

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-71718; File No. SR-NYSE-2014-10)

March 13, 2014

Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending its Price List to Specify Pricing Applicable to Executions of Mid-Point Passive Liquidity Orders Against Retail Orders within the Retail Liquidity Program, effective March 1, 2014

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that, on February 28, 2014, New York Stock Exchange LLC (“NYSE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend its Price List to specify pricing applicable to executions of Mid-Point Passive Liquidity (“MPL”) Orders against Retail Orders within the Retail Liquidity Program. The Exchange proposes to implement the fee change effective March 1, 2014. 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 the 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

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<sup>1</sup> 15 U.S.C.78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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 its Price List to specify pricing applicable to executions of MPL Orders against Retail Orders within the Retail Liquidity Program. The Exchange proposes to implement the fee change effective March 1, 2014.

The Exchange recently introduced a new order type called an MPL Order, which is an undisplayed limit order that automatically executes at the mid-point of the protected best bid or offer (“PBBO”).<sup>3</sup> The Exchange also amended NYSE Rule 107C to specify that MPL Orders could interact with incoming, contra-side Retail Orders submitted by a Retail Member Organization (“RMO”) in the Retail Liquidity Program.<sup>4</sup>

The Exchange proposes that the pricing for a Retail Order that executes against an MPL Order would be the same as the current pricing for a Retail Order that executes against a Retail Price Improvement Order (“RPI”) submitted by a Retail Liquidity Provider (“RLP”) or non-RLP.<sup>5</sup> Specifically, the Retail Order would receive a credit of \$0.0005 per share. The Exchange

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<sup>3</sup> See Securities Exchange Act Release No. 71330 (January 16, 2014), 79 FR 3895 (January 23, 2014) (SR-NYSE-2013-71). See also NYSE Rule 13.

<sup>4</sup> See NYSE Rule 107C. Retail Order is defined in Rule 107C(a)(3) as an agency order or a riskless principal order that meets the criteria of Financial Industry Regulatory Authority, Inc. (“FINRA”) Rule 5320.03 that originates from a natural person and is submitted to the Exchange by an RMO, provided that no change is made to the terms of the order with respect to price or side of market and the order does not originate from a trading algorithm or any other computerized methodology. RMO is defined in Rule 107C(a)(2) as a member organization (or a division thereof) that has been approved by the Exchange to submit Retail Orders.

<sup>5</sup> RPI is defined in Rule 107C(a)(4) and consists of non-displayed interest in NYSE-listed

also proposes that the contra-side MPL Order would be billed according to the standard pricing that would otherwise apply to the MPL Order (e.g., a credit of \$0.0015 per share, not the pricing under the Retail Liquidity Program section of the Price List).

The proposed change is not otherwise intended to address any other issues, and the Exchange is not aware of any problems that member organizations would have in complying with the proposed change.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>6</sup> in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,<sup>7</sup> in particular, because it provides for the equitable allocation of reasonable dues, fees, and other charges among its members, issuers and other persons using its facilities and does not unfairly discriminate between customers, issuers, brokers or dealers.

The Exchange believes that a \$0.0005 per share credit for a Retail Order that executes against an MPL Order is reasonable because it is the same rate that currently applies to a Retail Order that executes against an RPI. In this regard, both MPL Orders and RPIs offer the potential for price improvement for a Retail Order. This is further reasonable because it would create an added financial incentive for RMOs to bring additional retail order flow to a public market, which could result in additional price improvement for retail investors.

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securities that is priced better than the best protected bid (“PBB”) or best protected offer (“PBO”), as such terms are defined in Regulation NMS Rule 600(b)(57), by at least \$0.001 and that is identified as such. RLP is defined in Rule 107C(a)(1) as a member organization that is approved by the Exchange to act as such and that is required to submit RPIs in accordance with Rule 107C.

<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(4) and (5).

The Exchange also believes that it is reasonable for an MPL Order that executes against a Retail Order to be billed according to standard pricing that would otherwise apply to the MPL Order (e.g., a credit of \$0.0015 per share, not the pricing under the Retail Liquidity Program section of the Price List). Specifically, an MPL Order would be eligible to execute against Retail Orders, but without being so designated by the submitting member or member organization. Accordingly, the standard MPL Order rate (e.g., \$0.0015) would otherwise apply to the MPL Order absent its interaction with the Retail Order.

The pricing proposed herein is equitable and, like the Retail Liquidity Program itself, is not designed to permit unfair discrimination, but instead to promote a competitive process around retail executions such that retail investors would receive better prices than they currently do through bilateral internalization arrangements.

The proposed pricing could result in an RPI receiving a rate (i.e., no charge or a fee of \$0.0003 per share) that is inferior to the rate received by an MPL Order (e.g., a credit of \$0.0015 per share), even when both execute against a Retail Order. The Exchange believes that this is equitable and not unfairly discriminatory because RPIs would only execute against Retail Orders, whereas MPL Orders could execute against Retail Orders or other marketable interest on the Exchange, including non-retail liquidity.<sup>8</sup> In this regard, and as previously recognized by the Securities and Exchange Commission (“Commission”), “markets generally distinguish between individual retail investors, whose orders are considered desirable by liquidity providers because such retail investors are presumed on average to be less informed about short-term price movements, and professional traders, whose orders are presumed on average to be more

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<sup>8</sup> This is also similar to the manner in which the NASDAQ Stock Market, LLC (“NASDAQ”) applies pricing for its “Retail Price Improvement Program.” See NASDAQ Rule 7018(g).

informed.”<sup>9</sup> The Exchange has sought to balance this view in setting the pricing of RPIs compared to MPL Orders, recognizing that the ability to limit interaction only to Retail Orders could be a potential benefit applicable only to RPIs. This is also equitable and not unfairly discriminatory because the use of RPIs by RLPs and non-RLPs is voluntary. Members and member organizations that perceive that the potential advantages of interacting with Retail Orders outweigh the potential costs (i.e., providing price improvement and potential inferior pricing as compared to MPL Orders) may choose to utilize RPIs, but those that do not are free to forgo their use.

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

For these reasons, the Exchange believes that the proposal is consistent with the Act.

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

In accordance with Section 6(b)(8) of the Act,<sup>10</sup> the Exchange believes that the proposed rule change would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Instead, the Exchange believes that the proposed change would increase competition among execution venues, encourage additional liquidity, and offer

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<sup>9</sup> See Securities Exchange Act Release No. 67347 (July 3, 2012), 77 FR 40673, 40679-80 (July 10, 2012) (SR-NYSE-2011-55; SR-NYSEAmex-2011-84). See also Concept Release on Equity Market Structure, Securities Exchange Act Release No. 61358 (January 14, 2010), 75 FR 3594 (January 21, 2010) (“Concept Release”) (noting that dark pools and internalizing broker-dealers executed approximately 25.4% of share volume in September 2009). See also Mary L. Schapiro, Strengthening Our Equity Market Structure (Speech at the Economic Club of New York, Sept. 7, 2010) (available on the Commission’s website). In her speech, Chairman Schapiro noted that nearly 30 percent of volume in U.S.-listed equities was executed in venues that do not display their liquidity or make it generally available to the public and the percentage was increasing nearly every month.

<sup>10</sup> 15 U.S.C. 78f(b)(8).

the potential for price improvement to retail investors. In this regard, the Exchange believes that the transparency and competitiveness of operating a program such as the Retail Liquidity Program on an exchange market, and the pricing related thereto, would encourage competition and result in better prices for retail investors.

Finally, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive or rebate opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees and rebates to remain competitive with other exchanges and with alternative trading systems that have been exempted from compliance with the statutory standards applicable to exchanges. Because competitors are free to modify their own fees and credits in response, and because market participants may readily adjust their order routing practices, the Exchange believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited. As a result of all of these considerations, the Exchange does not believe that the proposed changes will impair the ability of member organizations or competing order execution venues to maintain their competitive standing in the financial markets.

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 foregoing rule change is effective upon filing pursuant to Section 19(b)(3)(A)<sup>11</sup> of

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<sup>11</sup> 15 U.S.C. 78s(b)(3)(A).

the Act and subparagraph (f)(2) of Rule 19b-4<sup>12</sup> thereunder, because it establishes a due, fee, or other charge imposed by the Exchange.

At any time within 60 days of the filing of such proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)<sup>13</sup> of the Act to determine whether the proposed rule change should be approved or disapproved.

#### IV. Solicitation of Comments

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

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSE-2014-10 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-NYSE-2014-10. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your

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<sup>12</sup> 17 CFR 240.19b-4(f)(2).

<sup>13</sup> 15 U.S.C. 78s(b)(2)(B).

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

to File Number SR-NYSE-2014-10 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>14</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>14</sup> 17 CFR 200.30-3(a)(12).