

Text of the Proposed Rule Change:¹

Rules of The NYSE Arca, Inc.

RULE 6

OPTIONS TRADING

Rule 6.62 Certain Types of Orders Defined

(a) - (g) No Change

(h) (1) *Stock/Option Order* is an order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of option contract(s) on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than 8 option contracts per unit of trading of the underlying stock or convertible security established for that series by the Clearing Corporation.

(2) *Stock/Complex Order*. A "Stock/Complex Order" is the purchase or sale of a Complex Order (as defined in Rule 6.62(e)) coupled with an order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") representing either:

(A) the same number of units of the underlying stock or convertible security as are represented by the options leg of the Complex Order with the least number of Options contracts, or

(B) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than 8 options contracts per unit of trading of the underlying stock or convertible security established for that series by the Clearing Corporation, as represented by the options leg of the Complex Order with the least number of options contracts.

Rule 6.75 Priority and Order Allocation Procedures - Open Outcry

(a) - (f) No Change

¹ New text is underscored; deleted text is in brackets.

(g) [Reserved] Complex Order, Stock/Option, and Stock/Complex Order Priority: A Complex Order as defined in Rule 6.62(e) and Stock/Complex Orders as defined in 6.62(h)(2) may be executed at a net debit or credit price with another OTP Holder without giving priority to equivalent bids (offers) in the individual series legs that are represented in the Trading Crowd or Customer limit orders in the Consolidated Book, provided at least one options leg of the order betters the corresponding Customer bid (offer) in the Consolidated Book by at least one minimum trading increment as defined in Rule 6.72 (i.e., \$0.10 or \$0.05 or \$0.01, as applicable) or a \$0.01 increment, which increment shall be determined by the Exchange on a class-by-class basis. Stock/Option Orders, as defined in Rule 6.62(h)(1), have priority over equivalent bids (offers) of the trading crowd but not over equivalent Customer bids (offers) in the Consolidated Book.

Bids and offers on Complex Orders, Stock/Option Orders, and Stock/Complex Orders may be expressed in \$.01 increment regardless of the minimum increments otherwise applicable to the individual legs of the order.

(h) No Change

Commentary :

.01 [*Combination, Spread, Ratio, and Straddle Orders.*] Complex Orders.
[Following are the proper trading procedures for combination, spread, ratio, and straddle orders:

- (a) Announcing the Order. Any OTP Holder or OTP Firm holding a combination, spread, or straddle order must bid or offer for each series in the order. For orders excepted from EOC or the Electronic Tablet, pursuant to Rule 6.67(d)(1)(A), such orders must be written on a ticket in accordance with Rule 6.2(h)(5)(C). The OTP Holder or OTP Firm may express the order as it applies to each separate series or may express the order at its total or net debit/credit alone, so long as it is clear that the OTP Holder or OTP Firm is attempting to execute both series as a combination, spread, or straddle. The executing OTP Holder or OTP Firm must ensure that the trading crowd is aware of the request for a market and has an opportunity to participate in the transaction.
- (b) Customer Limit Orders on All Sides of the Consolidated Book. First, an OTP Holder or OTP Firm entering a crowd must always determine if customer limit orders in the Consolidated Book represent the best market in either series. If customer limit orders represent the best market in the Consolidated Book in all series, the OTP Holder or OTP Firm must trade all orders (customer and non-customer) in the Consolidated Book at that price before proceeding with the order.
- (c) Customer Limit Orders on One Side of the Order. If a customer limit order in the Consolidated Book is on just one side of the order, the executing OTP Holder or OTP Firm must determine who responds first to the request for a market and how

that response is vocalized. If a bid or offer for one series in the order is vocalized first, the executed OTP Holder or OTP Firm must trade with the responding member, and the Consolidated Book in the other series, for at least the same number of contracts as remain at the customer limit order price in the Consolidated Book. If a response at the total or net debit/credit is vocalized first, then the responding OTP Holder or OTP Firm has priority over the Book and the existing markets on a one-for-one basis provided that at least one leg of the complex order trades at a price that is better than the corresponding customer limit order represented in the Consolidated Book by at least one standard MPV as defined in Rule 6.72.

- (d) If the Consolidated Book Has No Customer Limit Orders for the Order. The following rule of priority applies when there are no customer limit orders in the Consolidated Book against which the order can be executed. After the executing broker requests a market, the broker must trade with the first response vocalized at or within the broker's limits. If this response is in the form of a bid or offer for the net debit/credit, then that member has priority on a one-for-one basis. If the first response is for one series only, the executing broker must trade on the other side of the order against the existing market in the crowd. If the executing broker cannot trade the other side of the order in the crowd, priority reverts to the member willing to trade both sides of the order on a one-for-one basis.
- (e) Partial Executions. Partial execution of an order, with more than one OTP Holder or OTP Firm may occur so long as each OTP Holder or OTP Firm with whom that order is executed participates on a one-for-one basis with respect to each series involved in the order.
- (f) If there is a customer interest in the Consolidated Book which creates a Locked Book Market. The situation may occur when the only prices at which the order may be executed are equal to the Consolidated Book's bids or offers for both series involved in the order. If those prices are the only prices at which the order may be executed, then the order will be given priority over the Consolidated Book. For example, a Floor Broker enters the crowd with a spread order to sell the XYZ April 20/July 20 call spread for a credit of 1. The Consolidated Book's bids and offers for these two series are:

XYZ April 20: 1.00 - 1.05

XYZ July 20: 2 - 2 .05

Consolidated Book's market for the April 20/July 20 spread is .95 - 1.05.

The spread cannot be executed by accepting the Consolidated Book's bid of 2 for the XYZ July 20s and the Consolidated Book's offer of the XYZ April 20s at 1.05. There are no other prices within the Consolidated Book's bids and offers at which the spread may be done. The spread may be done, however, if the XYZ July 20s are sold at 2.05 and the XYZ April 20s are bought at 1.05 or the July 20s are sold at 2

and the April 20s are bought at 1. Although these prices are equal to both Consolidated Book bids or both Consolidated Book offers, this spread may be done in the crowd with one other member on a one-for-one basis at 1 and 2 or 1.05 and 2.05.

- (g) Limits on Pre-emptive Right. This pre-emptive right pertains only to combinations, spreads, ratio or straddles of equal quantities or to the lesser quantity when the quantities of contracts involved are unequal.]

Rule 6.91. Electronic Complex Order Trading

For purposes of this Rule, an “Electronic Complex Order” means any Complex Order as defined in Rule 6.62(e) or any Stock/Option Order or Stock/Complex Order as defined in Rule 6.62(h) that is entered into the NYSE Arca System.

- (a) [A Complex Order is any order involving the simultaneous purchase and/or sale of two or more different option series in the same underlying security, for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of executing a particular investment strategy.
- (b) A Stock/Option Order is an order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of option contract(s) on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than 8 option contracts per unit of trading of the underlying stock or convertible security established for that series by the Clearing Corporation.
- (c) Complex Matching Engine. Electronic Complex Orders entered into the NYSE Arca system are routed to the Complex Matching Engine ("CME") for possible execution. The CME is the mechanism in which Electronic Complex Orders are executed against each other or against individual quotes and orders in the Consolidated Book. Electronic Complex Orders that are not immediately executed by the CME are routed to the Consolidated Book.
- (1) *Priority of Electronic Complex Orders in the Consolidated Book:* Electronic Complex Orders in the Consolidated Book shall be ranked according to price/time priority based on the total or net debit or credit and the time of entry of the order.
- (2) *Execution of Electronic Complex Orders:* Electronic Complex Orders submitted to NYSE Arca may be executed without consideration of prices of the same complex order that might be available on other exchanges. No leg of an

Electronic Complex Order will be executed at a price outside the NYSE Arca best bid /offer for that leg. Electronic Complex Orders will trade in the following way:

- (i) The CME will accept an incoming Electronic Complex Order and will automatically execute it against Electronic Complex Orders in the Consolidated Book; provided, however, that if individual orders or quotes residing in the Consolidated Book can execute the incoming Electronic Complex Order in full (or in a permissible ratio) at the same total or net debit or credit as an Electronic Complex Order in the Consolidated Book, the individual orders or quotes will have priority. The allocation of incoming orders or quotes or those residing in the Consolidated Book that execute against an Electronic Complex Order shall be done pursuant to NYSE Arca Rule 6.76A, except that the LMM guaranteed participation afforded in Rule 6.76A(a)(1)(A) will not apply to executions against an Electronic [c]Complex [o]Order.
- (ii) If an Electronic Complex Order in the CME is not marketable against another Electronic Complex Order it will automatically execute against individual orders or quotes residing in the Consolidated Book, provided the Electronic Complex Order can be executed in full (or in a permissible ratio) by the orders in the Consolidated Book. The allocation of incoming orders or quotes or those residing in the Consolidated Book that execute against an Electronic Complex Order shall be done pursuant to NYSE Arca Rule 6.76A, except that the LMM guaranteed participation afforded in Rule 6.76A(a)(1)(A) will not apply to executions against an Electronic Complex Order.
- (iii) If an Electronic Complex Order is being held in the Consolidated Book, the CME will monitor the bids and offers in the leg markets, and if a new order(s) or quote(s) entered into the Consolidated Book can execute the Electronic Complex Order in full (or in a permissible ratio), the Electronic Complex Order will be executed according to (ii) above.
- (iv) OTP Holders and OTP Firms will have the ability to view Electronic Complex Orders in the Consolidated Book via an electronic interface and may submit orders to the CME to trade against orders in the Consolidated Book. The allocation of complex trades among OTP Holders and OTP Firms shall be done pursuant to Rule 6.76A.

[(d)] (b) Types of Electronic Complex Orders: Electronic Complex orders may be entered as fill-or-kill, immediate or cancel, day orders and good-til-cancelled. Electronic Complex Orders may be entered as "all or none orders".

(c) Electronic Complex Order Auction ("COA") Process. Upon entry into the System, eligible Electronic Complex Orders may be subject to an automated request for responses ("RFR") auction.

- (1) A "COA-eligible order" means an Electronic Complex Order that, as determined by the Exchange on a class-by-class basis, is eligible for a COA considering the order's marketability (defined as a number of ticks away from the current market), size, number of series, and complex order origin types (i.e., Customers, broker-dealers that are not Market Makers or specialists on an options exchange, and/or Market Makers or specialists on an options exchange). Electronic Complex Orders processed through a COA may be executed without consideration to prices of the same complex orders that might be available on other exchanges.
- (2) Upon receipt of a COA-eligible order, and the direction from the entering OTP Holder that an auction be initiated, the Exchange will send an RFR message to all OTP Holders who subscribe to RFR messages. RFR messages will identify the component series, the size of the order and any contingencies, but will not identify the side of the market.
- (3) The "Response Time Interval" means the period of time during which responses to the RFR may be entered. The Exchange will determine the length of the Response Time Interval; provided, however, that the duration shall not exceed one (1) second. The obligations of Rule 6.47A, Order Exposure Requirements - OX, are separate from the duration of the Response Time Interval.
- (4) Each Market Maker with an appointment in the relevant option class, and each OTP Holder acting as agent for orders resting at the top of the Consolidated Book in the relevant options series, may submit responses to the RFR message ("RFR Responses") during the Response Time Interval. RFR Responses may be submitted in \$.01 increments. RFR Responses will be ranked and displayed in the Consolidated Book.
- (5) Processing of COA-Eligible Orders: At the expiration of the response time interval, COA-eligible orders may be executed in whole or in part in accordance with (6) below. Any unexecuted portion of a COA-eligible order will either be (i) ranked in the Consolidated Book pursuant to paragraph (a)(1) above, or (ii) if marketable, initiate another COA.
- (6) Execution of COA-Eligible Orders: COA-eligible orders will be executed against the best priced contra side interest. At the same net price, the order will be allocated as follows:
- (A) Individual orders and quotes in the leg markets resting in the Consolidated Book prior to the initiation of a COA will have first priority to trade against a COA-eligible order, provided the COA-eligible order can be executed in full (or in a permissible ratio) by the orders and quotes in the Consolidated Book. The allocation of orders or quotes residing in the Consolidated Book that execute against a COA-eligible order shall be done pursuant to NYSE Arca Rule 6.76A except that the Lead Market Maker and Directed Order Market

Maker guaranteed participation afforded in Rule 6.76A(a)(1)(A) will not apply to executions against an Electronic Complex Order.

(B) Customer Electronic Complex Orders resting in the Consolidated Book before, or that are received during, the Response Time Interval and Customer RFR Responses shall, collectively have second priority to trade against a COA-eligible order. The allocation of a COA-eligible order against the Customer Electronic Complex Orders resting in the Consolidated Book, Customer Electronic Complex Orders received during the Response Time Interval, and Customer RFR Responses shall be on a Size Pro Rata basis as defined in Rule 6.75(f)(6).

(C) Non- Customer Electronic Complex Orders resting in the Consolidated Book, non-Customer Electronic Complex Orders placed in the Consolidated Book during the Response Time Interval, and non-Customer RFR Responses will collectively have third priority to trade against a COA-eligible order. The allocation of COA-eligible orders against these contra sided orders and RFR Responses shall be on a Size Pro Rata basis as defined in Rule 6.75(f)(6).

(D) Individual orders and quotes in the leg markets that cause the derived Complex Best Bid/Offer to be improved during the COA and match the best RFR Response and/or Electronic Complex Orders received during the Response Time Interval will be filled after Electronic Complex Orders and RFR Responses at the same net price. The allocation of orders or quotes residing in the Consolidated Book that execute against a COA-eligible order shall be done pursuant to NYSE Arca Rule 6.76A except that the Lead Market Maker and Directed Order Market Maker guaranteed participation afforded in Rule 6.76A(a)(1)(A) will not apply to executions against an Electronic Complex Order.

(7) Firm Quote Requirements for COA-Eligible Orders: RFR Responses can be modified but may not be withdrawn at any time prior to the end of the Response Time Interval. At the end of the Response Time Interval, RFR Responses are firm with respect to the COA-eligible order and RFR Responses that exceed the size of a COA-eligible order are also Firm with respect to other incoming COA-eligible orders and RFR Responses that are received during the Response Time Interval. Any RFR Responses not accepted in whole or in a permissible ratio will expire at the end of the Response Time Interval.

(8) Processing of Unrelated Electronic Complex Orders: Incoming Electronic Complex Orders that are received during the Response Time Interval for a COA-eligible order will affect the COA as follows:

(A) Incoming Electronic Complex orders received during the Response Time Interval that are on the opposite side of the market and marketable against the limit price of the initiating COA-eligible order will be ranked and executed in

price time with RFR Responses by account type (as described in (6) above). Any remaining balance of either the initiating COA-eligible order or the incoming Electronic Complex order will be placed in the Consolidated Book and ranked as described in (a)(1) above.

(B) Incoming COA-eligible orders received during the response time interval for the original COA-eligible order that are on the same side of the market, that are priced equal to the initiating order, will join the COA. A message with the updated size will be published. The new order(s) will be ranked and executed with the initiating COA-eligible order in price time order. Any remaining balance of either the initiating COA-eligible order and/or the incoming Electronic Complex order(s) will be placed in the Consolidated Book and ranked as described in (a)(1) above.

(C) Incoming COA-eligible orders received during the Response Time Interval for the original COA-eligible order that are on the same side of the market, that are priced worse than the initiating order, will join the COA. The new order(s) will be ranked and executed with the initiating COA-eligible order in price time order. Any remaining balance of either the initiating COA-eligible order and/or the incoming Electronic Complex order(s) will be placed in the Consolidated Book and ranked as described in (a)(1) above.

(D) Incoming COA-eligible orders received during the Response Time Interval for the original COA-eligible order that are on the same side of the market and that are priced better than the initiating order will cause the auction to end. The initiating COA-eligible order will be executed in accordance with (6) above. The COA-eligible order that caused the auction to end will then be executed in accordance with (6) above, and any unexecuted portion will either be (i) placed in the Consolidated Book pursuant to (a)(1) above, or (ii) if marketable, initiate another COA.

(9) Change in the BBO of the Leg Markets: A change in the Best Bid/Offer of the leg markets will affect the processing of the Complex Order Auction as follows:

(A) Individual orders and quotes that are entered into the leg markets that cause the derived Complex Best Bid/Offer to be better than the COA-eligible order and to cross the best priced RFR Response will cause the auction to terminate, and individual orders and quotes in the leg markets will be allocated pursuant to (a)(2)(i) above and matched against Electronic Complex Orders and RFR Responses in price time priority pursuant to (6) above. The initiating COA-eligible order will be matched and executed against any remaining unexecuted Electronic Complex Orders and RFR Responses pursuant to (6) above.

(B) Individual orders and quotes that are entered into the leg markets that cause the derived Complex Best Bid/Offer to cross the price of the COA-eligible order will cause the auction to terminate, and individual orders and quotes in the leg markets will be allocated pursuant to (a)(2)(i) above and matched against Electronic Complex Orders and RFR Responses in price time priority pursuant to (6) above.

Commentary:

.01 No Change.

.02 Electronic Complex Order Priority; Not withstanding Commentary .01 above, when executing an Electronic [c]Complex [o]Order the price of at least one leg of the order must:

(i) trade at a price that is better than the corresponding price of [the] all the customer bids or offers in the Consolidated Book for the same series, by at least one standard trading increment as defined in Rule 6.72 or,

(ii) if the class has been designated as eligible for Complex Order Auctions, then at least one leg of the order must trade at a price that is better than the corresponding price of the customer bids or offers in the Consolidated Book for the same series, by at least one cent (\$.01).

.03 Special Provisions applicable to Stock/Option and Stock/Complex Orders: (a) Stock Component. The stock portion of a Stock/Option Order or a Stock/Complex Order shall be executed consistent with the Rules of the stock execution venue. A Stock/Option Order or a Stock/Complex Order shall not be executed on the NYSE Arca System unless the stock leg is executable at the price(s) necessary to achieve the desired net price.

(b) Option Component. Notwithstanding the special priority provisions contained in paragraph (c) below, the option leg of a Stock/Option Order shall not be executed on the NYSE Arca System at the Exchange's best bid (offer) in that series if one or more Customer orders are resting at that price on the electronic book, unless the option leg trades with such Customer order(s). The option leg of a Stock-Option Order may be executed in a one-cent increment, regardless of the minimum quoting increment applicable to that series.

(c) Consolidated Book. Stock/Option or Stock/Complex Orders submitted to the CME will trade, consistent with the provisions of Rule 6.75(g), in the following sequence: (1) against other Stock/Option or Stock/Complex Orders resting in the Consolidated Book using Customer priority then time priority; (2) against individual orders or quotes on the Exchange provided the Stock/Option or Stock/Complex Order can be executed in full (or in a permissible ratio); and (3) against orders or quotes submitted by Market Participants as set forth in subparagraph (a)(2)(iv) of this Rule.

(d) Stock/Complex Orders. A Stock/Complex Order shall be handled in the same manner as Stock/Option Orders as set forth in paragraph (a) through (c) of this Commentary (and all references to Stock/Option Orders shall include such Stock/Complex Orders) except that the requirements of paragraph (a)(2)(i) of this Rule 6.91 and paragraph (b) of this Commentary relating to Customer orders will apply only if there are Customer orders resting on the NYSE Arca System at the Exchange's best bid (offer) in the Consolidated Book for each of the options legs of the Stock/Complex Order.

.04 A pattern or practice of submitting unrelated orders that cause a COA to conclude early will be deemed conduct inconsistent with just and equitable principles of trade. Dissemination of information related to COA-eligible orders to third parties will also be deemed as conduct inconsistent with just and equitable principles of trade.