

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-75398; File No. SR-NYSEMKT-2015-46)

July 8, 2015

Self-Regulatory Organizations; NYSE MKT LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending Rule 995NY by Deleting the Prohibition on ATP Holders from Entering Customer Limit Orders to Buy and Sell the Same Option Series, for the Account or Accounts of the Same or Related Beneficial Owner

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 June 26, 2015, NYSE MKT LLC (the “Exchange” or “NYSE MKT”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 995NY by deleting the prohibition on ATP Holders from entering Customer limit orders to buy and sell the same option series, for the account or accounts of the same or related beneficial owner. The text of the proposed rule change is available on the Exchange’s website at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it

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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.

received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend Rule 995NY – Prohibited Conduct. Specifically, the Exchange is proposing to eliminate subparagraph (b) prohibiting ATP Holders, while acting as agent, from entering Customer limit orders in the same option series, for the account or accounts of the same or related beneficial owner, in such a manner that the Customer or beneficial owner(s) effectively is operating as a market maker by holding itself out as willing to buy and sell such option contract on a regular or continuous basis.

Background

The Exchange adopted Rule 995NY(b) in 2009, when it implemented a new electronic trading platform for NYSE Amex Options (f/k/a American Stock Exchange).<sup>4</sup> Rule 995NY(b) replaced former Rule 934.<sup>5</sup> The Exchange adopted Rule 934 in 2001 to restrict the entry of certain option limit orders.<sup>6</sup> At that time, the Exchange’s business model depended on Specialists and registered options traders (collectively “Market Maker”) for competition and liquidity. Market Makers operated primarily on the trading Floor with limited ability to conduct

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<sup>4</sup> See Securities and Exchange Act Release No. 59472 (February 27, 2009), 74 FR 9843 (March 6, 2009) (SR-NYSEALTR-2008-14) (Approval Order).

<sup>5</sup> See Securities and Exchange Act Release No. 59454 (February 25, 2009), 74 FR 9461 (March 4, 2009) (SR-NYSEAmex-2009-17) (Notice of Filing of Proposal to Delete Certain Rules Governing the Trading of Listed Options).

<sup>6</sup> See Securities and Exchange Act Release No. 43948 (February 7, 2001), 66 FR 10539 (February 15, 2001) (SR-Amex-2001-03) (Notice of Filing).

electronic trading. By contrast, Customers had access to certain benefits such as automatic execution, priority of bids and offers, and firm-quote guarantees, that were not offered to Market Makers. In addition, the Exchange did not distinguish Professional Customers, who are more likely to be able to take advantage of such automated systems, as a separate category of Customer. For these reasons, Rule 934 was designed to prevent Customers from obtaining an unfair advantage by acting in a market maker-like capacity, while having priority over the Specialists and registered traders by virtue of their Customer status.

#### Proposal

The Exchange proposes to delete Rule 995NY(b) as it is no longer necessary. Specifically, the Exchange believes that the advances in electronic trading that have occurred since 2001, combined with the addition of the Professional Customer designation, have eliminated the need to restrict how Customers enter limit orders at the Exchange.

Specifically, since 2009, the Exchange has operated an electronic trading model that affords all market participants, including both Floor and off-Floor Market Makers, access to automated trading systems. With such access, Market Makers have developed sophisticated trading systems that enable them to compete with the type of automated trading systems that were generally available only to non-Market Makers, including Customers, in 2001.

In addition, in 2010, the Exchange added the Professional Customer designation, which is aimed at differentiating those Customers who engage in computerized or “high frequency” trading from the traditional retail investor.<sup>7</sup> Pursuant to Rule 900.2NY(18A), a Professional Customer (i) is not a Broker/Dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).

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<sup>7</sup> See Securities and Exchange Act Release No. 61629 (March 2, 2010), 75 FR 10851 (March 9, 2010) (SR-NYSEAmex-2010-18) (Notice of Filing).

Professional Customers retain the status of Customer, however, they are treated in the same manner as a Broker Dealer for the purposes of certain Exchange rules, including but not limited to Rule 964NY (Display, Priority and Order Allocation - Trading Systems), Rule 971.1NY (Electronic Cross Transactions), Rule 980NY(b) (Electronic Complex Order Trading), and Rule 995NY(b)(Prohibited Conduct - Limit Orders). By being treated as Broker Dealers, Professional Customers are not entitled to preferential treatment generally afforded to Customers under these rules. Professional Customers were the type of Customer that the Exchange was concerned about in 2001 when adopting Rule 934 (now Rule 995NY(b)). Because Professional Customers are not subject to the rules that Rule 934 (now Rule 995NY(b)) was designed to address, the Exchange believes that the concerns that supported adoption of Rule 934 in 2001 are no longer present.

At least five other options exchanges, including BOX Options Exchange LLC (“BOX”), NASDAQ OMX BX Inc. (“BX”), NASDAQ Stock Market LLC (“NOM”), BATS Exchange Inc. (“BATS”) and NYSE Arca Inc. (“NYSE Arca”) do not have rules prohibiting Customers from entering limit orders to buy and sell the same option series for the account or accounts of the same or related beneficial owner. In addition, each of the aforementioned exchanges has adopted similar rules as NYSE Amex Options governing the treatment of orders entered by Professional Customers. The Exchange notes that NOM and BX, like the Exchange, also afford priority to Customer orders.<sup>8</sup> Accordingly, eliminating the restriction on Customers entering limit orders by deleting Rule 995NY(b) would not be novel. Rather, by deleting the rule, Customers that trade on more than one exchange would be subject to similar rules governing their trading activity.

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<sup>8</sup> See BX Rule Chapter VI Section 10(1)(C)(1)(a) and 10(1)(C)(2), and NOM Rule Chapter VI Section 10(1)(C)(2)(i) [sic].

The Exchange also proposes to delete the reference to Rule 995NY(b) found in Rule 900.2NY(18A), as that rule cite would no longer be necessary with the proposed elimination of the rule.

### Implementation

The Exchange proposes to announce the implementation of the proposed rule change via Trader Update, to be published no later than thirty (30) days following the effectiveness of this proposal. The implementation date will be no later than thirty (30) days following publication of the Trader Update.

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act,<sup>9</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>10</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

First, the limitation on how Customers could enter orders was adopted almost fifteen years ago when the Exchange operated a Floor-based open outcry auction model, with limited access to automated trading systems by Market Makers. Since that time, Market Maker systems have developed into highly efficient sophisticated trading platforms able to compete with market professionals and Customers alike. Second, the adoption of the Professional Customer designation has all but eliminated the ability of high-frequency traders to act like Market Makers,

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

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

while at the same time realizing the benefits of Customer priority and preferential order allocation. Market Makers are no longer at a competitive disadvantage to Customers when it comes to automated trading, as was the case when the prohibition was first adopted.<sup>11</sup> As such, the Exchange believes the current prohibition is no longer needed, and could even be seen as counter-productive. Accordingly, the Exchange believes that the proposed rule change would remove impediments to and perfect the mechanism of a free and open market by removing a limitation on how Customers enter limit orders that is no longer necessary in today's market structure.

In addition, the Exchange believes that the removal of the limitation on Customer orders will more freely permit the entry of orders by market participants, including retail investors, resulting in more orders on the Exchange and therefore increase liquidity on the Exchange, which would benefit all market participants. Lastly, removing the prohibition is competitive vis-à-vis other options exchanges that do not have similar prohibitions in place to what the Exchange is proposing to delete with this filing. By promoting competition, the proposal may also lead to tighter, more efficient markets to the benefit of market participants, including public investors, that engage in trading and hedging on the Exchange.

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

The Exchange does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, removing the prohibition on order entry found in Rule 995(b) further promotes competition on the Exchange, which should lead to tighter, more efficient markets to the benefit of market participants including public investors that engage in trading and hedging on the

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<sup>11</sup> Supra n.6.

Exchange, and thereby make the Exchange a desirable market vis-à-vis other options exchanges. In addition, the Exchange believes that the proposed rule change is pro-competitive because it would align the Exchange's rules with the rules of other markets, including BOX, BX, NOM, BATS and NYSE Arca, thereby enabling Customers that trade on more than one exchange to be subject to similar rules governing their trading activity.

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

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>12</sup> and Rule 19b-4(f)(6) thereunder.<sup>13</sup> Because the proposed rule change does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>14</sup> and Rule 19b-4(f)(6) thereunder.<sup>15</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or

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

<sup>13</sup> 17 CFR 240.19b-4(f)(6).

<sup>14</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>15</sup> 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEMKT-2015-46 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-NYSEMKT-2015-46. 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 20549-1090, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing will also be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSEMKT-2015-46 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>16</sup>

Brent J. Fields  
Secretary

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<sup>16</sup> 17 CFR 200.30-3(a)(12).