

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-94095; File No. SR-NYSEArca-2022-04)

January 28, 2022

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the NYSE Arca Options Fee Schedule

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 January 25, 2022, NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”) 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 amend the NYSE Arca Options Fee Schedule (the “Fee Schedule”) to provide for a waiver of the Ratio Threshold Fee in connection with the Exchange’s migration to a new trading platform. 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

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

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

The purpose of this filing is to amend the Fee Schedule to waive the Ratio Threshold Fee during the Exchange’s migration of options trading to a new electronic trading platform.

Currently, the Exchange conducts options trading on an electronic platform known as “OX.” OX refers to the Exchange’s electronic order delivery, execution, and reporting system for designated option issues through which orders and quotes of Users are consolidated for execution and/or display.⁴ On or about February 7, 2022, the Exchange anticipates beginning the migration of its options trading to a new technology platform known as Pillar.⁵

The Ratio Threshold Fee is based on the number of orders entered as compared to the number of executions received in a calendar month and is intended to deter OTP Holders and OTP Firms (collectively, “OTP Holders”) from submitting an excessive number of orders that are not executed.⁶ Because order to execution ratios of 10,000 to 1 or greater have the potential

⁴ See NYSE Arca Rule 6.1A-O(a)(13).

⁵ The Exchange has announced that, pending regulatory approval, it will begin migrating Exchange-listed options to Pillar on February 7, 2022, available here: <https://www.nyse.com/trader-update/history#110000322291>. See also Securities Exchange Act Release No. 92304 (June 30, 2021), 86 FR 36440 (July 9, 2021) (SR-NYSEArca-2021-47) (SR-NYSEArca-2021-47) (Notice of Filing of Proposed Rule Change for New Rules 6.1P-O, 6.37AP-O, 6.40P-O, 6.41P-O, 6.62P-O, 6.64P-O, 6.76P-O, and 6.76AP-O and Amendments to Rules 1.1, 6.1-O, 6.1A-O, 6.37-O, 6.65A-O and 6.96-O) and Amendment No. 4 to SR-NYSEArca-2021-47, available here: <https://www.sec.gov/comments/sr-nysearca-2021-47/srnysearca202147-20112491-265389.pdf>.

⁶ See Fee Schedule, RATIO THRESHOLD FEE, available here:

residual effect of exhausting system resources, bandwidth, and capacity, such ratios may create latency and impact other OTP Holders' ability to receive timely executions.⁷

The Exchange proposes to modify the Fee Schedule to specify that the monthly Ratio Threshold Fee assessed to OTP Holders will be waived for the duration of the migration and for three calendar months after the migration. Specifically, the Exchange proposes that the waiver of the Ratio Threshold Fee take effect for the month during which the migration begins and remain in effect for three months following the month in which the migration is completed (the "Waiver Period"). The Exchange believes that waiving Ratio Threshold Fees during the Waiver Period will give both OTP Holders and the Exchange an opportunity to adjust to new functionality and new order handling mechanisms without imposing a financial burden on OTP Holders based on their order to execution ratios during the Pillar transition. In addition, during the Waiver Period, the Exchange intends to work closely with OTP Holders to monitor traffic rates and their order to execution ratio as they adapt to trading on the Pillar platform.

The Exchange proposes to implement this change beginning in the month during which it commences its migration to the Pillar platform.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,⁸ in general, and furthers the objectives of Sections 6(b)(4) and (5) of the Act,⁹ in

https://www.nyse.com/publicdocs/nyse/markets/arca-options/NYSE_Arca_Options_Fee_Schedule.pdf; see also Securities Exchange Act Release No. 60102 (June 11, 2009), 74 FR 29251 (June 19, 2009) (SR-NYSEArca-2009-50).

⁷ See id.

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(4) and (5).

particular, because it provides for the equitable allocation of reasonable dues, fees, and other charges among its members, issuers and other persons using its facilities and does not unfairly discriminate between customers, issuers, brokers or dealers.

The Proposed Rule Change is Reasonable

The Exchange operates in a highly competitive market. The Commission has repeatedly expressed its preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. In Regulation NMS, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies.”¹⁰

There are currently 16 registered options exchanges competing for order flow. Based on publicly-available information, and excluding index-based options, no single exchange has more than 16% of the market share of executed volume of multiply-listed equity and ETF options trades.¹¹ Therefore, currently no exchange possesses significant pricing power in the execution of multiply-listed equity & ETF options order flow. More specifically, in December 2021, the Exchange had less than 14% market share of executed volume of multiply-listed equity & ETF options trades.¹²

¹⁰ See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005) (S7-10-04) (“Reg NMS Adopting Release”).

¹¹ The OCC publishes options and futures volume in a variety of formats, including daily and monthly volume by exchange, available here: <https://www.theocc.com/Market-Data/Market-Data-Reports/Volume-and-Open-Interest/Monthly-Weekly-Volume-Statistics>.

¹² Based on a compilation of OCC data for monthly volume of equity-based options and monthly volume of ETF-based options, see *id.*, the Exchange’s market share in equity-based options increased from 9.65% for the month of December 2020 to 13.21% for the

The Exchange believes that the ever-shifting market share among the exchanges from month to month demonstrates that market participants can shift order flow or discontinue or reduce use of certain categories of products, in response to fee changes. Accordingly, competitive forces constrain options exchange fees. In response to this competitive environment and to adapt to extenuating circumstances, the Exchange has previously waived fees on a temporary basis.¹³

The Exchange believes that the proposed waiver of Ratio Threshold Fees is reasonably designed to continue to incent OTP Holders to maintain active participation on the Exchange during and after its migration to a new trading platform. The Exchange further believes that the proposed waiver is reasonably designed to lessen the impact of the migration on OTP Holders and would thus encourage OTP Holders to promptly transition to the more efficient Pillar technology platform, while enabling them to adjust their trading activity on the Exchange as needed to transition to Pillar without incurring excess Ratio Threshold Fees during the Waiver Period.

To the extent the proposed rule change encourages OTP Holders to migrate to the new platform while maintaining their level of trading activity, the Exchange believes the proposed change would sustain the Exchange's overall competitiveness and its market quality for all market participants. In the backdrop of the competitive environment in which the Exchange operates, the proposed rule change is a reasonable attempt by the Exchange to mitigate the expense of the migration without affecting its competitiveness.

month of December 2021.

¹³ See, e.g., Securities Exchange Act Release No. 88596 (April 8, 2020), 85 FR 20796 (April 14, 2020) (SR-NYSEArca-2020-29) (waiving Floor related fees in connection with COVID-19 precautionary measures).

The Proposed Rule Change is an Equitable Allocation of Credits and Fees

The Exchange believes the proposed rule change is an equitable allocation of its fees and credits because the waiver would be offered to all OTP Holders. All OTP Holders would thus have the opportunity to moderate their order flow as needed and familiarize themselves with the new system during the Waiver Period without incurring Ratio Threshold Fees. Thus, the Exchange believes the proposed rule change would facilitate a smooth transition to the Pillar technology platform for OTP Holders and mitigate the impact of the migration process for all market participants on the Exchange, thereby sustaining market-wide quality.

The Proposed Rule Change is not Unfairly Discriminatory

The Exchange believes the proposed waiver of Ratio Threshold Fees is not unfairly discriminatory because it would be available to all similarly-situated market participants on an equal and non-discriminatory basis.

The proposed waiver would permit all OTP Holders to maintain the same level of interaction or adjust their proprietary systems and order submission to the Exchange as needed during the Waiver Period without incurring additional fees based on their monthly order to execution ratios, which could fluctuate as they adapt to the Pillar platform. The Exchange thus believes that the proposed change would support continued trading opportunities for all market participants, thereby promoting just and equitable principles of trade, removing impediments to and perfecting the mechanism of a free and open market and a national market system and, in general, protecting investors and the public interest.

Finally, the Exchange believes that it is subject to significant competitive forces, as described below in the Exchange's statement regarding the burden on competition.

B. Self-Regulatory Organization's Statement on Burden on Competition

In accordance with Section 6(b)(8) of the Act, the Exchange does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Instead, as discussed above, the Exchange believes that the proposed changes would encourage the submission of additional liquidity to a public exchange, thereby promoting market depth, price discovery and transparency and enhancing order execution opportunities for all market participants. As a result, the Exchange believes that the proposed change furthers the Commission's goal in adopting Regulation NMS of fostering integrated competition among orders, which promotes "more efficient pricing of individual stocks for all types of orders, large and small."¹⁴

Intramarket Competition. The Exchange does not believe the proposed rule change would impose any burden on intramarket competition that is not necessary or appropriate because it would apply equally to all OTP Holders. All OTP Holders would be eligible for the waiver of their Ratio Threshold Fees beginning in the month during which the Exchange begins the Pillar migration, and the waiver would remain in effect for three full months after the month during which the migration to Pillar is completed.

Intermarket Competition. The Exchange operates in a highly competitive market in which market participants can readily favor one of the 16 competing option exchanges if they deem fee levels at a particular venue to be excessive. In such an environment, the Exchange must continually adjust its fees to remain competitive with other exchanges and to attract order flow to the Exchange. Based on publicly-available information, and excluding index-based options, no single exchange has more than 16% of the market share of executed volume of multiply-listed

¹⁴ See Reg NMS Adopting Release, supra note 10, at 37499.

equity and ETF options trades.¹⁵ Therefore, currently no exchange possesses significant pricing power in the execution of multiply-listed equity & ETF options order flow. More specifically, in December 2021, the Exchange had less than 14% market share of executed volume of multiply-listed equity & ETF options trades.¹⁶

The Exchange does not believe the proposed rule change would impose any burden on intermarket competition that is not necessary or appropriate because the Exchange operates in a highly competitive market in which market participants can readily choose to send their orders to other exchanges if they deem fee levels at those other venues to be more favorable. The Exchange believes that fees to prevent excessive use of Exchange systems are constrained by the robust competition for order flow among exchanges. Accordingly, the Exchange believes that the proposed change would continue to make the Exchange a competitive venue for order execution by enabling OTP Holders to maintain their current levels of interaction with the Exchange or make adjustments as needed during the transition to Pillar platform, without incurring fees based on their monthly order to execution ratios during the Waiver Period, thus facilitating OTP Holders' migration to the newer, more efficient Pillar technology platform.

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.

¹⁵ See supra note 11.

¹⁶ Based on a compilation of OCC data for monthly volume of equity-based options and monthly volume of ETF-based options, see id., the Exchange's market share in equity-based options increased from 9.65% for the month of December 2020 to 13.21% for the month of December 2021.

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

The foregoing rule change is effective upon filing pursuant to Section 19(b)(3)(A)¹⁷ of the Act and subparagraph (f)(2) of Rule 19b-4¹⁸ thereunder, because it establishes a due, fee, or other charge imposed by the Exchange.

At any time within 60 days of the filing of such 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 under Section 19(b)(2)(B)¹⁹ of the Act to determine whether the proposed rule change 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-2022-04 on the subject line.

¹⁷ 15 U.S.C. 78s(b)(3)(A).

¹⁸ 17 CFR 240.19b-4(f)(2).

¹⁹ 15 U.S.C. 78s(b)(2)(B).

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-2022-04. 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, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All

submissions should refer to File Number SR-NYSEArca-2022-04, 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.²⁰

J. Matthew DeLesDernier
Assistant Secretary

²⁰ 17 CFR 200.30-3(a)(12).