

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-86709; File No. SR-NYSECHX-2019-08)

August 20, 2019

Self-Regulatory Organizations; NYSE Chicago, Inc.; Notice of Filing of Proposed Rule Change for Trading Rules to Support the Transition of Trading to the Pillar Trading 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 August 6, 2019, the NYSE Chicago, Inc. (“NYSE Chicago” 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 trading rules to support the transition of trading to the Pillar trading platform. The proposed 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

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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.

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 Exchange proposes trading rules to support the transition of its trading platform to Pillar, which is an integrated trading technology platform designed to use a single specification for connecting to the equities and options markets operated by the Exchange and its affiliates, NYSE Arca, Inc. (“NYSE Arca”), NYSE American, LLC (“NYSE American”), NYSE National, Inc. (“NYSE National”), and New York Stock Exchange LLC (“NYSE”) (the “Affiliated Exchanges”).

Subject to rule approvals, the Exchange anticipates that it will transition trading to Pillar in the fourth quarter 2019.<sup>4</sup>

1. Background

In July 2018, the Exchange and its direct parent company were acquired by NYSE Group, Inc. (“Transaction”).<sup>5</sup> As a result of the Transaction, the Exchange became part of a corporate family including the Affiliated Exchanges. Following the Transaction, the Exchange continued to operate as a separate self-regulatory organization with rules, membership rosters and listings distinct from the rules, membership rosters and listings of the other Affiliated Exchanges.

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<sup>4</sup> The Exchange has announced that, subject to rule approvals, the Exchange will transition to trading on Pillar on November 4, 2019. See Trader Update, available here: [https://www.nyse.com/publicdocs/nyse/markets/nyse-chicago/NYSE\\_Chicago\\_Migration.pdf](https://www.nyse.com/publicdocs/nyse/markets/nyse-chicago/NYSE_Chicago_Migration.pdf).

<sup>5</sup> See Exchange Act Release No. 83635 (July 13, 2018), 83 FR 34182 (July 19, 2018) (SR-CHX-2018-004); see also Exchange Act Release No. 83303 (May 22, 2018), 83 FR 24517 (May 29, 2018) (SR-CHX-2018-004).

With Pillar, the Exchange proposes to transition trading in all Tape A, Tape B, and Tape C-listed securities from its current trading platform to a fully automated price-time priority allocation model that operates on the Pillar trading platform. From the perspective of a Participant,<sup>6</sup> the experience trading on Pillar will be most similar to trading on NYSE Arca or NYSE National, as the Exchange would offer the same suite of orders and modifiers as are available on those exchanges.<sup>7</sup> Accordingly, the Exchange proposes trading rules based on the rules and trading model of the cash equities platforms of NYSE Arca and NYSE National, which both operate fully automated price-time priority allocation exchanges on the Pillar trading platform. Specifically, the Exchange proposes rules relating to orders and modifiers, ranking and display of orders, execution and routing of orders, and all other trading functionality that are

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<sup>6</sup> The term “Participant” is defined in Article 1, Rule 1(s) to mean, among other things, any Participant Firm that holds a valid Trading Permit and that a Participant shall be considered a “member” of the Exchange for purposes of the Act. If a Participant is not a natural person, the Participant may also be referred to as a Participant Firm, but unless the context requires otherwise, the term Participant shall refer to an individual Participant and/or a Participant Firm.

<sup>7</sup> NYSE National was the most recent Affiliated Exchange to begin trading on the Pillar trading platform. See Securities Exchange Act Release No. 83289 (May 17, 2018), 83 FR 23968 (May 23, 2018) (SR-NYSENat-2018-02) (Order approving rule change to support the re-launch of NYSE National on the Pillar trading platform). Since launching, NYSE National has amended its Pillar trading rules, and the Exchange’s proposed rules are based on the current version of NYSE National’s rules. See Securities Exchange Act Release Nos. 83900 (August 22, 2018), 83 FR 43942 (August 28, 2018) (SR-NYSENat-2019-19) (Notice of filing and immediate effectiveness of proposed rule change relating to NYSE National Rule 7.31); 85144 (February 13, 2019), 84 FR 5519 (February 21, 2019) (SR-NYSENat-2019-02) (Notice of filing and immediate effectiveness of proposed rule change relating to NYSE National Rule 7.31); 85264 (March 7, 2019), 84 FR 9168 (March 13, 2019) (SR-NYSENat-2019-04) (Notice of filing and immediate effectiveness of proposed rule change relating to NYSE National Rules 7.16, 7.18, 7.34, and 7.38); 85572 (April 9, 2019), 84 FR 15257 (April 15, 2019) (SR-NYSENat-2019-08) (Notice of filing and immediate effectiveness of proposed rule change to NYSE National Rule 7.12); 85723 (April 25, 2019), 84 FR 18618 (May 1, 2019) (SR-NYSENat-2019-10) (Notice of filing and immediate effectiveness of proposed rule change to NYSE National Rule 7.11).

based on the rules of those exchanges.<sup>8</sup> The Exchange will continue to support its dual listings but will not provide trading functions, such as auctions, that support the operation of a primary listing exchange.<sup>9</sup> Accordingly, once it transitions to Pillar, NYSE Chicago will function most similarly to NYSE National, which is not a listing exchange.

The Exchange proposes four substantive differences from how trading on NYSE Arca and NYSE National function:

- First, the Exchange would continue to support Institutional Brokers,<sup>10</sup> as provided for under Article 17. As described in greater detail below, the Exchange proposes to amend the rules set forth under Article 17 only as necessary to support differences in the Pillar trading platform as compared to the Exchange's current trading rules.
- Second, the Exchange would continue to support an order type to facilitate compliance with the contingent trade exemption of Rule 611 of Regulation NMS, which is currently described in Article 1, Rule 2(b)(2)(E). While NYSE Arca and

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<sup>8</sup> NYSE American's cash equities market and NYSE also operate on the Pillar trading platform and share a substantial number of trading functions and Pillar platform rules with NYSE Arca and NYSE National (see generally NYSE American Rule 7-E (Equities Trading) and NYSE Rule 7P (Equities Trading)). NYSE American operates with a Delay Mechanism and as a result, does not offer all of the order types that are available on NYSE Arca and NYSE National (see NYSE American Rules 7.29 and 7.31). NYSE operates a Floor-based parity allocation model and offers order types that differ from those available on NYSE Arca and NYSE National (see NYSE Rules 7.31, 7.36, and 7.37). Because of those differences, which the Exchange does not propose, the Exchange will not cite to either NYSE American or NYSE Pillar rules in this filing, even if those exchanges have similar rules to what is being proposed for the Exchange.

<sup>9</sup> Information about the securities dually listed on the Exchange is available here: <https://www.nyse.com/markets/nyse-chicago/listings>.

<sup>10</sup> The term "Institutional Broker" is defined in Article 1, Rule 1(n) to mean a member of the Exchange who is registered as an Institutional Broker pursuant to the provisions of Article 17 and has satisfied all Exchange requirements to operate as an Institutional Broker on the Exchange.

NYSE National both describe this exemption in their respective rules,<sup>11</sup> neither exchange offers a specific order type designed for this exemption. Similar to current Exchange rules, on Pillar, the Exchange will continue to support a Qualified Contingent Trade (“QCT”) cross order type that is designed for an Institutional Broker to comply with the contingent trade exemption, which will be described in proposed Rule 7.31(g).

- Third, the Exchange will continue to support non-regular way settlement instructions for cross orders and the ability for cross orders to be submitted in an increment as small as \$0.000001. These proposed differences from NYSE Arca and NYSE National would be set forth in proposed Rules 7.6, 7.8, and 7.8A.
- Fourth, the Exchange will not support Market Makers on the Exchange. Accordingly, the Exchange does not propose rules based on Section 2 of NYSE Arca Rule 7-E or Section 2 of NYSE National Rule 7 and will not offer the “Q” Order type, as described in NYSE Arca Rule 7.31-E(j) and NYSE National Rule 7.31(j).

Once trading on the Pillar trading platform begins, specified current Exchange rules would not be applicable, as described in greater detail below. For each current rule (or Article) that would not be applicable for trading on the Pillar trading platform, the Exchange proposes to state in a preamble to such rule that “this Rule/Article is not applicable to trading on the Pillar trading platform.”<sup>12</sup>

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<sup>11</sup> See NYSE Arca Rule 7.37-E(f)(5) and NYSE National Rule 7.37(f)(5).

<sup>12</sup> The NYSE uses the same convention to identify the NYSE trading rules that are not applicable to trading on Pillar. See Securities Exchange Act Release Nos. 82945 (March 26, 2018), 83 FR 13553, 13555 (March 29, 2018) (SR-NYSE-2017-36) (Approval Order) and 85962 (May 29, 2019), 84 FR 26188, 26189 (June 5, 2019) (SR-NYSE-2019-05)

Current Exchange rules that do not have this preamble will continue to govern Exchange operations after the transition to Pillar. Specifically, the following current rules will continue to be operative without any substantive changes: Article 2 (Committees); Article 3 (Participants and Participant Firms); Article 5 (except for Rule 1) (Access to the Exchange); Article 6 (Registration, Supervision and Training); Article 7 (Financial Responsibility and Reporting Requirements); Article 8 (except for Rule 17) (Business Conduct); Article 9 (except for Rule 23) (General Trading Rules); Article 10 (Margins); Article 11 (except for Rule 3(b)(8)) (Participant Books and Records); Article 12 (Disciplinary Matters and Trial Proceedings); Article 13 (Suspension - Reinstatement); Article 14 (Arbitration); Article 15 (Hearings and Reviews); Article 21 (Clearance and Settlement); and Article 22 (Listed Securities).

## **2. Proposed Rule Changes**

The Exchange recently adopted the rule numbering framework of NYSE National rules, which are organized in 13 Rules.<sup>13</sup> This framework will eventually replace the Exchange's current rule numbering framework.

With this filing, and as described in greater detail below, the Exchange proposes to expand on the Framework Filing by adding new rules relating to trading on the Pillar trading platform (proposed Rules 0, 1, 2, and 7).

Similar to NYSE National, the Exchange proposes the following non-substantive differences throughout the proposed Pillar rules as compared to the NYSE Arca rules:

- to use the term "Exchange" instead of "NYSE Arca Marketplace;"

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(Approval Order).

<sup>13</sup> See Securities Exchange Act Release No. 85297 (March 12, 2019), 84 FR 9854 (March 18, 2019) (SR-NYSECHX-2019-03) (Notice of Filing and Immediate Effectiveness) ("Framework Filing").

- to use the term “Exchange Act,” which is a proposed defined term;
- to use the term “Exchange Book” instead of “NYSE Arca Book;”
- to use the term “will” instead of “shall;” and
- to use the term “Participant” instead of “ETP Holder.”

**Rule 0 – Regulation of the Exchange and Participants**

As described in the Framework Filing, Rule 0 establishes the regulation of the Exchange and Participants. As proposed, Rule 0 would provide that:

The Exchange and FINRA are parties to a Regulatory Services Agreement (“RSA”) pursuant to which FINRA has agreed to perform certain regulatory functions of the Exchange on behalf of the Exchange. Exchange Rules that refer to Exchange staff and Exchange departments should be understood as also referring to FINRA staff and FINRA departments acting on behalf of the Exchange pursuant to the RSA, as applicable. Notwithstanding the fact that the Exchange has entered into an RSA with FINRA to perform certain of the Exchange's functions, the Exchange shall retain ultimate legal responsibility for, and control of, such functions.

This proposed rule is based on NYSE National Rule 0 and NYSE Arca Rule 0 without any substantive differences. Because NYSE Chicago now has an RSA with FINRA, the Exchange proposes Rule 0, which would be a new Exchange rule.

**Rule 1 - Definitions**

As described in the Framework Filing, Rule 1 would set forth definitions applicable to trading on the Exchange’s Pillar trading platform. Proposed Rule 1.1 includes definitions that are based on NYSE National Rule 1.1 definitions and NYSE Arca Rule 1.1 definitions.

Proposed Rule 1.1 would provide that as used in Exchange rules, unless the context requires otherwise, the terms in proposed Rule 1.1 would have the meanings indicated. This rule is based on NYSE National Rule 1.1. The Exchange proposes sub-paragraph numbering for Rule 1.1 that aligns to the alphabetical ordering of the proposed definitions. The Exchange proposes the following definitions:

- Proposed Rule 1.1(a) would define the terms “Authorized Trader” or “AT” to mean a person who may submit orders to the Exchange’s Trading Facilities on behalf of his or her Participant. This proposed rule is based on NYSE National 1.1(a) and NYSE Arca Rule 1.1(e) without any substantive differences.
- Proposed Rule 1.1(b) would define the term “Away Market” to mean any exchange, alternative trading system (“ATS”) or other broker-dealer (1) with which the Exchange maintains an electronic linkage and (2) that provides instantaneous responses to orders routed from the Exchange. The Exchange will designate from time to time those ATS’s or other broker-dealers that qualify as Away Markets. This proposed rule is based on NYSE National Rule 1.1(b) and NYSE Arca Rule 1.1(f) without any substantive differences.
- Proposed Rule 1.1(c) would define the term “BBO” to mean the best bid or offer that is a Protected Quotation on the Exchange and that the term “BB” means the best bid that is a Protected Quotation on the Exchange and the term “BO” means the best offer that is a Protected Quotation on the Exchange. This proposed rule is based on NYSE National Rule 1.1(c) and NYSE Arca Rule 1.1(g) without any substantive differences.
- Proposed Rule 1.1(d) would define the terms “Board” and “Board of Directors” to



mean the Board of Directors of NYSE Chicago, Inc. This proposed rule is based on NYSE National Rule 1.1(d) and NYSE Arca Rule 1.1(h).

- Proposed Rule 1.1(e) would define the term “Core Trading Hours” to mean the hours of 9:30 am Eastern Time through 4:00 pm Eastern Time or such other hours as may be determined by the Exchange from time to time. This proposed rule is based on NYSE National Rule 1.1(e) and NYSE Arca Rule 1.1(j). Proposed Rule 1.1(e) would also provide that all times in the Pillar Platform Rules are Eastern Time, which text is based on NYSE Rule 1.1(d). Because all times would be Eastern Time, the Exchange proposes that Article 1, Rule 3 would not be applicable to trading on Pillar.
- Proposed Rule 1.1(f) would define the terms “Effective National Market System Plan” and “Regular Trading Hours” to have the meanings set forth in Rule 600(b) of Regulation NMS under the Exchange Act. This proposed rule is based on NYSE National Rule 1.1(f) and NYSE Arca Rule 1.1(l).
- Proposed Rule 1.1(g) would define the term “Eligible Security” to mean any equity security (i) traded on the Exchange pursuant to a grant of unlisted trading privileges under Section 12(f) of the Exchange Act and (ii) specified by the Exchange to be traded on the Exchange or other facility, as the case may be. This proposed rule is based on NYSE National Rule 1.1(g) and NYSE Arca Rule 1.1(m).
- Proposed Rule 1.1(h) would define the term “Exchange” to mean NYSE Chicago, Inc. This proposed rule is based on NYSE National Rule 1.1(j).
- Proposed Rule 1.1(i) would define the term “Exchange Act” to mean the

Securities Exchange Act of 1934, as amended. This proposed rule is based on NYSE National Rule 1.1(k) and NYSE Arca Rule 1.1(q).

- Proposed Rule 1.1(j) would define the term “Exchange Book” to mean the Exchange’s electronic file of displayed and non-displayed orders. This proposed rule is based on NYSE National Rule 1.1(l).
- Proposed Rule 1.1(k) would define the term “Exchange Traded Product” to mean a security that meets the definition of “derivative securities product” in Rule 19b-4(e) under the Exchange Act and would define the term “UTP Exchange Traded Product” to mean one of the following Exchange Traded Products that trades on the Exchange pursuant to unlisted trading privileges: Equity Linked Notes, Investment Company Units, Index-Linked Exchangeable Notes, Equity Gold Shares, Equity Index-Linked Securities, Commodity-Linked Securities, Currency-Linked Securities, Fixed-Income Index-Linked Securities, Futures-Linked Securities, Multifactor-Index-Linked Securities, Trust Certificates, Currency and Index Warrants, Portfolio Depository Receipts, Trust Issued Receipts, Commodity-Based Trust Shares, Currency Trust Shares, Commodity Index Trust Shares, Commodity Futures Trust Shares, Partnership Units, Paired Trust Shares, Trust Units, Managed Fund Shares, and Managed Trust Securities.

This proposed rule is based on NYSE National Rule 1.1(m). This enumerated list is designed to establish rules relating to the classes of securities to which the Exchange would extend unlisted trading privileges on Pillar.

- Proposed Rule 1.1(l) would define the term “FINRA” to mean the Financial Industry Regulatory Authority, Inc. This proposed rule is based on NYSE

National Rule 1.1(n).

- Proposed Rule 1.1(m) would define the term “Marketable” to mean, for a Limit Order, an order that can be immediately executed or routed and that Market Orders are always considered marketable. This proposed rule is based on NYSE National Rule 1.1(p) and NYSE Arca Rule 1.1(y).
- Proposed Rule 1.1(n) would define the terms “NBBO, Best Protected Bid, Best Protected Offer, and Protected Best Bid and Offer (PBBO)”. The term “NBBO” would mean the national best bid or offer, as defined in Rule 600(b)(42) of Regulation NMS. The terms “NBB” would mean the national best bid and “NBO” would mean the national best offer. The terms “Best Protected Bid” or “PBB” would mean the highest Protected Bid, and “Best Protected Offer” or “PBO” would mean the lowest Protected Offer, and the term “Protected Best Bid and Offer” (“PBBO”) would mean the Best Protected Bid and the Best Protected Offer, as those terms are defined in Rule 600(b)(57) of Regulation NMS. This proposed rule is based on NYSE National Rule 1.1(t) and NYSE Arca Rule 1.1(dd).

The Exchange proposes to calculate the NBBO and PBBO in the same manner that NYSE Arca calculates the NBBO and PBBO.<sup>14</sup> As described in the NYSE Arca Data Feed Filing, the NBBO may differ from the PBBO because the NBBO includes Manual Quotations, which are defined as any quotation other than an

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<sup>14</sup> See Securities Exchange Act Release No. 74409 (March 2, 2015), 80 FR 12221 (March 6, 2015) (SR-NYSEArca-2015-11) (Notice of filing and immediate effectiveness of proposed rule change specifying NYSE Arca’s use of certain data feeds for handling and execution, order routing, and regulatory compliance) (“NYSE Arca Data Feed Filing”). The Exchange proposes to establish the data feeds that it uses for handling, execution, and routing of orders in proposed Rule 7.37, described below.

automated quotation. By contrast, a protected quotation is an automated quotation that is the best bid or offer of a national securities exchange.<sup>15</sup> Another difference between NBBO and PBBO is that when the Exchange routes interest to a protected quotation, it will adjust the PBBO. Accordingly, for this additional reason, the PBBO may differ from the NBBO, which the Exchange does not adjust based on interest it routes to protected quotations. As described in greater detail below, the Exchange proposed to use both the NBBO and PBBO for purposes of order types that may be priced based on an external reference price.

- Proposed Rule 1.1(o) would define the term “NMS Stock” to mean any security, other than an option, for which transaction reports are collected, processed, and made available pursuant to an effective transaction reporting plan as defined in Rule 600(b)(47) of Regulation NMS. This proposed rule is based on NYSE National Rule 1.1(u).
- Proposed Rule 1.1(p) would define the term “NYSE Chicago Marketplace” to mean the electronic securities communications and trading facility of the Exchange through which orders are processed or are consolidated for execution and/or display. This proposed definition is based on NYSE Arca Rule 1.1(kk) and NYSE American Rule 1.1E(e) without any substantive differences. As described in greater detail below, the Exchange proposes to use this definition to replace references to the term “Matching System” in the current rules that would continue to be applicable after the Exchange transitions to Pillar.
- Proposed Rule 1.1(q) would define the term “Protected Bid” or “Protected Offer”

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<sup>15</sup> See id. at 12222 n.9.

to mean a quotation in an NMS Stock that is (i) displayed by an Automated Trading Center; (ii) disseminated pursuant to an effective national market system plan; and (iii) an Automated Quotation that is the best bid or best offer of a national securities exchange or the best bid or best offer of a national securities association. The term “Protected Quotation” would mean a quotation that is a Protected Bid or Protected Offer. For purposes of the foregoing definitions, the terms “Automated Trading Center,” “Automated Quotation,” “Manual Quotation,” “Best Bid,” and “Best Offer,” would have the meanings ascribed to them in Rule 600(b) of Regulation NMS under the Exchange Act. This proposed rule is based on NYSE National Rule 1.1(aa) without any substantive differences.

- Proposed Rule 1.1(r) would define the term “Security” and “Securities” to mean any security as defined in Rule 3(a)(10) under the Exchange Act, provided, that for purposes of Rule 7, such term would mean any NMS Stock. This proposed rule is based on NYSE National Rule 1.1(bb) and NYSE Arca Rule 1.1(vv).
- Proposed Rule 1.1(s) would define the term “self-regulatory organization” and “SRO” to have the same meaning as set forth in the provisions of the Exchange Act relating to national securities exchanges. This proposed rule is based on NYSE National Rule 1.1(ee) and NYSE Arca Rule 1.1(ww) without any substantive differences.
- Proposed Rule 1.1(t) would define the term “trade-through” to mean the purchase or sale of an NMS Stock during regular trading hours, either as principal or agent, at a price that is lower than a Protected Bid or higher than a Protected Offer. This proposed rule is based on NYSE National Rule 1.1(ff) and NYSE Arca Rule

1.1(bbb) without any substantive differences.

- Proposed Rule 1.1(u) would define the term “Trading Center” to mean, for purposes of Rule 7, a national securities exchange or a national securities association that operates an SRO trading facility, an alternative trading system, an exchange market maker, an OTC market maker or any other broker or dealer that executes orders internally by trading as principal or crossing orders as agent. For purposes of this definition, the terms “SRO trading facility,” “alternative trading system,” “exchange market maker” and “OTC market maker” would have the meanings ascribed to them in Rule 600(b) of Regulation NMS under the Exchange Act. This proposed rule is based on NYSE National Rule 1.1(gg) and NYSE Arca Rule 1.1(ccc) without any substantive differences.
- Proposed Rule 1.1(v) would define the term “Trading Facilities” to mean any and all electronic or automatic trading systems provided by the Exchange to Participants. This proposed rule is based on NYSE National Rule 1.1(hh) without any differences.
- Proposed Rule 1.1(w) would define the term “UTP Security” to mean a security that is listed on a national securities exchange other than the Exchange and that trades on the Exchange pursuant to unlisted trading privileges. This proposed rule is based on NYSE National Rule 1.1(ii) and NYSE Arca Rule 1.1(iii) without any substantive differences.
- Proposed Rule 1.1(x) would define the term “UTP Listing Market” to mean the primary listing market for a UTP Security. This proposed rule is based on NYSE National Rule 1.1(jj) and NYSE Arca Rule 1.1(ggg) without any substantive

differences.

- Proposed Rule 1.1(y) would define the term “UTP Regulatory Halt” to mean a trade suspension, halt, or pause called by the UTP Listing Market in a UTP Security that requires all market centers to halt trading in that security. This proposed rule is based on NYSE National Rule 1.1(kk) and NYSE Arca Rule 1.1(hhh) without any substantive differences.

Because the above-described rules would describe definitions to support the trading rules on Pillar, the Exchange proposes to amend Article 1, Rule 1 to specify which current definitions would not be applicable to trading on the Pillar trading platform. To effect this change, the Exchange proposes to amend the opening paragraph to Article 1, Rule 1 to provide that paragraphs (a), (e), (f), (g), (k), (l), (o), (z), (bb), (cc), (dd), (nn), (pp), (qq), (tt), and (uu) would not be applicable to trading on the Pillar trading platform.

### **Rule 2 - Trading Permits**

The Exchange proposes to retain its existing rules governing membership and registration. Accordingly, at this time, the Exchange does not propose any membership rules for Rule 2 (Trading Permits), with one exception. The Exchange proposes that Rule 2.13 would address mandatory participation in the testing of backup systems. To maintain consistency among the Affiliated Exchanges, the Exchange proposes that Rule 2.13 would be based on NYSE National Rule 2.13 without any substantive differences.

Because proposed Rule 2.13 would govern mandatory participation in the testing of backup systems, the Exchange proposes to amend Article 3, Rule 21 to add a preamble that such rule would not be applicable to trading on the Pillar trading platform.

### **Rule 7 – Equities Trading**

Rule 7 would establish rules for trading on the Exchange. As noted above, the Exchange will launch on the same trading platform as NYSE National's and NYSE Arca's cash equities trading platform, and proposes trading rules based on the rules of those exchanges, including general provisions relating to trading on the Exchange and operation of the routing broker. Rule 7 would therefore specify all aspects of trading on the Exchange, including the orders and modifiers that would be available and how orders would be ranked, displayed, and executed.

Because the Exchange would not be a primary listing exchange, the Exchange does not propose to have either lead or designated market makers assigned to securities trading on the Exchange. The Exchange therefore does not propose rules based on Section 2 to NYSE Arca Rule 7-E or Section 2 to NYSE National Rule 7. In addition, because the Exchange would not operate auctions, the Exchange does not propose a rule based on NYSE Arca Rule 7.35-E (Auctions).

As noted above, the Exchange proposes to define terms in Rule 1.1. In addition, the Exchange would be defining terms relating to equities trading in specified rules in Rule 7. Accordingly, the Exchange proposes to include a preamble after "Rule 7" and before "Section 1. General Provisions" that would provide that in addition to using terms defined in Rule 1.1, Rule 7 would use capitalized terms that refer to certain order types and modifiers that are defined in Rule 7.31 and other capitalized terms relating to trading sessions and the ranking of orders that are defined in Rules 7.34 and 7.36, and additional terms defined under Article 1, Rule 1. This rule text is based on NYSE National Rule 7, with one difference to reference definitions in Article 1, Rule 1.



A. Proposed Rules Based on NYSE Arca and NYSE National

The following sets forth the proposed rules that are based on the rules of NYSE Arca and NYSE National without any substantive differences. Proposed Rules 7.6, 7.8, 7.8A, 7.31(g), and 7.32, which would differ from the NYSE Arca and NYSE National rules, will be discussed in the next section. The Exchange does not propose rules based on NYSE National Rule 7.14 and 7.41, relating to clearing. Current Article 21 (Clearance and Settlement) will continue to be operative on the Pillar trading platform without any differences.

Section 1 of Rule 7 would specify the General Provisions relating to trading on the Pillar trading platform. The Exchange proposes the following rules:

- Proposed Rule 7.5 (Trading Units) would establish the unit of trading in securities on the Exchange, including that a unit of trading is one share, a “round lot” would be 100 shares, unless specified by the primary listing market to be fewer than 100 shares, and that any amount less than a round lot would constitute an “odd lot” and any amount greater than a round lot that is not a multiple of a round lot would constitute a “mixed lot.” The proposed rule is based on NYSE National Rule 7.5 and NYSE Arca Rule 7.5-E without any differences.

Because proposed Rule 7.5 would address the trading units on the Exchange, the Exchange proposes that Article 1, Rule 2(f) would not be applicable to trading on the Pillar trading platform.

- Proposed Rule 7.7 (Transmission of Bids or Offers) would establish that all bids and offers on the Exchange would be anonymous unless otherwise specified by the Participant. The proposed rule is based on NYSE National Rule 7.7 and NYSE Arca Rule 7.7-E without any differences. This proposed rule text is new

and does not replace any current Exchange rule.

- Proposed Rule 7.9 (Execution Price Binding) would establish that, notwithstanding proposed Rules 7.10 and 7.11, the price at which an order is executed is binding notwithstanding that an erroneous report is rendered. In other words, the Exchange would consider all trades at which an order is executed as binding regardless of whether a Participant issues an erroneous report regarding the execution. This proposed rule text is based on NYSE National Rule 7.9 and NYSE Arca Rule 7.9-E.

In addition, the Exchange proposes that current Article 20, Rules 9, 9A, and 11 would continue to be operative once the Exchange transitions to Pillar. Because these rules provide for additional circumstances when a trade may be cancelled, the Exchange proposes a substantive difference from NYSE National Rule 7.9 and NYSE Arca Rule 7.9-E to reference these three rules, in addition to references to proposed Rules 7.10 and 7.11, as exceptions to proposed Rule 7.9 that an execution price would be binding.

Because proposed Rule 7.9 would address the executions are binding, the Exchange proposes that Article 20, Rule 3 would not be applicable to trading on the Pillar trading platform.

- Proposed Rule 7.10 (Clearly Erroneous Executions) would set forth the Exchange's rules on clearly erroneous executions. The proposed rule is based on NYSE National Rule 7.10 without any substantive differences. Because the rules governing clearly erroneous executions have been harmonized among all equities exchanges, this rule is also based on current Article 20, Rule 10, which the

Exchange proposes would not be applicable to trading on Pillar.

Certain provisions of the equities exchanges' harmonized clearly erroneous rules are on a pilot that expires at the close of business on October 19, 2019.<sup>16</sup> As set forth in Interpretation and Policies .01 to current Article 20, Rule 10, paragraphs (c), (e)(2), (f), and (g), as amended on September 10, 2010, and the provisions of paragraphs (i) through (k) shall be in effect during a pilot period that expires at the close of business on October 18, 2019.<sup>17</sup> To conform the Exchange's proposed Rule 7.10 with this convention, the Exchange proposes to provide that if the pilot period is not either extended or approved as permanent, the prior versions of those sections of Article 20, Rule 10 prior to being amended by SR-CHX-2010-13 would be in effect and the provisions of paragraphs (i) through (k) would be null and void.

The Exchange proposes to make a conforming amendment to Article 2, Rule 2 to add a cross-reference to proposed Rule 7.10(e) in each place where current Article 20, Rule 10(d) is referenced.

- Proposed Rule 7.11 (Limit Up – Limit Down Plan and Trading Pauses in Individual Securities Due to Extraordinary Market Volatility) would specify how the Exchange would comply with the Regulation NMS Plan to Address

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<sup>16</sup> See Securities Exchange Act Release No. 85533 (April 5, 2019), 84 FR 14701 (April 11, 2019) (SR-NYSECHX-2019-04) (Notice of filing and immediate effectiveness of proposed rule change to extend current pilot program). See also Securities Exchange Act Release No. 62886 (September 10, 2010), 75 FR 56613 (September 16, 2010) (SR-CHX-2010-137) (Order approved harmonized clearly erroneous execution rules for all registered equity exchanges).

<sup>17</sup> The U.S. equities exchanges are working on an amendment to the harmonized clearly erroneous rules and the Exchange will amend this proposed rule to conform to any approved changes to the market-wide clearly erroneous rules.

Extraordinary Market Volatility (“LULD Plan.”)<sup>18</sup> The proposed rule is based on NYSE National Rule 7.11 with the following differences.<sup>19</sup> First, in proposed Rule 7.11(a)(2), the Exchange proposes to use the lower-case term “participant” to refer to the Exchange’s role in the LULD Plan. The Exchange proposes this difference from NYSE National Rule 7.11(a)(2) because under Exchange rules, the upper-case term “Participant” means a member of the Exchange, and therefore the proposed Rule 7.11(a)(3) reference to “Participant” means Exchange Participants, and not the Exchange.<sup>20</sup> Second, because the Exchange will not have market makers or “Q” Orders, the Exchange proposes to designate proposed Rule 7.11(a)(5)(D) as “Reserved.”

To align proposed Rule 7.11(a)(5)(E) with NYSE National Rule 7.11(a)(5)(E), the Exchange proposes that this Rule would refer to “Limit IOC Cross Orders with regular-way settlement instructions,” and not just “Limit IOC Cross Orders,” as set forth in NYSE National Rule 7.11(a)(5)(E). The Exchange proposes this difference because, as described below, the Exchange will make available non-regular way settlement instructions for Cross Orders and will also offer a QCT Cross Order. Because neither of these order types are subject to the LULD Plan, the Exchange does not propose to restrict executions of such orders because of

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<sup>18</sup> See Securities Exchange Act Release No. 85623 (April 11, 2019), 74 FR 16086 (April 17, 2019) (File No. 4-631) (Order approving eighteenth amendment to LULD Plan to transition from operating on a pilot to a permanent basis).

<sup>19</sup> Because the Exchange will not be a primary listing exchange, the Exchange does not propose rule text based on NYSE Arca Rule 7.11-E.

<sup>20</sup> See supra note 6.

Price Bands.<sup>21</sup>

Because proposed Rule 7.11 would address the LULD Plan, the Exchange proposes that Article 20, Rule 2A would not be applicable to trading on Pillar.

- Proposed Rule 7.12 (Trading Halts Due to Extraordinary Market Volatility) would establish rules on halts in trading due to extraordinary market volatility and related reopening of trading. The proposed rule is based on NYSE National Rule 7.12 and NYSE Arca Rule 7.12-E without any substantive differences.<sup>22</sup>

Because proposed Rule 7.12 would address market-wide circuit breakers, the Exchange proposes that Article 20, Rule 2 would not be applicable to trading on Pillar.<sup>23</sup>

- Proposed Rule 7.16 (Short Sales) would establish requirements relating to short sales, including how orders would be re-priced during a Short Sale Price Test pursuant to Rule 201 of Regulation SHO. The proposed rule is based on NYSE National Rule 7.16 without any substantive differences. Because the Exchange would not be a primary listing exchange, the Exchange does not propose rule text based on NYSE Arca Rule 7.16-E(f)(3) or 7.16-E(f)(4)(A) and (B).

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<sup>21</sup> See Section VI(a)(1) of the LULD Plan (providing that “any transaction that both (i) does not update the last sale price . . . and (ii) is excepted or exempt from Rule 611 under Regulation NMS” is excluded from the limitation that trades should not be executed outside the Price Bands). As discussed below, Cross Orders with non-regular way settlement instructions or that are QCT are excepted from Rule 611 under Regulation NMS. In addition, neither order type will update the last sale price on the Exchange. Accordingly, these transactions are not subject to the LULD Plan and therefore will not be included in proposed Rule 7.11(a)(5)(E).

<sup>22</sup> The U.S. equities exchanges are working on an amendment to the harmonized market-wide circuit breaker rules and the Exchange will amend this proposed rule to conform to any approved changes to the market-wide circuit breaker rules.

<sup>23</sup> To maintain continuity of rule numbering with those of its Affiliated Exchanges, the Exchange proposes to designate Rules 7.14 and 7.15 as “Reserved.”

The Exchange notes that pursuant to proposed Rule 7.16(f)(5)(H), any Cross Order that includes a short sale order and has a cross price at or below the NBBO would be rejected. As proposed, this would include all forms of Cross Orders available on the Exchange, including, as described below, QCT Cross Orders and Cross Orders that include non-regular way settlement instructions.

Because proposed Rule 7.16 would address short sales, the Exchange proposes that Article 1, Rules 2(b)(1)(C)(ii) and 2(b)(3)(D) and (E), Article 20, Rule 8(d)(4), and Article 9, Rule 23 would not be applicable to trading on Pillar.

- Proposed Rule 7.17 (Firm Orders and Quotes) would establish requirements that all orders and quotes must be firm. This proposed rule is based on NYSE National Rule 7.17 and NYSE Arca Rule 7.17-E with one substantive difference not to include reference to Q Orders, which will not be available on the Exchange. Because proposed Rule 7.17 would address firm orders and quotes, the Exchange proposes that Article 20, Rule 3 would not be applicable to trading on Pillar.
- Proposed Rule 7.18 (Halts) would establish rules relating to trading halts of securities traded pursuant to UTP on the Exchange's Pillar platform, including how orders will be processed during a trading halt and halts in Exchange Traded Products. This proposed rule is based on NYSE National Rule 7.18 without any substantive differences.

Because proposed Rule 7.18 would address halts, the Exchange proposes that Article 1, Rule 2(b)(1)(B), Article 20, Rule 1, Interpretations and Policies .02, and Article 22, Rule 6(a)(3) would not be applicable to trading on Pillar.

As noted above, at this time, the Exchange is not proposing to offer rules for market makers on the Exchange and, therefore, proposes to designate Section 2 as “Reserved.” The Exchange further proposes that Article 16 in its entirety would not be applicable to trading on Pillar.

Section 3 of proposed Rule 7 would establish the Exchange’s trading rules. Among other things, these rules would establish the orders and modifiers that would be available on the Exchange (proposed Rule 7.31), describe order display and ranking (proposed Rule 7.36), and describe how the Exchange would ensure that orders would not trade through either the PBBO (for Limit Orders) or NBBO (for Market Orders and Inside Limit Orders) and when orders would route (proposed Rules 7.37 and 7.34).

As noted above, the Exchange will not conduct any auctions, and therefore does not propose a rule based on NYSE Arca Rule 7.35-E. In addition, because the Exchange would not offer a retail liquidity program, the Exchange does not propose a rule based on NYSE Arca Rule 7.44-E and proposed Rules 7.36, 7.37, and 7.38 would not include any references to Rule 7.44.

- Proposed Rule 7.29 (Access) would provide that the Exchange would be available for entry and execution of orders by Participants with authorized access. To obtain authorized access to the Exchange, each Participant would be required to enter into a User Agreement. Proposed Rule 7.29 is based on NYSE National Rule 7.29 and NYSE Arca Rule 7.29-E(a) without any substantive differences. The Exchange does not propose to include rule text based on NYSE Arca Rule 7.29-E(b).
- Proposed Rule 7.30 (Authorized Traders) would provide for requirements relating to Authorized Traders and is based on NYSE National Rule 7.30 and NYSE Arca

Rule 7.30-E without any differences.

Because proposed Rules 7.29 and 7.30 would address access and individuals who may access the Exchange, the Exchange proposes that Article 5, Rule 1 would not be applicable to trading on Pillar.

- Proposed Rule 7.31 (Orders and Modifiers) would specify the orders and modifiers that would be available on the Exchange. The Exchange proposes to offer the same types of orders and modifiers that are available on NYSE National and NYSE Arca, with specified differences. Specifically, proposed Rule 7.31(a) - (f) and (h) - (i) are based on NYSE National Rule 7.31(a) - (f) and (h) - (i) and NYSE Arca Rule 7.31-E(a) - (f) and (h) - (i), subject to specified differences described below. As noted above, proposed Rule 7.31(g), relating to Cross Orders, will be described in greater detail below.

The Exchange does not propose to include text based on NYSE Arca Rule 7.31-E relating to auctions or being a primary listing exchange. Instead, for those applicable sub-paragraphs of proposed Rule 7.31, the Exchange proposes rule text based on NYSE National Rule 7.31, which also does not conduct auctions or operate as a primary listing exchange. Specifically, proposed Rules 7.31(a)(2)(B) (Limit Order Price Protection), 7.31(c) (Auction-Only Orders), 7.31(f)(1) (Primary Only Orders), and 7.31(f)(1)(B) (designating a Primary Only Day/IOC Order in an NYSE, NYSE Arca, or NYSE American-listed security as routable) are based on NYSE National Rules 7.31(a)(2)(B), 7.31(c), 7.31(f)(1), and 7.31(f)(1)(B) and not the NYSE Arca versions of those subparagraphs.

In addition, similar to NYSE National Rule 7.31, proposed Rule 7.31 would not



include text based on NYSE Arca Rule 7.31-E that specifies whether an order is eligible to participate in an auction. Accordingly, the Exchange will not include rule text based on NYSE Arca Rules 7.31-E(b)(2), (d)(2), (d)(3), (e)(2)(A), (g), (h)(1), (h)(2), and (i)(2) that refer to how such orders would function in an auction.

Also similar to NYSE National, the Exchange is not proposing to offer a Discretionary Pegged Order and, therefore, proposes to designate proposed Rule 7.31(h)(3) as “Reserved” and will not include a reference to Discretionary Pegged Orders in proposed Rule 7.34.

Except for these differences, proposed Rules 7.31(a) - (f) and (h) - (i) are based on the same rules of NYSE National and NYSE Arca.

Because proposed Rule 7.31 would address orders and modifiers that would be available when the Exchange transitions to Pillar, the Exchange proposes that the remainder of Article 1, Rule 2 not specifically identified above would not be applicable to trading on Pillar. As noted above and below, specified subparagraphs of Article 1, Rule 2 would not be applicable to trading on Pillar and the Exchange has described how they would be addressed in other Pillar rules. Together, the entirety of Article 1, Rule 2 would not be applicable to trading on Pillar. As a result, with the exception of Cross Orders, described below, the Exchange would no longer make available orders and modifiers that are described in Article 1, Rule 2.

In addition, the Exchange proposes that Article 20, Rule 4 would not be applicable to trading on Pillar because proposed Rule 7.31 would specify the

orders and modifiers available for trading on the Exchange. Finally, as noted below, Article 20, Rule 8 would not be applicable to trading on Pillar, and that includes those provisions of that rule that relate to order behavior that would be described in proposed Rule 7.31 (e.g., Article 20, Rule 8(b)(4), regarding how Reserve Size orders are refreshed, would be addressed in proposed Rule 7.31(d)(2)).

- Proposed Rule 7.33 (Capacity Codes) would establish requirements for capacity code information that Participants must include with every order. The proposed rule is based on NYSE National Rule 7.33 and NYSE Arca Rule 7.33-E without any substantive differences.

Because proposed Rule 7.33 would address capacity codes, the Exchange proposes that Article 11, Rule 3(b)(8) and Article 20, Rule 8 Interpretation and Policies .01 would not be applicable to trading on Pillar.

- Proposed Rule 7.34 (Trading Sessions) would specify trading sessions on the Exchange. The proposed rule is based on NYSE National 7.34 without any substantive differences. Specifically, the Exchange proposes that the Early Trading Session would begin at 7:00 a.m. and conclude at the commencement of the Core Trading Session, the Core Trading Session would begin at 9:30 a.m. and would end at the conclusion of Core Trading Hours, and the Late Trading Session would begin at the conclusion of the Core Trading Session and conclude at 8:00 p.m. Proposed Rule 7.34(c) would specify the orders permitted in each session, and proposed Rule 7.34(d) would specify customer disclosures required for trading in the Early and Late Trading Sessions.

Because proposed Rule 7.34 would address trading sessions, including customer disclosures for trading outside of Core Trading Hours, the Exchange proposes that Article 8, Rule 17, Article 20, Rule 1(b) and Interpretation .03 to Rule 1, and Article 20, Rule 8(c) would not be applicable to trading on Pillar.<sup>24</sup>

- Proposed Rule 7.36 (Order Ranking and Display) would establish requirements for how orders would be ranked and displayed at the Exchange. The proposed rule is based on NYSE National Rule 7.36 and NYSE Arca Rule 7.36-E without any substantive differences.

Because proposed Rule 7.36 would address how orders are ranked and displayed, the Exchange proposes that Article 1, Rule 1(pp) and Article 20, Rule 8(b) would not be applicable to trading on Pillar.

- Proposed Rule 7.37 (Order Execution and Routing) would establish requirements for how orders would execute and route at the Exchange, the data feeds that the Exchange would use, and Exchange requirements under the Order Protection Rule and the prohibition on locking and crossing quotations in NMS Stocks. This proposed rule is based on NYSE National Rule 7.37 and NYSE Arca Rule 7.37-E without any substantive differences.

Because proposed Rule 7.37 would address how orders are executed and ranked, which data feeds the Exchange will use, and Regulation NMS, the Exchange proposes that Article 1, Rule 4 and Article 20, Rules 5, 6, 8(d), and 8(f) would not be applicable to trading on Pillar.

- Proposed Rule 7.38 (Odd and Mixed Lot) would establish requirements relating to

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<sup>24</sup> To maintain continuity of rule numbering with those of its Affiliated Exchanges, the Exchange proposes to designate Rule 7.35 as “Reserved.”

odd lot and mixed lot trading on the Exchange. The proposed rule is based on NYSE National Rule 7.38 and NYSE Arca Rule 7.38-E without any substantive differences.<sup>25</sup>

Because proposed Rule 7.38 would address odd lot orders, the Exchange proposes that Article 20, Rules 5(b) and 8(d)(3) would not be applicable to trading on Pillar.

- Proposed Rule 7.40 (Trade Execution and Reporting) would establish the Exchange’s obligation to report trades to an appropriate consolidated transaction reporting system. The proposed rule is based on NYSE National Rule 7.40 and NYSE Arca Rule 7.40-E without any substantive differences.

Because proposed Rule 7.40 would address reporting trades to a consolidated transaction reporting system, the Exchange proposes that Article 20, Rule 8(g) would not be applicable to trading on Pillar.

Section 4 of proposed Rule 7 would establish the Operation of a Routing Broker.

Specifically, proposed Rule 7.45 (Operation of a Routing Broker) would establish both the outbound and inbound function of the Exchange’s routing broker, the cancellation of orders as the Exchange deems necessary to maintain a fair and orderly market if a technical issue occurs at the Exchange, the routing broker, or a routing destination, and the Exchange’s error account. The proposed rule would also set forth the parameters of the Exchange’s relationship with its affiliated broker-dealer, Archipelago Securities LLC, which would function solely as a routing broker on behalf of both the Exchange and the Affiliated Exchanges. The proposed rule is based

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<sup>25</sup> The Exchange does not propose a rule based on NYSE Arca Rule 7.39-E (concerning adjustment of open orders, which relates to good-til-cancelled orders, which would not be available on the Exchange). Similar to NYSE National, the Exchange will designate Rule 7.39 as “Reserved.”

on NYSE National Rule 7.45 and NYSE Arca Rule 7.45-E without any substantive differences.<sup>26</sup>

Because proposed Rule 7.45 would address both the operation of the routing broker and cancellation of orders, the Exchange proposes that Article 19 in its entirety and Article 20, Rule 12 would not be applicable to trading on Pillar.

*B. Proposed Rules Relating to Cross Orders*

The Exchange proposes to continue to support cross orders. Currently, the Exchange offers the following cross orders: “Benchmark,” “Midpoint Cross,” and “QCT.”<sup>27</sup> In addition, the Exchange offers a “Cross with Size” modifier, which permits a cross order of at least 5,000 shares of the same security with a total value of at least \$100,000 to execute, notwithstanding resting orders in the book at the same price, subject to specified conditions.<sup>28</sup> Currently, cross orders can be entered with Non-Regular Way Settlement instructions<sup>29</sup> and may be submitted in an increment as small as \$0.000001, subject to specified conditions.<sup>30</sup>

With the transition to the Pillar trading platform, the Exchange proposes to streamline the

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<sup>26</sup> The Exchange has an agreement with FINRA pursuant to Rule 17d-2 under the Act. See Securities Exchange Act Release No. 86161 (June 20, 2019), 84 FR 29923 (June 25, 2019) (File No. 4-274) (Approval Order).

<sup>27</sup> See Article 1, Rule 2(b)(2)(A), (D), and (E).

<sup>28</sup> See Article 1, Rule 2(g)(1). To be eligible for Cross with Size, there cannot be any resting orders on the Book with a Working Price better than the cross order and the size of the cross order must be larger than the largest order displayed on the Exchange at that price.

<sup>29</sup> See Article 1, Rule 2(e)(2). Under this Rule, the Exchange currently uses the capitalized term “Non-Regular Way Settlement.” Under the proposed Pillar rules, the Exchange will not capitalize this term.

<sup>30</sup> See Article 20, Rule 4(a)(7)(B). Unless a cross order is a Midpoint Cross, is designated with non-regular way settlement instructions, or is Cross with Size, the Exchange will not currently allow a cross order priced (i) at or above \$1.00, to execute at a price less than \$0.01 better than any order on the same side of the Matching System or (ii) under \$1.00, to execute at a price less than \$0.0001 better than any order on the same side of the Matching System.

cross order offerings on the Exchange and no longer offer Midpoint or Benchmark cross orders. As proposed, cross orders would be based in part on existing cross order functionality on NYSE Arca and NYSE National. As a substantive difference compared to NYSE Arca and NYSE National, the Exchange proposes to continue to offer a QCT cross order and Cross with Size, as well as related functionality to permit cross orders to be entered with non-regular way settlement instructions and with trading increments out six decimals. As described in more detail below, the Exchange proposes to combine existing Pillar functionality relating to cross orders with the Exchange's current cross order offerings.

Under NYSE Arca Rule 7.31-E(g) and NYSE National Rule 7.31(g), a "Cross Order" is defined as two-sided orders with instructions to match the identified buy-side with the identified sell-side at a specified price (the "cross price"). Both exchanges offer one type of Cross Order - a Limit IOC Cross Order - which is a Cross Order that must trade at full at its cross price, will not route, and will cancel at the time of entry if the cross price is not between the BBO<sup>31</sup> or would trade through the PBBO.<sup>32</sup> Accordingly, NYSE Arca and NYSE National will accept and execute a Limit IOC Cross Order that is priced between the BBO, even if there are non-displayed or odd-lot sized buy or sell orders between the BBO. This functionality is not currently available on the Exchange.

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<sup>31</sup> The BBO is defined on NYSE Arca and NYSE National, and as described above, would be defined on the Exchange under proposed Rule 1.1(c) to mean the best bid or offer that is a Protected Quotation on the Exchange. The term "BB" would mean the best bid that is a Protected Quotation on the Exchange and the term "BO" would mean the best offer that is a Protected Quotation on the Exchange. Pursuant to proposed Rule 1.1(r) [sic], the term "Protected Quotation" would mean a Protected Bid or Protected Offer and references definitions under Rule 600(b) of Regulation NMS. Odd-lot sized bids and offers are not Protected Quotations.

<sup>32</sup> The term PBBO is defined on NYSE Arca and NYSE National, and as described above, would be defined on the Exchange under proposed Rule 1.1(o) [sic] to mean the best Protected Bid and the Best Protected Offer, as those terms are defined in Rule 600(b)(57) of Regulation NMS.

Proposed Rule 7.31(g) would set forth the Cross Orders that would be available on the Exchange. Paragraph (g) would set forth the requirements that would be applicable to all Cross Orders. As proposed, a Cross Order would be two-sided orders with instructions to match the identified buy-side with the identified sell-side at a specified price (the “cross price”). This proposed rule text is based on the first sentence of NYSE Arca Rule 7.31-E(g) and NYSE National Rule 7.31(g).

Proposed Rule 7.31(g) would further provide that a Cross Order must trade in full at its cross price, does not route, and may be designated with non-regular way settlement instructions (which are described below). This proposed rule text is based in part on NYSE Arca Rule 7.31-E(g)(1) and NYSE National Rule 7.31(g)(1), which provide that Cross Orders on those exchanges must trade in full at its cross price and will not route. The proposed text to permit a Cross Order to be designated with non-regular way settlement instructions is based on current Article 1, Rule 2(e)(2) without any substantive differences, which provides that the Matching System<sup>33</sup> will only accept cross orders for Non-Regular Way Settlement. The Exchange proposes non-substantive differences to include reference to non-regular way settlement instructions in the description of Cross Orders.

Proposed Rule 7.31(g) would further provide that a Cross Order entered by an Institutional Broker may represent interest of one or more Participants and may be executed as agent or principal. This proposed rule text is based in part on current Article 1, Rule 2(b)(2)(E), which provides that Institutional Brokers may execute a cross order as agent or principal, and Article 1, Rule 2(g)(1), which provides that a cross order with Cross with Size may represent

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<sup>33</sup> The term “Matching System” is defined in Article 1, Rule 1(z) as one of the electronic or automated order routing, execution and reporting systems provided by the Exchange. The Exchange does not propose to use this term when it transitions to Pillar.

interest of one or more Participants of the Exchange. On Pillar, the Exchange proposes that any Cross Order entered by an Institutional Broker may represent interest of one or more Participants on the Exchange.

Proposed Rule 7.31(g)(1) would set forth the proposed “Limit IOC Cross Order,” which is based in part on how the Limit IOC Cross Order functions on NYSE Arca and NYSE National. This would be new functionality on the Exchange. As proposed, a Limit IOC Cross Order would be a Cross Order that would be rejected under the following circumstance: (A) the cross price would trade through the PBBO; (B) the cross price is not between the BBO, unless it meets Cross with Size requirements, in which case the cross price may be equal to the BB (BO); or (C) there is no PBB or PBO or the PBBO is locked or crossed. This proposed rule text differs from the NYSE Arca and NYSE National rules to account for the availability of the Cross with Size modifier, described below. As proposed, the Limit IOC Cross Order would be available to any Participant.

Proposed Rule 7.31(g)(2) would set forth how the QCT Cross Order would function on the Exchange. As proposed, a QCT Cross Order would be a Cross Order that is part of a transaction consisting of two or more component orders that qualifies for a Contingent Order Exemption under proposed Rule 7.37(e)(5).

Proposed Rule 7.37(f)(5), which is based on NYSE Arca Rule 7.37-E(f)(5) and NYSE National Rule 7.37(f)(5), would set forth the requirements for a transaction to qualify as a QCT Cross Order. Proposed Rule 7.37(f)(5)(A) - (F) would set forth identical requirements as are set forth in Article 1, Rule 2(b)(2)(E)(i) - (vi). Specifically, a QCT would be a transaction consisting of two or more component orders, executed as agent or principal, where:

- at least one component order is in an NMS Stock;



- all components are effected with a product or price contingency that either has been agreed to by the respective counterparties or arranged for by a broker-dealer as principal or agent;
- the execution of one component is contingent upon the execution of all other components at or near the same time;
- the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined at the time the contingent order is placed;
- the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or since cancelled; and
- the Exempted NMS Stock Transaction is fully hedged (without regard to any prior existing position) as a result of the other components of the contingent trade.

Proposed Rule 7.31(g)(2)(A) would provide that a QCT Cross Order would be rejected if the cross price is not between the BBO, unless it meets Cross with Size requirements, in which case the cross price can be equal to the BB (BO) (as discussed in greater detail below). This proposed functionality would be new on the Exchange and is based on how Cross Orders function on NYSE Arca and NYSE National. Specifically, as noted above, Cross Orders on those exchanges can execute provided that the cross price is between the BBO. Because Cross Orders on Pillar function in this manner, the Exchange proposes to apply this functionality when it transitions QCT Cross Orders to Pillar.

Proposed Rule 7.31(g)(2)(B) would further provide that QCT Cross Orders would be

available to Institutional Brokers only. This proposed rule text is based on Article 1, Rule 2(b)(2)(E), which provides that a QCT cross order modifier may only be utilized by an Institutional Broker.

Proposed Rule 7.31(g)(3) would describe the proposed Cross with Size requirements. As proposed, a Cross Order with a cross price equal to the BB (BO) will trade at that price if such Cross Order: (A) is at least 5,000 shares of the same security with a total value of at least \$100,000; and (B) is larger than the largest order displayed on the Exchange Book at the BB (BO). This proposed rule text is based in part on Article 1, Rule 2(g)(1) with differences to reflect that on Pillar, Cross Orders would be eligible to execute if the cross price is between the BBO, regardless of the size of the Cross Order. With this difference in functionality, Cross with Size would only be necessary if the proposed cross price is equal to the BB (BO). In such case, if a Cross Order meets the size requirement and is larger than the largest order displayed on the Exchange Book at the BB (BO), the Exchange would accept and execute such Cross Order.

As noted above, consistent with current Rules, the Exchange would accept Cross Orders with non-regular way settlement instructions. NYSE Arca Rule 7.8-E and NYSE National Rule 7.8 provide that on those exchanges, all bids and offers will be considered to be “regular way” settlement instructions. To address that the Exchange would accept non-regular way settlement instructions for Cross Orders, the Exchange proposes Rule 7.8A, which would describe the settlement terms for Cross Orders.

To maintain continuity with the Pillar rules of Affiliated Exchanges, proposed Rule 7.8 would be based on NYSE Arca Rule 7.8-E and NYSE National Rule 7.8 and would provide that except as provided for in proposed Rule 7.8A, bids and offers would be considered to be “regular way” settlement terms.

Proposed Rule 7.8A would specify Cross Order settlement terms. Proposed Rule 7.8A(a) would provide that Cross Orders would be considered to be “regular way” settlement terms unless designated with one of the following “non-regular way” settlement terms: Cash or Next Day. This proposed rule text is based in part on current Article 20, Rule 4(a)(7)(A), which provides that a cross order may be submitted for Non-Regular Way Settlement, and current Article 1, Rule 2(e)(2), which provides that cross orders may be settled with one of three conditions: Cash, Next Day, or Seller’s Option. On Pillar, the Exchange does not propose to offer Seller’s Option non-regular way settlement instructions.

Proposed Rule 7.8A(a) would further provide that a Cross Order designated for “non-regular way” settlement may execute at any price without regard to the PBBO or any orders on the Exchange Book. This proposed rule text is based in part on current Article 1, Rule 2(e)(2), which provides that a cross order marked for Non-Regular Way Settlement may execute at any price, without regard to the NBBO or any other orders in the Matching System.<sup>34</sup> The Exchange proposes non-substantive differences to use Pillar terminology without any substantive differences, including that the Exchange uses the PBBO instead of NBBO.

Proposed Rule 7.8A(a)(1) would provide that “Cash” means a transaction for delivery on the next day of the contract. This proposed rule text is based on the first sentence of current Article 1, Rule 2(e)(2)(A) without any differences. The Exchange does not propose rule text based on the second sentence of Article 1, Rule 2(e)(2)(A), which provides any cross order that is for cash settlement must be received by the Matching System by 2:00 p.m. Central Standard Time or such other time that may be established by the Exchange and communicated to

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<sup>34</sup> See also Article 20, Rule 8(e)(3), which similarly provides that cross orders with Non-Regular Way Settlement shall be automatically executed without regard to either the NBBO or any orders for Regular Way Settlement that might be in the Matching System if they meet the requirements for Article 1, Rule 2(e)(2).

Participants from time to time. On Pillar, the Exchange will accept a Cross Order with Cash instructions after 3:00 p.m. Eastern Time. Pursuant to National Securities Clearing Corporation (“NSCC”) Procedure II (Trade Comparison and Recording Service), Section B(ii), NSCC designates a cut-off time by which a transaction designated as Cash can be settled on those terms, and transactions received after that time will be accepted and reported, but may only be settled directly between the parties.<sup>35</sup> Because such trades would settle, the Exchange proposes not to reject transactions designated as “Cash” that are entered after the NSCC cut-off time.

Proposed Rule 7.8A(a)(2) would provide that “Next Day” means a transaction for delivery on the next business day following the day of the contract. This proposed rule text is based on current Article 1, Rule 2(e)(2)(B) without any differences.

Proposed Rule 7.6 would specify the trading differentials available on the Exchange. The first sentence would provide that, except for Cross Orders, the minimum price variation (“MPV”) for quoting and entry of orders in securities traded on the Exchange would be \$0.01, with the exception of securities that are priced less than \$1.00, for which the MPV for quoting and entry of orders would be \$0.0001. This proposed rule text is based on NYSE Arca Rule 7.6-E and NYSE National Rule 7.6 with one difference to reference the exception for Cross Orders.

Proposed Rule 7.6 would further provide that:

A Cross Order, whether priced less than or at or above \$1.00, may be submitted in an increment as small as \$0.000001 unless the Cross Order has been designated with regular way settlement terms and does not meet Cross with Size, in which case the cross price must also be (i) at least \$0.01 above (below) the BB (BO) if the cross price is at or above \$1.00 or (ii) at least \$0.0001 above (below) the BB

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<sup>35</sup> See NSCC Rules and Procedures, available here: <http://www.dtcc.com/legal/rules-and-procedures>.

(BO) if the cross price is under \$1.00.

This proposed rule text is based on Article 20, Rule 4(a)(7)(B) without any substantive differences. Because the Exchange will not be offering a Midpoint Cross, that order type does not need to be referenced in the Pillar version of this rule. The remaining differences are non-substantive, to use Pillar terminology.

Finally, proposed Rule 7.32 (Order Entry) would establish requirements for order entry size and that orders entered that are greater than five million shares in size would be rejected, provided that the Exchange would accept Cross Orders up to 25 million shares. The proposed rule is based in part on NYSE National Rule 7.32 and NYSE Arca Rule 7.32-E. Similar to NYSE Rule 7.32, the Exchange proposes to accept Cross Orders that are up to 25 million shares in size.

Because proposed Rule 7.32 would address order entry size, the Exchange proposes that Article 20, Rule 4(a)(6) would not be applicable to trading on Pillar.

#### **Proposed Amendments to Current Exchange Rules**

As described above, a number of current Exchange rules will not be applicable to trading on Pillar and the Exchange will include a preamble for those rules (or Articles, if all rules under an Article would not be applicable to trading on Pillar) that will specify that such rule or Article would not be applicable to trading on Pillar.

In the above section, the Exchange identifies specified current Exchange rules, or sections of rules, that would not be applicable to trading on Pillar because they will be superseded by a proposed Pillar rule.

In addition to the above-referenced current rules, the Exchange proposes that the entirety of Article 4 would not be applicable to trading on Pillar. Article 4, Rule 1 currently describes the

Exchange's Book Feed. Once the Exchange transitions to Pillar, it will no longer offer the Book Feed. The Exchange proposes to file a separate proposed rule change to establish the market data products that will be available when the Exchange transitions to Pillar.<sup>36</sup> In addition, because the Exchange does not currently offer the Connect service, and does not plan to offer the Connect service when it transitions to Pillar, the Exchange proposes to delete Article 4, Rule 2 in its entirety.

The following is the full list of current rules that would not be applicable to trading on Pillar and therefore would include the above-described preamble:

- Article 1, Rule 1(a), (e), (f), (g), (k), (l), (o), (z), (bb), (cc), (dd), (nn), (pp), (qq), (tt), and (uu)
- Article 1, Rule 2
- Article 1, Rule 3
- Article 1, Rule 4
- Article 3, Rule 21
- Article 4 (in its entirety)
- Article 5, Rule 1
- Article 8, Rule 17
- Article 9, Rule 23

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<sup>36</sup> NYSE National also filed a stand-alone filing to establish the market data products that would be available on that exchange when it began trading on Pillar. See Securities Exchange Act Release No. 83350 (May 31, 2018), 83 FR 26332 (June 6, 2018) (SR-NYSENat-2018-09) (Notice of filing and immediate effectiveness of proposed rule change). Similar to NYSE National, the Exchange will be separately proposing to establish NYSE Chicago BBO, NYSE Chicago Trades, and NYSE National Integrated Feed Market Data feeds. As with the current Book Feed, the Exchange does not propose to charge fees for market data products when it transitions to Pillar.

- Article 11, Rule 3(b)(8)
- Article 16 (in its entirety)
- Article 19 (in its entirety)
- Article 20, Rules 1-8, 10, 12-13
- Article 22, Rule 6(a)(3)

In addition to rules not applicable to trading on Pillar, the Exchange proposes to amend specified rules that would continue to be applicable to trading once the Exchange transitions to Pillar, but reference systems or definitions that would not be used on Pillar.

As noted above, the Exchange will continue to support Institutional Brokers and the BrokerPlex system when the Exchange transitions to the Pillar trading platform. The Exchange proposes to amend specified rules under Article 17 to add a reference to the term “NYSE Chicago Marketplace” in any rule that references the term “Matching System.” While the term “Matching System” is not explicitly defined in current Exchange rules, it is used throughout Exchange rules to refer to the current system that matches orders.<sup>37</sup> Because the Exchange will be replacing that system when it transitions to Pillar, to reduce confusion about which Exchange systems are referenced in Article 17, the Exchange proposes to add the phrase “NYSE Chicago Marketplace, as applicable” in Article 17, Rule 3(b), 5(a), 5(c)(1), 5(c)(2), 5(e), and 5(e)(1) as an alternative to the term “Matching System.” The Exchange also proposes to add a cross reference to proposed Rule 7.31 in Article 17, Rules 5(c)(1) and 5(e)(1).

The Exchange further proposes to amend Article 17, Rule 5(c)(1) to specify order types and modifiers that would be defined under proposed Rule 7.31 that would not be available via

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<sup>37</sup> See, e.g. Article 20 (Operation of the Matching System). The Exchange also proposes a non-substantive amendment to the second sentence of Article 17 Rule 5(a) to delete the word “Exchange” in front of the term “Matching System.”

BrokerPlex. As proposed, an Institutional Broker would not be able to enter the following order types and modifiers via BrokerPlex: Inside Limit Orders, Auction-Only Orders, MPL Orders, Tracking Orders, ISOs, Primary Only Orders, Primary Until 9:45 Orders, Primary After 3:55 Orders, Pegged Orders, Non-Display Remove Modifier, Proactive if Locked or Crossed Modifier, Self-Trade Prevention Modifier, and Minimum Trade Size Modifier. While these order types would not be available via Brokerplex, an Institutional Broker could enter these orders via any other system that they choose to use to connect with the Exchange, just as any other NYSE Chicago Participant could choose to do.

The Exchange also proposes to amend Article 17, Rule 5(c)(3) to specify current order types that would not be available on Pillar. Current Article 17, Rule 5(c)(3) provides that in addition to the orders described in Rule 5(c)(1) and (2), BrokerPlex also accepts “Quote@Exchange” and “Reprice@Exchange” order types. Because neither of these order types will be accepted once the Exchange transitions to Pillar, the Exchange proposes to amend Article 17, Rule 5(c)(3) to provide that these order types would not be available on the Pillar trading system.

Finally, the Exchange proposes to amend Article 12, Rule 8(h)(2) relating to the Exchange’s Minor Rule Violations Plan (“MRVP”) both (i) to delete a reference to rules that no longer exist and (ii) to add proposed Pillar rules that are subject to an Affiliated Exchange’s minor rule violation plan and that the Exchange similarly believes that should be subject to the Exchange’s MRVP.

- First, the Exchange proposes to amend Article 12, Rule 8(h)(2)(F) to delete the reference to “Failure to Clear the Matching System (Article 20, Rule 7)” as this rule was eliminated in 2011 and the Exchange no longer needs a reference to this



Rule in its Minor Rule Violation Plan.<sup>38</sup>

- Second, the Exchange proposes to amend Article 12, Rule 8(h)(2)(G) to add a reference to Rule 7.6. The current rule provides that Article 20, Rule 4, which addresses the minimum order increments, would be eligible for the MRVP. Because on Pillar, proposed Rule 7.6 would address minimum order increments, the Exchange proposes to add a reference to this rule, which would have the same substantive effect as current Article 12, Rule 8(h)(2)(G) after the Exchange transitions to Pillar.
- Finally, the Exchange proposes to amend Article 12, Rule 8(h)(2) to add two additional rules that the Exchange proposes to be eligible for the Exchange’s MRVP. Proposed Article 12, Rule 8(h)(2)(M) would add a reference to “Short Sales (Rule 7.16)” and proposed Article 12, Rule 8(h)(2)(N) would add a reference to “Failure to comply with Authorized Trader requirements (Rule 7.30).” These proposed rule changes are based on NYSE Arca Rule 10.9217(f)(1) and (4) and NYSE National Rule 10.9217(f)(1)(1) and (3), which both provide that their versions of Rule 7.16 and 7.30 are eligible for those exchanges’ respective minor rule violation plans. Accordingly, the Exchange similarly proposes that these rules should be included on the Exchange’s MRVP.

### **3. Section 11(a) of the Act**

Section 11(a)(1) of the Act<sup>39</sup> (“Section 11(a)(1)”) prohibits a member of a national securities exchange from effecting transactions on that exchange for its own account, the account

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<sup>38</sup> See Securities Exchange Act Release No. 65633 (October 26, 2011), 76 FR 67509 (November 1, 2011) (SR-CHX-2011-29) (Approval Order).

<sup>39</sup> 15 U.S.C. 78k(a)(1).

of an associated person, or an account over which it or its associated person exercises investment discretion (collectively, “covered accounts”) unless an exception to the prohibition applies. Rule 11a2-2(T) under the Act (“Rule 11a2-2(T)”)<sup>40</sup> known as the “effect versus execute” rule, provides exchange members with an exemption from the Section 11(a)(1) prohibition. Rule 11a2-2(T) permits an exchange member, subject to certain conditions, to effect transactions for covered accounts by arranging for an unaffiliated member to execute the transactions on the exchange. To comply with Rule 11a2-2(T)'s conditions, a member: (i) must transmit the order from off the exchange floor; (ii) may not participate in the execution of the transaction once it has been transmitted to the member performing the execution (although the member may participate in clearing and settling the transaction); (iii) may not be affiliated with the executing member; and (iv) with respect to an account over which the member or its associated person has investment discretion, neither the member nor its associated person may retain any compensation in connection with effecting the transaction except as provided in the Rule.

With the proposed re-launch of the Exchange as a fully automated electronic trading model that does not have a trading floor, the Exchange believes that the policy concerns Congress sought to address in Section 11(a)(1) – i.e., the time and place advantage that members on exchange trading floors have over non-members off the floor and the general public – would not be present. Specifically, on the Pillar trading system, buy and sell interest will be matching in a continuous, automated fashion. Liquidity will be derived from quotes as well as orders to buy and orders to sell submitted to the Exchange electronically by Participants from remote locations. The Exchange further believes that Participants entering orders into the Exchange through the Pillar trading system will satisfy the requirements of Rule 11a2-2(T) under the Act,

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<sup>40</sup> 17 CFR 240.11a2-2(T).

which provides an exception to Section 11(a)'s general prohibition on proprietary trading.

The four conditions imposed by the “effect versus execute” rule are designed to put members and non-members of an exchange on the same footing, to the extent practicable, in light of the purpose of Section 11(a). For the reasons set forth below, the Exchange believes the structure and characteristics of its proposed Pillar trading system do not result in disparate treatment of members and non-members and places them on the “same footing” as intended by Rule 11a2-2(T).

1. **Off-Floor Transmission.** Rule 11a2-2(T) requires orders for a covered account transaction to be transmitted from off the exchange floor. The Commission has considered this and other requirements of the rule in the context of automated trading and electronic order handling facilities operated by various national securities exchanges in a 1979 Release<sup>41</sup> as well as more applications of Rule 11a2-2(T) in connection with the approval of the registrations of national securities exchanges.<sup>42</sup> In the context of these automated trading systems, the Commission has found that the off-floor transmission requirement is met if an order for a covered account is transmitted from a remote location directly to an exchange's

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<sup>41</sup> See Securities Exchange Act Release No. 15533 (January 29, 1979) (regarding the Amex Post Execution Reporting System, the Amex Switching System, the Intermarket Trading System, the Multiple Dealer Trading Facility of the Cincinnati Stock Exchange, the PCX's Communications and Execution System (“COM EX”), and the Phlx's Automated Communications and Execution System (“PACE”)) (“1979 Release”).

<sup>42</sup> See Securities Exchange Act Release Nos. 53128 (January 13, 2006) 71 FR 3550 (January 23, 2006) (File No. 10-13 1) (order approving Nasdaq Exchange registration); 58375 (August 18, 2008) 73 FR 49498 (August 21, 2008) (order approving BATS Exchange registration); 61152 (December 10, 2009) 74 FR 66699 (December 16, 2009) (order approving C2 exchange registration); and 78101 (June 17, 2016), 81 FR 41142, 41164 (June 23, 2016) (order approving Investors Exchange LLC registration).

floor by electronic means.<sup>43</sup> Because the Exchange would not have a physical trading floor when it re-launches trading, and like other all electronic exchanges, the Exchange's Pillar trading system would receive orders from Participants electronically through remote terminals or computer-to-computer interfaces, the Exchange therefore believes that its trading system satisfies the off-floor transmission requirement.

2. **Non-Participation in Order Execution.** The "effect versus execute" rule further provides that neither the exchange member nor an associated person of such member participate in the execution of its order. This requirement was originally intended to prevent members from using their own brokers on an exchange floor to influence or guide the execution of their orders.<sup>44</sup> The rule, however, does not preclude members from cancelling or modifying orders, or from modifying instructions for executing orders, after they have been transmitted, provided such cancellations or modifications are transmitted from off an exchange floor.<sup>45</sup> In the 1979 Release discussing both the Pacific Stock Exchange's COM EX system and the Philadelphia Stock Exchange's PACE system,

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<sup>43</sup> See, e.g., Securities Exchange Act Release Nos. 49068 (January 13, 2004), 69 FR 2775 (January 20, 2004) (order approving the Boston Options Exchange as an options trading facility of the Boston Stock Exchange); 44983 (October 25, 2001), 66 FR 55225 (November 1, 2001) (order approving Archipelago Exchange ("ArcaEx") as electronic trading facility of the Pacific Exchange ("PCX")("Arca Ex Order")); 29237 (May 24, 1991), 56 FR 24853 (May 31, 1991) (regarding NYSE's Off-Hours Trading Facility); 15533 (January 29, 1979); and 14563 (March 14, 1978), 43 FR 11542 (March 17, 1978) (regarding the NYSE's Designated Order Turnaround System ("1978 Release")).

<sup>44</sup> Id. 1978 Release, supra note 43.

<sup>45</sup> Id.

the Commission noted that a member relinquishes any ability to influence or guide the execution of its order at the time the order is transmitted into the systems, and although the execution is automatic, the design of such systems ensures that members do not possess any special or unique trading advantages in handling orders after transmission to the systems.<sup>46</sup> The Exchange's Pillar trading system would at no time following the submission of an order allow a Participant or an associated person of such member to acquire control or influence over the result or timing of an order's execution. The execution of a Participant's order would be determined solely by what quotes and orders are present in the system at the time the Participant submits the order and the order priority based on Exchange rules. Therefore, the Exchange believes the non-participation requirement would be met through the submission and execution of orders in the Exchange's Pillar trading system.

3. **Execution Through an Unaffiliated Member.** Although Rule 11a2-2(T) contemplates having an order executed by an exchange member, unaffiliated with the member initiating the order, the Commission has recognized the requirement is satisfied where automated exchange facilities are used as long as the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange. In the 1979 Release, the Commission noted that while there is not an independent

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<sup>46</sup> 1979 Release, supra note 41.

executing exchange member, the execution of an order is automatic once it has been transmitted into the systems. Because the design of these systems ensures that members do not possess any special or unique trading advantages in handling their orders after transmitting them to the exchange, the Commission has stated that executions obtained through these systems satisfy the independent execution requirement of Rule 11a2-2(T). Because the design of the Exchange's Pillar trading system ensures that no Participant has any special or unique trading advantages over nonmembers in the handling of its orders after transmitting its orders to the Exchange, the Exchange believes that its Pillar trading system would satisfy this requirement.

4. **Non-Retention of Compensation for Discretionary Accounts.** Finally, Rule 11a2-2(T) states, in the case of a transaction effected for the account for which the initiating member or its associated person exercises investment discretion, in general, the member or its associated person may not retain compensation for effecting the transaction, unless the person authorized to transact business for the account has expressly provided otherwise by written contract referring to both Section 11(a) of the Exchange Act and Rule 11a2-2(T). The Exchange will advise its membership through the issuance of a Regulatory Bulletin that those Participants trading for covered accounts over which they exercise investment discretion must comply with this condition in order to rely on

the exemption in Rule 11a2-2(T) from the prohibition in Section 11(a) of the Exchange Act.

In conclusion, the Exchange believes that its Pillar trading system would satisfy the four requirements of Rule 11a2-2(T) as well as the general policy objectives of Section 11(a). The Exchange's proposed Pillar trading system would place all users, members and non-members, on the "same footing" with respect to transactions on the Exchange for covered accounts as intended by Rule 11a2-2(T). As such, no Exchange Participant would be able to engage in proprietary trading in a manner inconsistent with Section 11(a).

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act"),<sup>47</sup> As noted above, at this time, the Exchange is not proposing to offer rules for market makers on the Exchange and, therefore, proposes to designate Section 2 as "Reserved." The Exchange further proposes that Article 16 in its entirety would not be applicable to trading on Pillar.

Section 3 of proposed Rule 7 would establish the Exchange's trading rules. Among other things, these rules would establish the orders and modifiers that would be available on the Exchange (proposed in general, and furthers the objectives of Section 6(b)(5),<sup>48</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.

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<sup>47</sup> 15 U.S.C. 78f(b).

<sup>48</sup> 15 U.S.C. 78f(b)(5).

Generally, the Exchange believes that the proposed rules would support the migration of the Exchange to the Pillar trading system as a fully automated cash equities trading market with a price-time priority model that is based both on the rules of its affiliated exchanges, NYSE Arca and NYSE National, and with respect to Cross Orders, the Exchange's current rules. The Exchange is not proposing any new or novel rules. The proposed rule changes relating to trading would therefore remove impediments to and perfect the mechanism of a free and open market and a national market system because they are based on the approved rules of other exchanges.

**Proposed Rules Based on the Rules of the Exchange's Affiliates**

**Regulation of the Exchange (Rule 0) and Definitions (Rule 1)**

The Exchange believes that proposed Rule 0 would 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 because it would specify the role of FINRA, pursuant to a Regulatory Services Agreement, to perform certain regulatory functions of the Exchange on behalf of the Exchange.

The Exchange further believes that proposed Rule 1 would 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 because the proposed definitions are terms that would be used in the additional rules proposed by the Exchange. Proposed Rule 1 would therefore promote transparency in Exchange rules by providing for definitional terms that would be used throughout the rulebook.

**Equities Trading Rules (proposed Rule 7)**

**A. Proposed Rules Based on NYSE Arca and NYSE National**

The Exchange believes that proposed Rule 7 and the rules thereunder that are based on



the rules of NYSE Arca and NYSE National (proposed Rules 7.5, 7.7, 7.9, 7.10, 7.11, 7.12, 7.16, 7.17, 7.18, 7.29, 7.30, 7.31, 7.33, 7.34, 7.36, 7.37, 7.38, 7.40 and 7.45) would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would establish rules relating to trading on the Exchange that would support the re-launch of Exchange trading as a fully automated trading market on Pillar with a price-time priority trading model. The proposed rules are based on the rules of NYSE Arca and NYSE National, as applicable, and include rules governing orders and modifiers, ranking and display, execution and routing, and trading sessions. The Exchange believes that because it would not be a primary listing exchange, it would be consistent with the protection of investors and the public interest not to include rules relating to auctions or lead or designated market makers. Other than substantive differences to the proposed rules relating to the difference that the Exchange would not operate auctions, the proposed rules are not novel, and are based on the rules of NYSE Arca and NYSE National. The Exchange believes that having Pillar rules that are based on the rules of NYSE Arca and NYSE National would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would promote consistency among the Exchange and the Affiliated Exchanges, thereby making Exchange rules easier to navigate for those Exchange Participants that are also members of one or more Affiliated Exchange.

*B. Proposed Rules Relating to Cross Orders*

As noted above, when it transitions to Pillar, the Exchange will continue to support Institutional Brokers on the Exchange consistent with current Article 17, including making BrokerPlex available to Institutional Brokers. To support Institutional Brokers, the Exchange proposes a difference from its Affiliated Exchanges by continuing to support Cross Orders and

related functionality that is currently available on the Exchange, with specified differences.

Specifically, the Exchange believes that proposed Rule 7.31(g), relating to Cross Orders, would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed rule would provide for both Limit IOC Cross Orders, which are based on the rules of NYSE Arca and NYSE National, and QCT Cross Orders, which are currently available on the Exchange. The Exchange believes that the proposed differences in how QCT Cross Orders would function on Pillar as compared to the current Rules would remove impediments to and perfect the mechanism of a free and open market because it would apply Cross Order functionality that has been approved on NYSE Arca and NYSE National, i.e., the ability to execute a Cross Order if the cross price is between the BBO, to existing QCT Cross Order functionality, as described in current Exchange rules. How QCT Cross Orders would otherwise function on Pillar would not differ substantively from how such orders currently function. The Exchange believes that the proposed non-substantive rule differences to use Pillar terminology to describe QCT Cross Orders would remove impediments to and perfect the mechanism of a free and open market and a national market system because using Pillar terminology would promote transparency and consistency in Exchange rules.

The Exchange believes that offering Limit IOC Cross Orders would remove impediments to and perfect the mechanism of a free and open market because the proposed order type is based on the approved rules of NYSE Arca and NYSE National. In addition, the proposed Limit IOC Cross Order would provide Participants that are not Institutional Brokers with an opportunity to send Cross Orders to the Exchange. The Exchange further believes that eliminating Benchmark and Midpoint Cross orders would remove impediments to and perfect the mechanism of a free and open market and a national market system because the Exchange would be streamlining its

offerings and eliminating little-used order types.

How Cross Orders would function on the Exchange would otherwise be based on current Exchange rules, with non-substantive differences to use Pillar terminology, including the availability of non-regular way settlement instructions (proposed Rule 7.8A), entering such orders in an increment as small as \$0.000001 (proposed Rule 7.6), and the availability of Cross with Size (proposed Rule 7.31(g)(3)). The Exchange believes that these proposed rules would remove impediments to and perfect the mechanism of a free and open market because they would provide continuity to Institutional Brokers regarding how Cross Orders would function after the Exchange transitions to Pillar. The Exchange similarly believes that proposed Rule 7.32, and in particular, the ability for Cross Orders to be entered up to 25 million shares in size, would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would promote the entry of larger-sized Cross Orders on the Exchange. This proposed rule change is not novel and is based on NYSE Rule 7.32.

**Proposed Amendments to Current Exchange Rules**

The Exchange believes that the proposed amendments to Article 17 to add references to the NYSE Chicago Marketplace and amendments to Article 17, Rule 5 to specify which order types would not be available via BrokerPlex would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed changes are designed to promote transparency in Exchange rules of how BrokerPlex would function once the Exchange transitions to Pillar.

The Exchange further believes that the proposed amendments to Article 12, Rule 8 relating to which rules are eligible for the MRVP are designed to prevent fraudulent and manipulative acts and practices and promote just and equitable principles of trade because they

add Pillar rules to the Exchange's MRVP that have previously been approved by the Commission to be included in the minor rule violation plans of NYSE Arca and NYSE National, thus promoting consistency among the Affiliated Exchanges of which rules would be eligible for the MRVP. The proposed amendments would also promote transparency by eliminating an obsolete rule from the MRVP and updating a rule cross reference for an existing rule that is eligible for MRVP.

The Exchange further believes that it would remove impediments to and perfect the mechanism of a free and open market and a national market system to specify which current rules would not be applicable to trading on the Pillar trading platform. The Exchange believes that the following legend, which would be added to existing rules, "This Rule is not applicable to trading on the Pillar trading platform," would promote transparency regarding which rules would govern trading on the Exchange on Pillar. The Exchange has proposed to add this legend to rules that would be superseded by proposed rules or rules that would not be applicable because they relate to functions that would not be available when the Exchange transitions to Pillar.

**Section 11(a) of the Act**

For reasons described above, the Exchange believes that the proposal for the Exchange to operate on a fully automated trading market without a Floor is consistent with Section 11(a) of the Act and Rule 11a2-2(T) thereunder.

**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 rule change is designed to provide for trading rules to support the migration to the Pillar trading platform consistent with the Framework Filing. The Exchange operates in a highly

competitive environment in which its unaffiliated exchanges competitors operate multiple affiliated exchanges that operate under common rules. By proposing rules based on the rules of its affiliated exchanges, the Exchange believes that it will be able to compete on a more level playing field with its exchange competitors that similarly trade NMS Stocks on fully automated trading models. In addition, by basing its rules on those of its affiliated exchanges, the Exchange will provide its Participants with consistency across affiliated exchanges, thereby enabling the Exchange to compete with unaffiliated exchange competitors that similarly operate multiple exchanges on the same trading platforms.

In addition, the Exchange does not believe that the proposed rule change will impose any burden on competition on its Participants that is not necessary or appropriate in furtherance of the purposes of the Act because the Exchange proposes to retain rules governing Participant membership and conduct and therefore such Participants would not need to update internal procedures in connection with the migration of the Exchange to the Pillar trading platform. The Exchange further believes that the proposed rule change would promote consistency and transparency on both the Exchange and its affiliated exchanges, thus 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 (<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-NYSECHX-2019-08 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-NYSECHX-2019-08. 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-NYSECHX-2019-08 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>49</sup>

Jill M. Peterson  
Assistant Secretary

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<sup>49</sup> 17 CFR 200.30-3(a)(12).