6.62-O, and each is a type of non-routable Limit Order that is only executed on the Exchange. The Exchange notes that Market Makers primarily use these order types, as opposed to other order types offered by the Exchange, because they are similar to quotes (i.e., they are non-routable Limit Orders). See Regulatory Information Bulletin RBO-12-04 at https://www.nyse.com/publicdocs/nyse/markets/arca-options/rule-interpretations/2012/NYSEArca%20RBO-12-04.pdf. .

7 The Exchange uses a Market Maker's TPID to monitor for self-trades. TPIDs are assigned to Market Makers, as well as other OTP Firms and OTP Holders, to identify them in the Exchange's systems. Market Makers on the Exchange are not able to submit orders on an agency basis. Thus, a Market Maker within a firm that conducts both an agency and market making business has a unique TPID that could only be used for that Market Maker's quotes and orders.

resting Market Maker order(s) or quote(s) also designated with an STP modifier and entered from the same TPID. As proposed, the STP modifier on the incoming Market Maker order or quote would control the interaction between two orders and/or quotes marked with STP modifiers. The proposed STP modifiers are intended to prevent interaction between the same TPIDs. STP modifiers must be present on both the buy and the sell interest in order to prevent an interaction from occurring and to effect a cancel instruction.

The Exchange believes the proposed functionality will allow OTP Holders to better manage order flow and prevent undesirable or unexpected executions with themselves. Given enhancements in technology in today's trading environment, OTP Holders often have multiple connections into the Exchange. Orders, for example, routed by the same OTP Holder via different connections may, in certain circumstances, trade against each other. The proposed STP modifiers would provide OTP Holders the opportunity to prevent these potentially undesirable interactions occurring under the same TPID on both the buy and sell side of an execution.

The three new STP modifiers are discussed more thoroughly below.

STP Cancel Newest ("STPN")

An incoming order or quote marked with the STPN modifier will not execute against opposite side resting interest marked with any STP modifier from the same TPID. The incoming order or quote marked with the STPN modifier will be cancelled back to the originating TPID. The resting order(s) or quote(s) will remain on the Consolidated Book.

STPN Example 1: Market Maker 1 is configured for one of the three proposed STP modifiers and submits a quote to sell 100 contracts @ $5.50. A Customer order to sell 5 contracts @ $5.49 is resting on the Consolidated Book. Market Maker 1 enters an order to buy 100 contracts @ $5.60 with an STPN modifier.

STPN Result 1: Market Maker 1 buys 5 contracts @ $5.49 because Market Maker 1 has no interest at $5.49. The remaining quantity of Market Maker 1's order will be cancelled due to Market Maker 1's quote at $5.50.

STPN Example 2: Market Maker 1 is configured for one of the three proposed STP modifiers and submits a quote to sell 100 contracts @ $5.50. A Customer order to sell 5 contracts @ $5.50 is resting on the Consolidated Book. Market Maker 1 enters an order to buy 200 contracts @ $5.60 with an STPN modifier.

STPN Result 2: Market Maker 1's entire order to buy 200 contracts is cancelled due to Market Maker 1's quote at $5.50. No execution with any other interest at $5.50 occurs.

<u>STP Cancel Oldest ("STPO")</u>

An incoming order or quote marked with the STPO modifier will not execute against opposite side resting interest market with any STP modifier from the same TPID. The resting order(s) or quote(s) marked with the STP modifier will be cancelled back to the originating TPID. The incoming order or quote marked with the STPO modifier will remain on the Consolidated Book.

STPO Example 1: Market Maker 1 is configured for one of the three proposed STP modifiers and submits a quote to sell 100 contracts @ $5.50. Market Maker 1 enters an order to buy 100 contracts @ $5.50 with an STPO modifier.

STPO Result 1: Market Maker 1's buy order cannot trade with Market Maker 1's quote because the buy order is marked for STP and the quotes are configured for STP. Market Maker 1's quote to sell is cancelled and removed from the Consolidated Book. Market Maker 1's buy order will post to the Consolidated Book at $5.50.

STPO Example 2: Market Maker 1 has a resting order on the Consolidated Book to sell

10 contracts @ 5.51 with an STPN modifier. Market Maker 1 is configured for one of the three proposed STP modifiers and submits a quote to sell 100 contracts @ $5.50. Customer 1 has an order to sell 5 contracts @ $5.50 resting on the Consolidated Book. Customer 2 has an order to sell 10 contracts @ $5.51 resting on the Consolidated Book. Market Maker 1 enters an order to buy 100 contracts @ $5.51 with an STPO modifier.

STPO Result 2: Market Maker 1's buy order cannot trade with Market Maker 1's quote because the buy order is marked for STP and the quotes are configured for STP. Market Maker 1's quote to sell 100 contracts @ $5.50 is cancelled and removed from the Consolidated Book. Market Maker 1's buy order will trade 5 contracts with Customer 1 at $5.50, leaving 95 contracts. The remaining 95 contracts will now attempt to trade at the $5.51 price level. Market Maker 1's buy order, however, cannot trade with Market Maker 1's resting sell order and the sell order is therefore cancelled and removed from the Consolidated Book. Market Maker 1's buy order will then trade 10 contracts with the Customer 2 @ $5.51. The remaining 85 contracts of Market Maker 1's buy order will post to the Consolidated Book at $5.51.

<u>STP Cancel Both ("STPC")</u>

An incoming order or quote marked with the STPC modifier will not execute against opposite side resting interest marked with any STP modifier from the same TPID. The entire size of both orders and/or quotes will be cancelled back to the originating TPID.

STPC Example 1: Market Maker 1 is configured for one of the three proposed STP modifiers and submits a quote to sell 100 contracts @ $5.50. Market Maker 1 enters an order to buy 100 contracts @ $5.50 with an STPC modifier.

STPC Result 1: No execution occurs. Both Market Maker 1's buy order and Market Maker 1's quote to sell are cancelled and removed from the Consolidated Book.

STPC Example 2: Market Maker 1 has a resting order on the Consolidated Book to sell 10 contracts @ $5.51 with an STPN modifier. Market Maker 1 is configured for one of the three proposed STP modifiers and submits a quote to sell 100 contracts @ $5.50. Market Maker 1 enters an additional order to buy 100 contracts @ $5.51 with an STPC modifier.

STPC Result 2: Market Maker 1's buy order cannot trade with Market Maker 1's quote to sell 100 contracts @ $5.50 because the buy order is marked for STP and the quotes are configured for STP. Both the Market Maker 1 buy order and the Market Maker 1 quote to sell are cancelled and removed from the Consolidated Book. Market Maker 1's resting sell order to sell 10 contracts @ $5.51 is not impacted as the incoming Market Maker 1 buy order never attempts to trade at the $5.51 price level and therefore, Market Maker 1's resting sell order remains on the Consolidated Book.

Additional Discussion

As with the current functionality, the enhanced STP functionality would be in effect throughout the trading day for all Market Makers on the Exchange,[8] but not during Trading Auctions.[9] In this regard, the Exchange believes, as it previously noted when STP was first adopted, it is highly unlikely that a Market Maker would trade against its own resting interest during a Trading Auction.[10] The enhanced STP functionality would also not apply to individual legs of Complex Orders. As previously noted by the Exchange, senders of Complex Orders, including Market Makers, view them as discrete orders with a desire to execute all legs and to

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8 Market Markers on the Exchange would not have the ability to deactivate Self-Trade Prevention or change any settings related to it.

9 See, e.g., NYSE Arca Rule 6.64-O.

10 See supra, note 5. The Exchange also previously noted that it would be difficult to implement STP from a technological and operational perspective because it would require the Exchange to cancel resting, executable Market Maker trading interest as it is calculating the price at which to conduct the Trading Auction.

prevent the execution of one leg would be contrary to the investment purpose of the Complex Order.[11]

As proposed, the enhanced STP functionality would not be applicable to Qualified Contingent Cross ("QCC") Orders.[12] QCC Orders are paired orders intended to serve a particular investment purpose that are contingent on the options leg of a QCC Order being executed. Because the non-execution of the options leg is contrary to the investment purpose of a QCC Order, the Exchange has determined not to apply STP in a manner that would prevent the execution of a QCC Order. The Exchange notes that the enhanced STP functionality proposed herein would not relieve or modify a Market Maker's obligations under the Exchange's Rules, such as the Market Maker's quoting obligations, or any other rules and regulations to which the Market Maker is subject.

The enhanced STP functionality proposed herein is similar to functionality currently offered by the Bats Exchange, Inc. ("Bats").[13] In particular, Bats offers Match Trade Prevention ("MTP"), a self-trade prevention functionality where any incoming order designated with an MTP modifier is prevented from executing against a resting opposite side order also designated with an MTP modifier and originating from the same market participant identifier. Additionally, the Exchange's equities market provides for self-trade prevention order modifiers that prevent orders so designated from executing against resting opposite side orders entered under the same

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[11] See supra, note 5.

[12] A QCC Order is comprised of an originating order to buy or sell at least 1,000 contracts, or 10,000 mini-options contracts, that is identified as being part of a qualified contingent trade, as that term is defined in Commentary .02 to Rule 6.62-O, coupled with a contra-side order or orders totaling an equal number of contracts. See NYSE Arca Rule 6.62-O(bb).

[13] See Bats Rule 21.1(g).

equity trading permit identification that are also designated with the modifier.[14] With two exceptions, the Exchange is proposing to adopt all the STP modifiers that are currently available on Bats.[15] And with one exception, the Exchange is proposing to adopt all the STP modifiers that are currently available on the Exchange's equities market.[16] The Exchange notes that while the Bats rule and the NYSE Arca equities rule apply to orders, and not to orders and quotes, the Exchange's proposal is otherwise similar to functionality offered on Bats and on the Exchange's equities market.

The NASDAQ Options Market ("NOM") currently offers functionality that applies to orders and quotes, but in a limited manner.[17] Notwithstanding the fact that the STPN and STPC modifiers, as proposed for orders and quotes, are not currently available on an options market, the Exchange does not believe the proposed functionality is novel and does not raise any new

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14 See NYSE Arca Rule 7.31-E(i)(2).

15 Bats currently offers MTP Decrement and Cancel ("MDC") where an incoming order with the MDC modifier is prevented from executing against opposite side resting interest marked with any MTP modifier originating from the same user on that exchange. If both orders are equal in size, both orders are canceled. For those not equivalent in size, the smaller order is canceled and the larger order is decremented by the size of the smaller order with the balance remaining on the order book. Bats also currently offers MTP Cancel Smallest ("MCS") where an incoming order with the MCS modifier is prevented from executing against opposite side resting interest marked with any MTP modifier originating from the same user. If both orders are equal in size, both orders are cancelled. For those not equivalent in size, the smaller order is canceled and the larger order remains on the book.

16 The NYSE Arca equities market also currently offers STP Decrement and Cancel ("STPD") that provides similar self-trade prevention functionality as the Bats offering. At this time, the Exchange is not proposing to adopt the STPD modifier for the options market.

17 See NOM, Chapter VI, Section 10(6). The NOM anti-internalization ("AIQ") functionality works similar to the proposed STPO modifier in that quotes and orders entered by NOM market makers using the same market participant identifier are automatically prevented from interacting with each other. Rather than executing quotes and orders from the same market participant identifier, the AIQ functionality cancels the oldest of the quotes and orders.

regulatory concerns. Further, the STP functionality currently available on the Exchange applies to both orders and quotes, and Market Makers are therefore generally familiar with the application of self-trade prevention to orders and quotes. The Exchange further believes the proposed adoption of the STPN and STPC modifiers would add further specificity to the rule while aligning the proposed functionality with Market Makers' expectation. Self-trade prevention is a risk mechanism tool to prevent inadvertent trading of both orders and quotes that has been widely used for many years in both the equities and options markets. The enhanced functionality proposed herein would provide Market Makers with a method of managing their trading interest that is similar to functionality currently available on other markets.

The Exchange also proposes at this time to make a procedural change for announcements regarding the STP functionality. Presently the Exchange issues Regulatory Information Bulletins when making announcements related to STP functionality. Going forward, the Exchange proposes to issue a Trader Update in lieu of a Regulatory Information Bulletin. Regulatory Information Bulletins generally contain information regarding legal and regulatory matters while a Trader Update deals with issues such as trading, systems changes and real-time market announcements. The Exchange believes that it is more appropriate to make announcements regarding the STP functionality via Trader Update. Trader Updates, like Regulatory Information Bulletins, are electronically distributed to OTP Holders and posted on the Exchange's website. Accordingly, the Exchange proposes to amend Commentary .01 to current Rule 6.76A-O by replacing reference to "Regulatory Information Bulletin" with "Trader Update."

Implementation

Because of the technology changes associated with this proposed rule change, the Exchange will announce by Trader Update the implementation date of the proposed rule change, which will be no later than 60 days from the effective date of this rule filing.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b)[18] of the Securities Exchange Act of 1934 (the "Act"), in general, and furthers the objectives of Section 6(b)(5),[19] in particular, in that 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, and to remove impediments to and perfect the mechanisms of a free and open market and a national market system.

As discussed above, the Exchange believes that the proposed rule change is designed to promote just and equitable principles of trade because it would provide Market Makers with a functionality that is similar to functionality currently available on other markets.[20] Additionally, the Exchange believes that the proposed rule change is designed to prevent fraudulent and manipulative acts and practices, to remove impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, to protect investors and the public interest, because it would allow Market Makers to better manage their trading interest and provide a means to prevent executions against their own trading interest.

The Exchange notes that Market Makers have expressed an interest in the proposed functionality as it would prevent them from inadvertently trading with their own interest. In such a situation, OTP Holders currently ask the Exchange to nullify such inadvertent trades, which they are permitted to do under the Exchange's rules because the OTP Holder is on both sides of

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[18] 15 U.S.C. 78f(b).

[19] 15 U.S.C. 78f(b)(5).

[20] See supra, notes 13, 14 and 17.

the trade.[21] While the proposed STP functionality would prevent inadvertent self-trading, the Exchange notes that the functionality would also prevent intentional self-trading. In this regard, the proposed rule change provides a means to prevent manipulative conduct such as "wash trading."

Finally, the replacement of reference to Regulatory Information Bulletin with Trader Update, would foster cooperation and coordination with persons engaged in facilitating transactions in securities as Trader Updates deal with issues such as trading, systems changes and real-time market announcements and are electronically distributed to OTP Holders and posted on the Exchange's Web site.

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 not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is designed to enhance STP functionality provided to Exchange Market Makers, and will benefit members that wish to protect their orders and quotes against trading with other orders and quotes that originate from the same TPID. The new functionality, which is similar to functionality currently offered on other markets, is also voluntary, and the Exchange therefore does not believe that providing an enhanced offering to prevent against self-trading will have any significant impact on competition. The Exchange believes that the proposed rule change is evidence of the competitive environment in the options industry where exchanges must continually improve their offerings to maintain competitive standing.

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.

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[21] See NYSE Arca Rule 6.77A-O.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.[22]

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act[23] normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)[24] permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the Exchange can implement the enhanced functionality without delay. The Exchange believes that waiver of the operative delay is consistent with the protection of investors and the public interest because it would enable the Exchange to implement the change when the technology supporting the change is available, which the Exchange anticipates will be no later than 60 days from the effective date of this rule filing. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because the new functionality is designed to provide market makers with a tool to prevent undesirable executions against themselves and therefore may assist market makers in managing their order flow. Therefore, the Commission hereby waives the

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22 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

23 17 CFR 240.19b-4(f)(6).

24 17 CFR 240.19b-4(f)(6)(iii).

operative delay and designates the proposed rule change operative upon filing.[25]

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or 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 (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NYSEArca-2017-118 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSEArca-2017-118. 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

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25 For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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 such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSEArca-2017-118, 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.[26]

Eduardo A. Aleman
Assistant Secretary

[26] 17 CFR 200.30-3(a)(12).