SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-85158; File No. SR-NYSE-2018-52)

February 15, 2019

Self-Regulatory Organizations; New York Stock Exchange LLC; Order Granting Approval of a Proposed Rule Change to Amend NYSE Rule 7.31 Relating to Discretionary Orders, Auction-Only Orders, Discretionary Modifier, and Yielding Modifier and Related Amendments to Rules 7.16, 7.34, 7.36, and 7.37

I. Introduction

On November 29, 2018, New York Stock Exchange LLC (“NYSE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to amend NYSE Rule 7.31 (Orders and Modifiers) to: (i) add a new order type, Discretionary Orders; (ii) add two new order type modifiers, the Last Sale Peg Modifier and the Yielding Modifier; and (iii) make related changes to NYSE Rules 7.16, 7.34, 7.36, and 7.37 for trading on Pillar.³ The proposed rule change was published for comment in the Federal Register on December 18, 2018.⁴ The Commission has received no comments on the proposal. This order approves the proposed rule change.

II. Description of the Proposed Rule Change

The Exchange proposes to amend NYSE Rule 7.31 (Orders and Modifiers) to: (i) add a new order type, Discretionary Orders; (ii) add two new order type modifiers, the Last Sale Peg Modifier and the Yielding Modifier; and (iii) make related changes to NYSE Rules 7.16, 7.34, 7.36, and 7.37.

Discretionary Order Overview

Proposed NYSE Rule 7.31(d)(4) sets forth the general requirements for a new order type, a Discretionary Order or “D Order,” for securities trading on Pillar. Specifically, a D Order would be a Limit Order that: (1) may trade at an undisplayed discretionary price; (2) must be designated as “Day;” (3) may be designated as routable or non-routable; (4) must have a minimum of one round lot displayed on entry; and (5) is only available to Floor Brokers during the Core Trading Session.\(^5\) D Orders, like d-Quotes, may be combined with a Reserve Order.\(^6\) However, unlike d-Quotes, D Orders would be required to have a display quantity.

Upon Arrival

Proposed NYSE Rule 7.34(c)(1)(A) specifies that a D Order must be designated as either a: (i) Limit Price D Order or (ii) Midpoint Price D Order. Proposed NYSE Rule 7.31(d)(4)(A)(i) specifies that an arriving Limit Price D Order to buy (sell) would trade with sell (buy) orders on the Exchange Book, or, if designated as routable, route to an Away Market up (down) to the limit price of the order. If after trading or routing the PBBO is locked or crossed or there is no PBB (PBO), a Limit Price D Order would be canceled. For a Limit Price D Order that is partially

\(^5\) The Core Trading Session begins at 9:30 a.m. Eastern Time and ends at the conclusion of Core Trading Hours. See NYSE Rule 7.34(a)(2). The term “Core Trading Hours” means “the hours of 9:30 a.m. Easter Time through 4:00 p.m. Eastern Time or such other hours as may be determined by the Exchange from time to time.” See NYSE Rule 1.1(d).

\(^6\) See proposed NYSE Rule 7.31(d)(1)(C).
routed to an Away Market on arrival, any returned quantity of such D Order would join the working price of the resting odd-lot quantity of the D Order.

Proposed NYSE Rule 7.31(d)(4)(A)(ii) sets forth that an arriving Midpoint Price D Order to buy (sell) would trade with sell (buy) orders on the Exchange Book up (down) to the lower (higher) of the midpoint of the PBBO (“Midpoint Price”) or the order’s limit price. The proposed rule also provides that a Midpoint Price D Order would not route on arrival, even if designated as routable. If designated as routable, a Midpoint Price D Order combined with a Reserve Order would be evaluated for routing each time the display quantity is replenished as provided for in NYSE Rule 7.31(d)(1)(D). The proposed rule further provides that if the PBBO is locked or crossed or if the Midpoint Price is unavailable, the Midpoint Price D Order would be rejected.

**Working and Display Price**

Proposed NYSE Rule 7.31(d)(4)(B) provides that the working and display price for a D Order to buy (sell) would be pegged to the PBB (PBO). If the PBB (PBO) is higher (lower) than the limit price of a D Order to buy (sell), the working and display price would be the limit price of the order. The proposed rule also provides that a D Order to buy (sell) would be canceled if there is no PBB (PBO) against which to peg. As proposed, the rule further provides that, at its display price, a D Order would be ranked Priority 2 - Display Orders.9

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7 NYSE Rule 7.31(d)(1)(D) provides that a routable Reserve Order will be evaluated for routing both on arrival and each time the display quantity is replenished.
8 “Working price” means the price at which an order is eligible to trade at any given time, which may be different from the limit price or display price of the order. See NYSE Rule 7.36(a)(3). “Display price” means the price at which a Limit Order is displayed, which may be different from the limit price or working price of the order. See NYSE Rule 7.36(a)(1).
9 NYSE Rule 7.36(e) governs execution priority for orders resting on the Exchange Book and currently sets forth three priority categories: Priority 1 - Market Orders, Priority 2 - Display Orders, and Priority 3 - Non-Display Orders. If a D Order is combined with a
Discretion

Proposed NYSE Rule 7.31(d)(4)(C) provides that a resting D Order to buy (sell) would be eligible to exercise discretion up (down) to the limit price of the order. This proposed rule further provides that the display price of a D Order would: (i) be pegged to the same-side PBBO; (ii) not be based on the limit price; and (iii) not exercise discretion if the PBBO is locked or crossed or if there is no Midpoint Price.

Proposed NYSE Rule 7.31(d)(4)(C)(i) provides that a D Order to buy (sell) would be triggered to exercise discretion if the price of an Aggressing Order to sell (buy) is above (below) the PBB (PBO) and at or below (above) the Midpoint Price (the “discretionary price range”).\(^\text{10}\)

Proposed NYSE Rule 7.31(d)(4)(C)(ii) provides that the discretionary price at which a D Order to buy (sell) would trade would be the price of the sell (buy) order. In addition, proposed NYSE Rule 7.36(a)(7) defines the term “discretionary price” as the undisplayed price at which a D Order would trade if it exercises discretion.

Proposed NYSE Rule 7.31(d)(4)(C)(ii) provides that if other interest to buy (sell) priced equal to or higher (lower) than the price of the sell (buy) order is present on the Exchange Book, the discretionary price would be one MPV higher (lower) than the highest (lowest) priced resting order to buy (sell), capped by the Midpoint Price.\(^\text{11}\)

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10 An Aggressing Order is a buy (sell) order that is or becomes marketable against sell (buy) interest on the Exchange Book. See Rule 7.36(a)(6). A resting order may become an Aggressing Order if its working price changes, if the PBBO or NBBO is updated, because of changes to other orders on the Exchange Book, or when processing inbound messages. Id.

11 The MPV for securities is defined in NYSE Rule 7.6.
Ranking and Working Time

Proposed NYSE Rule 7.31(d)(4)(D)(i) provides that a D Order would be assigned a new temporary working time that is later than any same-side resting interest at its discretionary price. Proposed NYSE Rule 7.31(d)(4)(D)(ii) provides that multiple D Orders, when eligible to trade at the same discretionary price, would be ranked by limit price and time. Finally, proposed NYSE Rule 7.31(d)(4)(D)(iii) provides that the unexecuted portion of a D Order at its discretionary price would be given the working time associated with its working and display price.

Resting D Order that Becomes Marketable

Proposed NYSE Rule 7.31(d)(4)(E) provides that after the PBBO unlocks or uncrosses or a Midpoint Price becomes accessible, resting D Orders to buy (sell) would be ranked based on the lower (higher) of the Midpoint Price or limit price of the order to determine whether a D Order is marketable within its discretionary price range with contra-side orders on the Exchange Book.

D Orders Rejected and Modifiers

Proposed NYSE Rule 7.31(d)(4)(F) provides that a D Order may be designated with a Self Trade Prevention Modifier ("STP") and would be rejected if combined with any other modifiers or if the same-side PBBO is zero.

Proposed NYSE Rule 7.31(i)(2)(C) provides that a resting D Order with an STP Modifier that is triggered to exercise discretion, and is not an Aggressing Order, will not trade at a discretionary price against a contra-side order that is also designated with an STP Modifier and from the same Client ID, and that, in such case, the D Order would not be canceled.
Last 10 Seconds of Trading

Proposed NYSE Rule 7.31(d)(4)(G) provides that a request to enter a D Order in any security 10 seconds or less before the scheduled close of trading would be rejected.

Allocation of D Orders

Proposed NYSE Rule 7.37(b) sets forth the allocation process for D Orders. Pursuant to NYSE Rule 7.37(b)(1) the allocation sequence would be as follows: (1) Market Orders trade first based on time; (2) orders with Setter Priority as described in NYSE Rule 7.36(h) receive an allocation; (3) orders ranked Priority 2 - Displayed Orders are allocated on parity by Participant; (4) orders ranked Priority 3 - Non-Display Orders, other than Mid-Point Liquidity (“MPL”) Orders\(^{12}\) with an MTS Modifier, are allocated on parity by Participant;\(^ {13}\) and then (5) MPL Orders with an MTS Modifier are allocated based on MTS size (smallest to largest) and time. After these order types have been allocated, D Orders trading at a discretionary price would be allocated next on parity by a Floor Broker Participant pursuant to proposed NYSE Rule 7.37(b)(1)(F).\(^ {14}\) Specifically, at their discretionary price, D Orders would be allocated after all other orders at that price, except for Yielding Orders, which are described below.

NYSE Rule 7.37(b)(2) describes the process for the parity allocation wheel. Currently, the Exchange creates separate allocation wheels for orders ranked Priority 2 - Displayed Orders and orders ranked Priority 3 - Non-Display Orders. The Exchange proposes to create a third allocation wheel if there is more than one D Order eligible to trade at a discretionary price. In

\(^{12}\) See NYSE Rule 7.31(d)(3) for a description of MPL Orders.

\(^{13}\) An order with an MTS Modifier would only trade with contra-side orders that, either individually or in the aggregate, satisfy the order’s minimum trade size condition. See NYSE Rule 7.31(i)(3) for a full description of the MTS Modifier.

\(^{14}\) See NYSE Rule 7.36(a)(5) for the definition of the term “Floor Broker Participant.”
that case, the Exchange would create an allocation wheel for D Orders at that discretionary price.\textsuperscript{15}

The Exchange proposes to amend NYSE Rule 7.37(b)(2)(A) to provide that for each D Order parity allocation wheel, a D Order to buy (sell) with the highest (lowest) limit price would establish the first position on that allocation wheel.

\textbf{Re-pricing of D Orders during a Short Sale Period}

The Exchange proposes to amend NYSE Rule 7.16(f)(5)(C) to specify that, during a Short Sale Period,\textsuperscript{16} the Exchange proposes to process sell short D Orders as Pegged Orders and MPL Orders are processed under the current rules. Thus, under proposed NYSE Rule 7.16(f)(5)(C), D Orders—including orders marked buy, sell long, and sell short exempt—would use the National Best Bid and Offer (“NBBO”) instead of the PBBO as the reference price. The proposed rule also provides that the Midpoint Price of D Orders would be the midpoint price of the NBBO, including situations in which the midpoint is less than one minimum price increment above the National Best Bid (“NBB”).

\textsuperscript{15} See proposed NYSE Rule 7.37(b)(2).

\textsuperscript{16} A “Short Sale Period” is defined in NYSE Rule 7.16(f)(4) to mean the period when a Short Sale Price Test is in effect. A “Short Sale Price Test” is defined in NYSE Rule 7.16(f)(3) to mean the period during which Exchange systems will not execute or display a short sale order with respect to a covered security at a price that is less than or equal to the current NBB in compliance with Rule 201 of Regulation SHO (“Rule 201”). 17 CFR 242.201. The Commission notes that the re-pricing of D Orders during a Short Sale Period would need to be compliant with the requirements of Rule 201.
**Last Sale Peg Modifier**

Proposed Rule 7.31(i)(4) would add a new order type modifier, Last Sale Peg, that would be similar to the current Buy Minus Zero Plus ("BMZP")\(^{17}\) instruction for trading in Exchange-listed securities, with specified differences to reflect Pillar functionality and terminology.

Pursuant to proposed Rule 7.31(i)(4), a Non-Routable Limit Order to buy may be designated with a Last Sale Peg modifier and would be referred to as a “Last Sale Peg Order.” Proposed Rule 7.31(i)(4) also provides that a Last Sale Peg Order would not trade or be displayed at a price higher than the later of the most recent last-sale eligible trade executed on the Exchange or the most recent consolidated last-sale eligible trade, which would be defined, for purposes of this rule, as the “last-sale price.”\(^{18}\)

Proposed NYSE Rule 7.31(i)(4)(A) provides that the working price of a Last Sale Peg Order would be pegged to the lower of the last-sale price, the limit price of the order, or the PBO. Proposed NYSE Rule 7.31(i)(4)(A) also provides that the working price of a resting Last Sale Peg Order would not be adjusted until an Aggressing Order is fully processed. In other words, if an Aggressing Order trades at multiple prices, the Exchange would wait for the last price at which that order trades to determine the last-sale price for purposes of re-pricing the working price of a resting Last Sale Peg Order. The proposed rule further provides that if the last-sale price is not at a permissible MPV, the working price of the order would be rounded down to the nearest MPV.

\(^{17}\) See NYSE Rule 13(f)(4).

\(^{18}\) A consolidated last-sale eligible trade is the last-sale eligible trade reported to the responsible single plan processor. See Notice, supra note 4, 83 FR at 64917, n.50. A last-sale eligible trade must be of at least one round lot. See id. at 64917, n.49.
Pursuant to proposed NYSE Rule 7.31(i)(4)(B), the display price of a Last Sale Peg Order would be the same as the working price, unless the working price is pegged to the PBO, in which case, the display price would be determined pursuant to NYSE Rule 7.31(e)(1).

Proposed NYSE Rule 7.31(i)(4)(C) provides that a Last Sale Peg Order may be designated with an STP Modifier and would be rejected if combined with any other modifiers or if there is no last-sale price.

NYSE Rule 7.34(c)(1)(A) is being amended to add Last Sale Peg Orders to the description of orders that may be accepted, but not eligible to trade, during the Early Trading Session.

Yielding Modifier

Proposed NYSE Rule 7.31(i)(5) sets forth the requirements for the Yielding Modifier and provides that a Limit Order, Non-Routable Limit Order, or Reserve Order may be designated with a Yielding Modifier, which, for purposes of this proposed rule, would be referred to as “Yielding Order.” A Yielding Order would yield priority to all other displayed and non-displayed orders at the same price, and, similar to g-Quotes, may only be entered by Floor brokers and would be ranked Priority 4 - Yielding Orders. Proposed NYSE Rule 7.36(e)(4)

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19 See Rule 70(a)(ii) and (iii). The Exchange states that g-Quotes are designed to assist Floor Brokers with compliance with Section 11(a)(1) of the Act. See Notice, supra note 4, 83 FR at 64918. Section 11(a)(1) of the Act generally prohibits a member of a national securities exchange from effecting transactions on that exchange for its own account, the account of an associated person, or any account over which it or an associated person exercises discretion. Subsection (G) of Section 11(a)(1) provides an exemption from this prohibition, allowing an exchange member to have its own floor broker execute a proprietary order, also known as a “G order,” provided such order yields priority, parity, and precedence (the “G Rule”). Under the G Rule, G orders are not required to yield to other orders that are for the account of a member, e.g., Designated Market Maker (“DMM”) interest or other g-Quotes. See id. at 64918, n.54.
would add this additional priority category and provide that Priority 4 - Yielding Orders have fourth priority.

Proposed NYSE Rule 7.31(i)(5)(A) provides that an Aggressing Yielding Order to buy (sell) with a limit price higher (lower) than the limit price of a resting order to buy (sell) would trade ahead of the resting order.

Proposed NYSE Rule 7.31(i)(5)(B) provides that an Aggressing Yielding Order to buy (sell) with a limit price equal to the limit price of a resting order to buy (sell) would either: (i) trigger the resting order to become an Aggressing Order, unless the order to sell (buy) is an MPL-ALO Order or an MPL Order with an MTS Modifier,20 in which case neither the Yielding Order nor the same-side resting order would trade; or (ii) trade ahead of the resting order if the resting order is not eligible to trade (e.g., an ALO Order or an order with an MTS Modifier).

Similar to the proposed Last Sale Peg Order, proposed NYSE Rule 7.31(i)(5)(C) provides that a Yielding Order may be designated with an STP Modifier and would be rejected if combined with any other modifiers.

NYSE Rule 7.37(b) would also be amended to describe how orders with a Yielding Modifier would participate in the allocation process. The Exchange proposes that after the allocation of all other displayed and non-displayed orders, D Orders would be allocated on parity. Proposed NYSE Rule 7.37(b)(1)(G) provides that after D Orders have been allocated, the display quantity of orders ranked Priority 4 - Yielding Orders would be allocated based on time. Proposed NYSE Rule 7.37(b)(1)(H) would provide that, next, the non-display quantity of orders ranked Priority 4 - Yielding Orders would be allocated based on time.

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20 See Rule 7.31(e)(2) for a description of the ALO Order. An MPL Order may be designated with the ALO modifier. See Rule 7.31(d)(3)(E).
The Exchange asserts that by extending the availability of order types that are currently available for Exchange-listed securities to trading on Pillar, the Exchange would provide its members with consistency across trading of all securities on the Exchange, thus promoting just and equitable principals of trade and promoting a fair and open market. Specifically, the Exchange states that the proposed D Order is based in part on current d-Quote functionality, which is available only to Floor brokers, and is designed to replicate electronically the Floor broker’s agency role to exercise price discretion on behalf of its customer.\(^{21}\) The Exchange asserts that differences between g-Quotes and the proposed D Orders are aimed at simplifying and streamlining D Order functionality, while allowing such orders to contribute to the display of liquidity at the Exchange and offering price improvement opportunities to contra-side orders.\(^{22}\) Similarly, the Exchange states that the proposed Last Sale Peg Modifier would offer functionality based on the existing BMZP instruction,\(^{23}\) with differences designed to streamline the operation of the modifier, while maintaining its core purpose.\(^{24}\) In addition, the Exchange

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\(^{21}\) In the Notice, the Exchange represents that Floor brokers provide services certain illiquid securities, which upstairs trading desks may not be staffed to manage, without any conflict of interest because they are is not trading for her their account and do not sell research to customers. This allows Floor brokers to manage order flow with a focus on price discovery and volume discovery in order to minimize price impact on the market. See Notice, supra note 4, 83 FR at 13569.

\(^{22}\) See Notice, supra note 4, 83 FR at 64920. The Exchange states proposed NYSE Rule 7.16(f)(5)(C) to add D Orders, like Pegged Orders and MPL Orders today, including orders marked buy, sell long, and sell short exempt, is based on the existing Pillar logic for D Orders that peg to the PBBO. See Notice, supra note 4, 83 FR at 63917.

\(^{23}\) The Exchange states that the Last Sale Peg Modifier is based on the existing Buy Minus Zero Plus Instruction available to buy orders, and is designed to facilitate compliance with the safe harbor provisions of Rule 10b-18 under the Act. See, e.g., Notice, supra note 4, 83 FR at 64921; NYSE Rule 13(f)(4).

\(^{24}\) For example, the Exchange states that limiting this modifier to Non-Routable Limit Orders would simplify its operation, because the Exchange would not be able to assist a
states that the proposed Yielding Modifier is based on current g-Quote functionality, including its availability to Floor brokers only. The Exchange notes that, because this modifier provides Floor brokers with an electronic method for representing orders on Pillar that is in compliance with the G Rule, offering this modifier to non-Floor brokers in unnecessary, because Floor brokers are the only members with the specified G Rule obligation today. The Exchange states that it believes the proposed rule change will contribute to the protection of investors and the public interest by enhancing transparency with respect to system functionality across trading of all securities in the Exchange.

With respect to making the proposed D Order available only to Floor brokers, the Exchange states that D Orders are based on current d-Quote functionality, which is available only to Floor brokers and is designed to replicate electronically the Floor broker's agency role to exercise price discretion on an order on behalf of a customer. Additionally, the Exchange asserts that Floor brokers fulfill an agency broker role on behalf of their customers without conflicts and fill a void for firms that have chosen to allocate resources away from trading desks. In addition to this role, according to the Exchange, Floor brokers provide services for more illiquid securities, which upstairs trading desks may not be staffed to manage. The Exchange asserts that use of the D Order would facilitate this agency function by allowing Floor brokers to enter orders on behalf of their customers without pricing impact because the discretionary price range would be undisplayed and that, when managing this customer order flow, Floor brokers trading in UTP member organization to comply with Rule 10b-18 if such order were routed to an away market. See Notice, supra note 4, 83 FR at 64921.

25 See, e.g., supra, note 23 and accompanying text; Notice, supra note 4, 83 FR at 64918, 64921.
26 Exchange asserts that the electronic, off-Floor entry of orders is subject to an exception to the G Rule. See Notice, supra, note 4, 83 FR at 64918, 64021.
Securities would continue to be subject to Exchange rules that are unique to Floor brokers, including Rules 95, 122, 123, and paragraphs (d)-(j) of Rule 134.  

In addition, the Exchange notes that, while D Orders would be available only to Floor brokers, any member organization can choose to have a Floor broker operation and thus have direct access to D Orders on behalf of its customers, and that any such orders would not receive any execution priority or benefit when trading at a discretionary price. To the contrary, the Exchange asserts, if a D Order were to exercise discretion and trade at an undisplayed, discretionary price, that D Order would be ranked behind all other same-side orders at that price, except for a Yielding Order, which by definition yields to all other orders and can only be entered by another Floor broker.  

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange. In particular, the Commission finds that the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act, which requires, among other things, that the Exchange’s rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to

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27 See Notice, supra note 4, 83 FR at 64920.
28 See id.
29 In approving this proposed rule change, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).
protect investors and the public interest; and are not designed to permit unfair discrimination between customers, issuers, brokers or dealers.

The Commission finds that the proposed rule change would extend the availability of certain orders and modifiers—which are currently available for the trading of Exchange-listed securities on the Exchange’s existing technology platform—to trading on Pillar. Specifically, the D Order, Last Sale Peg Modifier, and Yielding Modifier that the Exchange proposes for Pillar would operate in a manner similar to the Exchange’s existing d-Quotes, BMZP, and g-Quotes, respectively. Additionally, the Commission notes that—after considering the potential effects on competition and the potential for discrimination against other exchange participants—it previously approved the extension of parity allocations to Floor brokers with respect to trading UTP Securities. The Commission believes that the rules that the Exchange now proposes with respect to the use of D Orders by Floor brokers are similarly designed to ensure that the benefits of this order type will flow to the customers of the Floor brokers.

The Exchange also proposes to amend NYSE Rule 7.16(f)(5)(C) to specify that D Orders—including orders marked buy, sell long, and sell short exempt—would use the NBBO instead of the PBBO as the reference price. The Commission notes that any repricing of orders by the Exchange must be done consistent with applicable rules and regulations, including Rule 201 of Regulation SHO.

31 See Pillar Trading Rules Approval, supra, note 3, 83 FR at 13572.
32 See supra notes 27–28 and accompanying text. See also Pillar Trading Rules Approval, supra, note 3, 83 FR at 13572 (finding that the Exchange’s proposal to provide Floor brokers with parity allocation in UTP Securities was designed to ensure that the benefit of parity allocation would flow to customers of the floor brokers).
33 See 17 CFR 242.201.
IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,\(^{34}\) that the proposed rule change (SR-NYSE-2018-52) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.\(^{35}\)

Eduardo A. Aleman
Deputy Secretary


\(^{35}\) 17 CFR 200.30-3(a)(12).

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