

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-97088; File No. SR-NYSEARCA-2023-23)

March 9, 2023

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rule 6.62P-O(i)(2)

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (“Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that on March 3, 2023, NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. 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 Rule 6.62P-O(i)(2) to enhance the Exchange’s existing Self Trade Prevention modifiers. 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 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

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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.

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 Exchange proposes to amend Rule 6.62P-O(i)(2) to enhance the Exchange’s existing Self Trade Prevention (“STP”) modifiers. Specifically, the Exchange proposes to allow OTP Holders or OTP Firms (collectively referred to as “OTP Holders” herein) the option to apply STP modifiers to orders or quotes submitted not only from the same market participant identifier (“MPID”) and, if specified, any subidentifier of that MPID, as the current rule provides, but also to orders or quotes submitted from (i) other MPIDs associated with the same Client ID (as designated by the OTP Holder); and (ii) Affiliates of the OTP Holder.

*Background*

Currently, Rule 6.62P-O(i)(2) offers optional anti-internalization functionality to OTP Holders in the form of STP modifiers that enable an OTP Holder to prevent two of its orders or quotes from executing against each other.<sup>4</sup> Currently, OTP Holders can set the STP modifier to apply at the MPID level and, if specified, at the subidentifier of that MPID level.<sup>5</sup> The STP

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<sup>4</sup> See Rule 6.62P-O(i)(2) (providing that “[a]n Aggressing Order or Aggressing Quote to buy (sell) designated with one of the STP modifiers in this paragraph will be prevented from trading with a resting order or quote to sell (buy) also designated with an STP modifier from the same MPID, and, if specified, any subidentifier of that MPID.”).

<sup>5</sup> The Exchange will refer simply to “orders” and “quotes” throughout this filing for brevity, but acknowledges that Rule 6.62P-O(i)(2) prevents certain “Aggressing Orders” or “Aggressing Quotes” marked with an STP modifier from trading with certain resting orders or quotes also designated with an STP modifier. Rule 6.76P-O(a)(5) defines “Aggressing Orders” and “Aggressing Quotes” as “a buy (sell) order or quote that is or becomes marketable against sell (buy) interest on the Consolidated Book” and further provides that “[a] resting order or quote may become an Aggressing Order or Aggressing Quote if its working price changes, the NBBO is updated, there are changes to other orders or quotes on the Consolidated Book, or when processing inbound messages.”

modifier on the order or quote with the most recent time stamp controls the interaction between two orders or quotes marked with STP modifiers. STP functionality assists market participants by allowing firms to better prevent unintended executions with themselves and to reduce the potential for “wash sales” that may occur as a result of the velocity of trading in a high-speed marketplace.<sup>6</sup> STP functionality also assists market participants in reducing trading costs from unwanted executions potentially resulting from the interaction of executable buy and sell trading interest from the same firm.

*Proposed Amendment*

The Exchange proposes to amend the Rule 6.62P-O(i)(2) to enhance OTP Holders’ flexibility over the levels at which orders or quotes may be grouped for the purposes of applying the Exchange’s existing STP modifiers.

First, the Exchange proposes to amend Rule 6.62P-O(i)(2) to permit an OTP Holder to set the STP modifiers to prevent orders or quotes from different MPIDs from executing against each other. The proposed amendment would address this by allowing OTP Holders to apply STP modifiers at the level of “Client ID,” which would be an identifier designated by the OTP Holder. As proposed, a Client ID would function similarly to an MPID in that it would be a unique identifier assigned to an OTP Holder. The Exchange believes that this proposed enhancement would provide OTP Holders with greater flexibility in how they instruct the Exchange to apply STP modifiers to their orders and quotes. The Exchange notes that it is not novel for an exchange to provide its members with multiple methods by which to designate anti-

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<sup>6</sup> Options Market Makers enter quotes and orders, which orders and quotes the Exchange processes together with respect to ranking and display. For this reason, STP Modifier instructions can be added to both orders and quotes. Providing STP functionality for quotes facilitates risk management for Market Makers.

internalization instructions, except that the proposed functionality (consistent with current functionality) would apply to both orders and quotes.<sup>7</sup>

Second, the Exchange proposes to amend Rule 6.62P-O(i)(2) to permit OTP Holders to direct orders or quotes not to execute against orders or quotes entered across MPIDs associated with Affiliates of the OTP Holder that are also OTP Holders.<sup>8</sup> This change would expand the availability of the STP functionality to OTP Holders that have divided their business activities between separate corporate entities without disadvantaging them when compared to OTP Holders that operate their business activities within a single corporate entity.

The Exchange believes that these enhancements will all provide helpful flexibility for OTP Holders by expanding their ability to apply STP modifiers at multiple levels, including across multiple MPIDs of the same Client ID, and across multiple MPIDs of the OTP Holder and its Affiliate. These proposed changes would help OTP Holders better manage their quotes and

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<sup>7</sup> See, e.g., MIAX Pearl, LLC (“MIAX Pearl Equities”) Rule 2614(f) (specifying that Self-Trade Prevention Modifiers will be applicable to orders “from the same MPID, Exchange member identifier, trading group identifier, or Equity Member Affiliate (any such identifier, a ‘Unique Identifier’)”). The Exchange’s affiliated national securities exchanges likewise offer similar STP functionality. See NYSE Arca Equities Rule 7.31-E(i)(2) (providing STP functionality consistent with proposed Rule 6.62P-O(i)(2), except that for purposes of that rule an “Affiliate” refers to entities under 75% common ownership, which definition aligns with the definition set forth in that exchange’s fee schedule); NYSE American LLC Rule 7.31E(i)(2) (same); NYSE LLC Rule 7.31(i)(2) (same); NYSE National, Inc. Rule 7.31(i)(2) (same); and NYSE Chicago, Inc. Rule 7.31(i)(2) (same). As noted herein, the proposed STP functionality differs from functionality offered on these equities exchanges (including the Exchange’s affiliated equities exchanges) because it extends to Market Maker quotes for options trading.

<sup>8</sup> Per Rule 1.1, “[a]n ‘affiliate’ of, or person ‘affiliated’ with a specific person, is a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified.” The Exchange notes that relying on the established definition of affiliate for purposes of the proposed STP functionality is not new or novel. See, e.g., MIAX Pearl Equities Rule 2614(f) (for purposes of an STP “Unique Identifier,” cross-referencing the definition of affiliate in regards to what constitutes “Equity Member Affiliates”).

order flow and prevent undesirable executions or the potential for “wash sales” that might otherwise occur.

To effect these changes, the Exchange proposes to amend the first sentence of Rule 6.62P-O(i)(2) and add a new sentence as follows (proposed text underlined): “An Aggressing Order or Aggressing Quote to buy (sell) designated with one of the STP modifiers in this paragraph will be prevented from trading with a resting order or quote to sell (buy) also designated with an STP modifier and from the same Client ID; the same MPID, and, if specified, any subidentifier of that MPID; or an Affiliate (as defined in Rule 1.1) identifier (any such identifier, a “Unique Identifier”). The Exchange further proposes to replace references to “MPID” in Rules 6.62P-O(i)(2)(A) - (C) with the term “Unique Identifier.”

While this proposal would expand how an OTP Holder can designate orders and quotes with an STP modifier, nothing in this proposal would make substantive changes to the STP modifiers themselves or how they would function with respect to two orders or quotes interacting within a relevant level.

The Exchange notes that, as with its current anti-internalization functionality, use of the proposed revised Rule 6.62P-O(i)(2) will not alleviate or otherwise exempt OTP Holders from their best execution obligations. As such, OTP Holders using the proposed enhanced STP functionality will continue to be obligated to take appropriate steps to ensure that Customer orders that do not execute because they were subject to anti-internalization ultimately receive the same price, or a better price, than they would have received had execution of such orders not been inhibited by anti-internalization.

#### *Timing and Implementation*

The Exchange proposes to implement this proposed rule change within 60 days of the

effectiveness of this rule filing, but in no case later than the end of the second quarter of 2023.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>9</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>10</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 regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest, and because it is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Specifically, the Exchange believes that the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system and is consistent with the protection of investors and the public interest because enhancing how OTP Holders may apply STP modifiers will provide OTP Holders with additional flexibility with respect to how they implement self-trade protections provided by the Exchange that may better support their trading strategies.

The Exchange believes that the proposed rule change does not unfairly discriminate among OTP Holders because the proposed STP protections will be available to all OTP Holders, and OTP Holders that prefer setting STP modifiers at the MPID level and, if specified, at the subidentifier of that MPID level, will still be able to do so. In addition, allowing OTP Holders to

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<sup>9</sup> 15 U.S.C. 78f(b).

<sup>10</sup> 15 U.S.C. 78f(b)(5).

apply STP modifiers to trades submitted by their Affiliates that are also OTP Holders is intended to avoid disparate treatment of firms that have divided their various business activities between separate corporate entities as compared to firms that operate those business activities within a single corporate entity.

Finally, the Exchange notes that other exchanges have rules that allow affiliate grouping for their own anti-internalization functionality.<sup>11</sup> Consequently, the Exchange does not believe that this change raises new or novel issues not already considered by the Commission.

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. To the contrary, the proposal is designed to enhance the Exchange's competitiveness by providing additional flexibility over the levels at which orders and quotes may be grouped for STP purposes, thereby incentivizing OTP Holders to send orders and quotes to the Exchange and increase the liquidity available on the Exchange. The Exchange also notes that the proposed new STP grouping options, like the Exchange's current anti-internalization functionality, are completely optional and OTP Holders can determine whether to apply anti-internalization protections to orders and quotes submitted to the Exchange, and if so, at what level to apply those protections (e.g., MPID, subidentifier, Client ID, or Affiliate level). There is no barrier to other national securities exchanges adopting similar anti-internalization groupings as those proposed herein.

C. Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

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<sup>11</sup> See supra note 7.

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

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 after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>12</sup> and Rule 19b-4(f)(6)<sup>13</sup> thereunder.

A proposed rule change filed under Rule 19b-4(f)(6)<sup>14</sup> normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>15</sup> the Commission may 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 proposed rule change may become operative upon filing. The Exchange requested the waiver because it would enable the Exchange to compete with other exchanges that have recently amended their rules to expand the levels at which orders may be grouped for STP purposes. The Exchange also states that it is currently working on technological solutions to meet this competition and to make similar offerings available to market participants as soon as possible. The Exchange expects to begin rolling out this

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<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and 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. The Exchange has satisfied this requirement.

<sup>14</sup> 17 CFR 240.19b-4(f)(6).

<sup>15</sup> 17 CFR 240.19b-4(f)(6)(iii).



functionality within 60 days from the date of filing, and thus requests waiver of the operative delay in order to promptly meet market competition. For these reasons, and because the proposed rule change does not raise any novel regulatory issues, the Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the operative delay and designates the proposal operative upon filing.<sup>16</sup>

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](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEARCA-2023-23 on the subject line.

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<sup>16</sup> 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).

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-2023-23. 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-2023-23 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>17</sup>

Sherry R. Haywood,  
Assistant Secretary.

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