

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-88562; File No. SR-NYSE-2020-29)

April 3, 2020

Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Add Commentary .03 to Rule 7.35C

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (“Act”),² and Rule 19b-4 thereunder,³ notice is hereby given that on April 3, 2020, 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 and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to add Commentary .03 to Rule 7.35C to provide that, for a temporary period that begins April 6, 2020, and ends on the earlier of the reopening of the Trading Floor facilities or after the Exchange closes on May 15, 2020, certain DMM Interest would not be cancelled following an Exchange-facilitated Auction. The proposed rule change is available on the Exchange’s website at 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

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to add Commentary .03 to Rule 7.35C to provide that, for a temporary period that begins April 6, 2020, and ends on the earlier of the reopening of the Trading Floor facilities or after the Exchange closes on May 15, 2020, if the Exchange facilitates an Auction, DMM Interest⁴ (i) would not be eligible to participate if an Exchange-facilitated Auction⁵ results in a trade, and would be eligible to participate if such Auction results in a quote, and (ii) would not be cancelled following such Auction, unless the limit price of such DMM Interest would be priced through the Auction Price or Auction Collar, or such DMM Interest would be marketable against other unexecuted orders.

Background

Since March 9, 2020, markets worldwide have been experiencing unprecedented market-wide declines and volatility because of the ongoing spread of COVID-19. Beginning on March

⁴ For purposes of Auctions, the term “DMM Interest” is defined in Rule 7.35(a)(8) to mean all buy and sell interest entered by a DMM unit in its assigned securities and includes: “DMM Auction Liquidity,” which is non-displayed buy and sell interest that is designated for an Auction only (see Rule 7.35(a)(8)(A)); “DMM Orders” which are orders, as defined under Rule 7.31, entered by a DMM unit (see Rule 7.35(a)(8)(B)); and “DMM After-Auction Orders,” which are orders entered by a DMM unit before either the Core Open Auction or Trading Halt Auction that do not participate in an Auction and are intended instead to maintain price continuity with reasonable depth following an Auction (see Rule 7.35(a)(8)(C)).

⁵ As defined in Rule 7.35(a)(1), an “Auction” refers to the process for opening, reopening, or closing of trading of Auction-Eligible Securities on the Exchange, which can result in either a trade or a quote.

16, 2020, to slow the spread of COVID-19 through social-distancing measures, significant limitations were placed on large gatherings throughout the country. On March 18, 2020, the CEO of the Exchange made a determination under Rule 7.1(c)(3) that beginning March 23, 2020, the Trading Floor facilities located at 11 Wall Street in New York City would close and the Exchange would move, on a temporary basis, to fully electronic trading.⁶

Because the Trading Floor facilities are now temporarily closed, Designated Market Makers (“DMMs”) are not on the Trading Floor and therefore cannot facilitate Auctions manually. While the Trading Floor is temporarily closed, DMMs participate electronically both intraday and for Auctions. As provided for under Rule 7.35C, any Auctions that cannot be facilitated electronically by the DMM will be facilitated by the Exchange.

Rule 7.35C sets forth the procedures for Exchange-facilitated Auctions. Among other things, if the Exchange facilitates an Auction, DMM Interest would not be eligible to participate in such Auction and previously-entered DMM Interest would be cancelled.⁷

DMM Interest does not participate in an Exchange-facilitated Auction and is cancelled following such Auction in part to reduce DMM units’ risk should their automated systems be impaired. When a DMM cannot facilitate an Auction because the DMM unit is experiencing a system issue that prevents it from communicating with Exchange systems, it is particularly important to cancel DMM Interest following an Exchange-facilitated Auction to ensure that

⁶ The Exchange’s current rules establish how the Exchange will function fully-electronically. The CEO also closed the NYSE American Options Trading Floor, which is located at the same 11 Wall Street facilities, and the NYSE Arca Options Trading Floor, which is located in San Francisco, CA. See Press Release, dated March 18, 2020, available here: <https://ir.theice.com/press/press-releases/all-categories/2020/03-18-2020-204202110>. Pursuant to Rule 7.1(e), the CEO notified the Board of Directors of the Exchange of this determination.

⁷ See Rule 7.35C(a)(1).

DMM Interest that may be at stale prices does not participate in trading on the Exchange. On the other hand, by canceling DMM Interest when the DMM units' systems are operating normally, DMMs may be limited in their ability to maintain price continuity with reasonable depth, i.e., provide passive liquidity at the Exchange best bid and offer and at depth, immediately following an Exchange-facilitated Auction.

The first time the Exchange facilitated any Auctions pursuant to Rule 7.35C was on March 19, 2020, when two DMM firms implemented their own business continuity plans and temporarily left the Trading Floor. Beginning on March 23, 2020, the Exchange began facilitating Auctions on behalf of all DMM firms.⁸

Now that the Exchange has experience operating Exchange-facilitated Auctions, during the temporary period while the Trading Floor is closed, the Exchange has identified a way to provide DMMs with a greater opportunity to provide passive liquidity immediately following an Auction, thereby dampening volatility while still limiting DMM risk.

Proposed Rule Change

The Exchange proposes to add Commentary .03 to Rule 7.35C to provide that, for a temporary period that begins April 6, 2020, and ends on the earlier of the reopening of the Trading Floor facilities or after the Exchange closes on May 15, 2020, if the Exchange facilitates an Auction, DMM Interest (i) would not be eligible to participate if such Auction results in a trade, and would be eligible to participate if such Auction results in a quote, and (ii) would not be cancelled unless the limit price of such DMM Interest would be priced through the Auction Price

⁸ Over the first four days of the temporary Trading Floor closure, DMMs have facilitated over 90% of the Core Open Auctions and Closing Auctions. See "NYSE Auctions and Price Collars," NYSE Equities/Options Data Insights, dated March 26, 2020, available here: <https://www.nyse.com/data-insights#20200326>.

or Auction Collars, as applicable, or such DMM Interest would be marketable against other unexecuted orders. The Exchange is proposing to make this change so that DMMs can provide passive liquidity in order to maintain continuity with reasonable depth in their assigned securities immediately following a Core Open Auction or Trading Halt Auction.

To effect this change, the Exchange proposes that subparagraph (a) of Commentary .03 would provide that, during this temporary period, Rule 7.35(a)(1) would be replaced with the following text:

If the Exchange facilitates an Auction, DMM Interest will not be eligible to participate if such Auction results in a trade, and will be eligible to participate if such Auction results in a quote.

With this proposed rule change, during the temporary period while the Trading Floor is closed, DMM Interest would not participate in any Exchange-facilitated Auctions that would result in a trade. When a DMM facilitates an Auction, the DMM determines whether to participate on the buy or sell side. Because a DMM may have entered both buy and sell interest in advance of an Auction, when the Exchange facilitates that Auction, the DMM would not be able to control whether the DMM's buy or sell interest would participate in a trade. Accordingly, the Exchange proposes that DMM Interest would not participate in an Exchange-facilitated Auction that would result in a trade.

However, if an Auction does not result in a trade, the Exchange believes that DMM Interest should be included in the Exchange's quote as a result of such Auction. Including DMM Interest in the Exchange's quote would assist the DMMs in meeting their obligation to maintain continuity and depth in their assigned securities.

In addition, during this temporary period, following a Core Open Auction or Trading Halt Auction that was facilitated by the Exchange, the Exchange proposes to process DMM Interest in the same way that unexecuted orders are processed following such Auctions, as described in Rule 7.35C(g).

Rule 7.35C(g)(1) currently describes how unexecuted orders are processed if a security opens or reopens on a trade via an Exchange-facilitated Auction. Rule 7.35C(g)(2) currently describes how unexecuted orders are processed if a security opens or reopens on a quote that is above (below) the upper (lower) Auction Collar via an Exchange-facilitated Auction. During the temporary period, the Exchange proposes that these two subparagraphs would be replaced with the following text, which would be set forth in paragraphs (b)(1) and (b)(2) to Commentary .03 to Rule 7.35C, to reference DMM Interest (difference noted in italicized text):

(1) If a security opens or reopens on a trade, Market Orders (including sell short Market Orders during a Short Sale Period) and Limit Orders, including DMM Interest, with a limit price that is better-priced than the Auction Price and were not executed in the applicable Auction will be cancelled.

(2) If a security opens or reopens on a quote that is above (below) the upper (lower) Auction Collar, Market Orders (including sell short Market Orders during a Short Sale Period) and Limit Orders, including DMM Interest, with a limit price that is better-priced than the upper (lower) Auction Collar will be cancelled before such quote is published.

Finally, as noted above, the Exchange does not believe that DMM Interest should be included in an Exchange-facilitated Auction that results in a trade. Because DMM Interest would not participate in such an Exchange-facilitated Auction, it is possible that previously-

entered DMM Interest could be marketable against either other DMM Interest or contra-side unexecuted orders.

In such case, during this temporary period, the Exchange proposes to cancel any DMM Interest that is marketable against unexecuted contra-side orders. If the contra-side unexecuted order is DMM Interest, the Exchange proposes to cancel the DMM Interest with the earlier working time.

For example, if for a security, the Auction Reference Price is \$10.00, the lower Auction Collar is \$9.00 and the upper Auction Collar is \$11.00, and the orders on the Exchange Book in advance of the Auction are as follows:

- Order 1 - Buy DMM Order 1000 shares at \$10.05
- Order 2 - Sell DMM Order 1000 shares at \$10.00
- Order 3 - Buy DMM Order 1000 shares at \$10.02
- Order 4 - Sell Limit Order at \$10.03,

the Exchange would process the orders as follows:

- Order 1 would be cancelled (because DMM Interest would not be eligible to participate in Auction trade, and here, Order 1 is marketable with Orders 2 and 4)
- Order 2 would be cancelled (because DMM Interest would not be eligible to participate in an Auction trade, and here Order 2 is marketable with Order 3), and
- Order 3 would not be cancelled because it is no longer marketable with any other interest, i.e., it no longer locks or crosses the price of any other contra-side interest in the Exchange Book.

In this example, the Exchange-facilitated Auction would not result in a trade and the security would be opened on a quote that would be \$10.02 (Order 3 - DMM Order) x \$10.03

(Order 4 - Limit Order).

The proposed rule text that would describe this temporary functionality would be set forth in paragraph (b)(3) to Commentary .03 to Rule 7.35C as follows:

The Exchange will cancel DMM Interest that is marketable against contra-side unexecuted orders. If the contra-side unexecuted order against which such DMM Interest is marketable is DMM Interest, the DMM Interest with the earlier working time will be canceled.

The Exchange believes that these proposed rule changes would promote fair and orderly markets whenever the Exchange facilitates an Auction under Rule 7.35C during the temporary period while the Trading Floor is closed by supporting DMMs in maintaining continuity with reasonable depth in their assigned securities immediately following an Exchange-facilitated Core Open Auction or Trading Halt Auction that was facilitated by the Exchange.

There are technology changes associated with this proposed rule change that the Exchange anticipates will be implemented on April 6, 2020.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act,⁹ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁰ 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.

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

As a result of uncertainty related to the ongoing spread of COVID-19, the U.S. equities markets are experiencing unprecedented market volatility. In addition, social-distancing measures have been implemented throughout the country, including in New York City, to reduce the spread of COVID-19. Directly related to such social-distancing measures, the CEO of the Exchange made a determination under Rule 7.1(c)(3) that beginning March 23, 2020, the Trading Floor facilities located at 11 Wall Street in New York City would close and the Exchange would move, on a temporary basis, to fully electronic trading.

Beginning March 19, 2020, the Exchange began facilitating auctions as provided for under Rule 7.35C for the first time. The Exchange has identified a change that, during the period while the Trading Floor is temporarily closed, would provide DMMs with a greater opportunity to provide passive liquidity immediately following an Exchange-facilitated Auction, thereby reducing volatility while still limiting DMM risk.

The Exchange believes that the proposed rule change to provide that, during this temporary period while the Trading Floor is closed, if the Exchange facilitates an Auction, DMM Interest (i) would not be eligible to participate if such Auction results in a trade, and would be eligible to participate if such Auction results in a quote, and (ii) would not be cancelled unless the limit price of such DMM Interest would be priced through the Auction Price or Auction Collars, as applicable, or such DMM Interest would be marketable against other orders that were not executed in the Auction would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would allow DMMs to maintain continuity with reasonable depth in their assigned securities immediately following an Auction.

The Exchange further believes that, during this temporary period while the Trading Floor is closed, it would remove impediments to and perfect the mechanism of a free and open market and a national market system to process DMM Interest that, following an Exchange-facilitated Auction, would be priced through the Auction Price or Auction Collars, as applicable, in the same manner that other unexecuted orders are processed, by cancelling such interest. In addition, because during this period, DMM Interest would not be participating in an Exchange-facilitated Auction that results in a trade, the Exchange similarly believes it would remove impediments to and perfect the mechanism of a free and open market and a national market system to cancel DMM Interest that would be marketable against unexecuted orders because, if not cancelled, such interest could trade at a price that would not be consistent with the Auction Price or opening or reopening quote determined in the Exchange-facilitated Auction.

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. The proposed rule change is not designed to address any competitive issues but rather is designed to provide the DMMs with additional functionality to allow them to maintain price continuity with reasonable depth in their assigned securities following an Exchange-facilitated Auction during a temporary period when the Trading Floor has been closed in response to social-distancing measures designed to reduce the spread of the COVID-19.

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)(iii) of

the Act¹¹ and Rule 19b-4(f)(6) thereunder.¹² 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, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹³ and Rule 19b-4(f)(6) thereunder.¹⁴

A proposed rule change filed under Rule 19b-4(f)(6)¹⁵ normally does not become operative for 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),¹⁶ the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposed rule change may become operative immediately.

The Exchange has proposed that certain DMM Interest would not be cancelled following an Exchange-facilitated Auction, during the temporary period when the Trading Floor is closed. Specifically, the Exchange has proposed that, if the Exchange facilitates an Auction, DMM Interest will not be eligible to participate if the Auction results in a trade, but will be eligible to participate if the Auction results in a quote. The Exchange states that including DMM Interest in

¹¹ 15 U.S.C. 78s(b)(3)(A)(iii).

¹² 17 CFR 240.19b-4(f)(6).

¹³ 15 U.S.C. 78s(b)(3)(A).

¹⁴ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

¹⁵ 17 CFR 240.19b-4(f)(6).

¹⁶ 17 CFR 240.19b-4(f)(6)(iii).

the Exchange's quote resulting from the Auction would assist the DMMs in meeting their obligation to maintain price continuity with reasonable depth in their assigned securities immediately following the Auction. However, under the proposal, DMM Interest would be cancelled if it is priced through either the Auction Price or the Auction Collars, or if it would be marketable with contra-side orders that were not executed in the Auction. The Exchange believes that, by not cancelling DMM Interest that would be marketable against unexecuted orders, DMM Interest could then trade at a price that would be inconsistent with the Auction Price or opening or reopening quote determined in the Exchange-facilitated Auction. The Exchange anticipates that it will be able to implement these proposed rule changes by April 6, 2020. The Commission notes that the proposed rule change would allow DMM Interest to participate in an Exchange-facilitated Auction that results in a quote, provided that the DMM Interest does not price through either the Auction Price or the Auction Collars and would not be marketable against contra-side orders that were not executed in the Auction. The Commission also notes that the proposal should assist DMMs in maintaining price continuity with reasonable depth in their assigned securities immediately following an Exchange-facilitated Auction. Moreover, the Commission notes that the proposal is a temporary measure designed to respond to current, unprecedented market conditions. For these reasons, the Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. Accordingly, the Commission hereby waives the 30-day operative delay and designates the proposal operative upon filing.¹⁷

¹⁷ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule 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. Please include File Number SR-NYSE-2020-29 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-2020-29. 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-NYSE-2020-29, 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.¹⁸

J. Matthew DeLesDernier
Assistant Secretary

¹⁸ 17 CFR 200.30-3(a)(12), (59).