

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-78615; File No. SR-NYSEArca-2016-117)

August 18, 2016

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend NYSE Arca Equities Rules 7.35P, 7.34P, 7.18P and 7.31P Regarding Order Processing Following an Auction or When Transitioning from One Trading Session to Another

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the “Act”),<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that on August 15, 2016, NYSE Arca, Inc. (the “Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend NYSE Arca Equities Rule 7.35P (Auctions), Rule 7.34P (Trading Sessions), Rule 7.18P (Halts), and 7.31P (Orders and Modifiers) regarding order processing following an auction or when transitioning from one trading sessions to another. The proposed rule change is available on the Exchange’s website at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

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

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

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

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

1. Purpose

The Exchange proposes to amend NYSE Arca Equities Rule 7.35P (Auctions) (“Rule 7.35P”), Rule 7.34P (Trading Sessions) (“Rule 7.34P”), Rule 7.18P (Halts) (“Rule 7.18P”), and Rule 7.31P (Orders and Modifiers) (“Rule 7.31P”) regarding order processing following an auction or when transitioning from one trading session to another. These proposed changes would revise how the Exchange processes orders on the Pillar trading platform only.

Overview

Currently, under Rule 7.35P(g), during the Auction Processing Period,<sup>4</sup> new orders, requests to cancel, and requests to cancel and replace an order that are received during the Auction Processing Period will be accepted but will not be processed until after the applicable auction concludes. In addition, a request to cancel and replace an order that was entered during the Auction Processing Period for an order that was also entered during the Auction Processing Period will be rejected.

When the Exchange transitions to continuous trading, either after auction processing concludes or when transitioning from one trading session to another, the Exchange transitions to continuous trading pursuant to the steps specified in Rule 7.35P(h). Specifically, the Exchange will first expire orders that are no longer eligible to trade. Next, orders that are designated for a

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<sup>4</sup> The “Auction Processing Period” means the period during which the applicable auction is being processed. See Rule 7.35P(a)(2).

trading session and that were received during a prior trading session or during the Auction Processing Period, and that did not participate in the auction, will become eligible to trade. Then, before continuous trading will begin, the Exchange will process any order instructions received either during the Auction Imbalance Freeze or Auction Processing Period, which includes new orders and requests to cancel, will next adjust the display price and working price of orders based on the PBBO or NBBO, and if orders are marketable, will trade and/or route such orders based on price-time priority. After marketable orders have routed or traded, the Exchange will publish a quote for the next trading session.

With respect to order entry for the Core Trading Session, Rule 7.34P(c)(1)(C) currently provides that Limit Orders designated IOC and Cross Orders entered before or during the Early Trading Session and designated for the Core Trading Session will be rejected if entered before the Core Open Auction concludes. As such, a Limit Order designated IOC that is entered after 9:30:00, but before the Core Open Auction concludes, would be rejected.

Finally, Rule 7.18P(c)(2) provides that during a halt or pause in an Exchange-listed security, the Exchange retains resting orders in the NYSE Arca Book and assigns Limit Orders a working price and display price that is equal to the limit price of the order. The Exchange proposes to amend order and order instruction processing following an auction or when transitioning from one trading session to another to:

- Evaluate the status of orders that were live before the auction or in the earlier trading session and are eligible to trade after the auction/next trading session to assess whether to publish a new quote;
- After the Auction Processing Period ends, process orders that become eligible to trade in time sequence with specified cancel request; and

- Distinguish when requests to cancel, cancel and replace, and modify an order would be processed on arrival based on whether the impacted order was previously eligible to trade.

The Exchange believes that these proposed changes would simplify the transition to continuous trading following an auction or the transition from one trading session to another. Specifically, rather than waiting for all marketable orders to be traded or routed in price/time priority before publishing a quote, the Exchange would be evaluating orders at an earlier stage to determine whether to publish a quote. After publishing a quote, orders that become eligible to trade and related order instructions would be traded, routed, or quoted in time sequence. These proposed order processing changes would facilitate the Exchange in applying Price Bands, as defined in the Regulation NMS Plan to Address Extraordinary Market Volatility (“LULD Plan”),<sup>5</sup> immediately following an auction in Exchange-listed securities, rather than waiting for the securities information processor (“SIP”) to publish such Price Bands based on the reference price provided by the Exchange for such securities.

To effect the rule change, the Exchange proposes to amend Rules 7.35P(g) and (h) to specify order and order instruction processing both during the Auction Processing Period and when transitioning to continuous trading. The Exchange also proposes to amend Rules 7.31P and 7.34P to specify that Limit Orders designated IOC and Cross Orders would be accepted during the Auction Processing Period. Finally, the Exchange proposes to amend Rule 7.18P to specify that orders that were on the NYSE Arca Book before a halt or pause would retain their last working and display price.

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<sup>5</sup> See Securities Exchange Act Release No. 77679 (April 21, 2016), 81 FR 24908 (April 27, 2016) (File No. 4-631) (Order approving 10<sup>th</sup> Amendment to the LULD Plan) and Rule 7.11P.

### Proposed Rule Change

To effect the changes to how order instructions would be processed during the Auction Processing Period, the Exchange proposes to amend Rule 7.35P(g). As proposed, Rule 7.35P(g) would provide that new orders received during the Auction Processing Period would be accepted but would not be processed until after the Auction Processing Period. This proposed rule text is based on current Rule 7.35P(g), with a non-substantive change to specify that the processing would be “after the Auction Processing Period” rather than “until after the applicable auction concludes.” The proposed change is designed to use consistent terminology throughout proposed Rule 7.35P(g) and (h) without any change to its meaning.

Proposed Rule 7.35P(g) would further provide that for purposes of paragraphs (g) and (h) of that rule, an “order instruction” refers to a request to cancel, cancel and replace, or modify an order. The current rule text does not currently specify how the Exchange would process requests to modify an order during the Auction Processing Period. However, because requests to modify an order would be handled in the same manner as requests to cancel or requests to cancel and replace and [sic] order, the Exchange proposes to include modifying an order in the definition of “order instruction.” As further proposed, during the Auction Processing Period, order instructions would be processed as described in proposed Rules 7.35P(g)(1) – (2), which would replace the remainder of the current text of Rule 7.35P(g).

- Proposed Rule 7.35P(g)(1) would provide that an order instruction received during the Auction Processing Period would not be processed until after the Auction Processing Period if it relates to an order that was received before the Auction Processing Period. This proposed text is based on current Rule 7.35P(g) with no substantive changes, but with revised text to use consistent terminology. The proposed rule would further provide

that any subsequent order instructions relating to such order would be rejected. This would be new functionality. The Exchange proposes to reject such subsequent order instructions because they may conflict with the previously-entered order instruction.<sup>6</sup> To avoid such a scenario, the Exchange proposes that any subsequent order instructions would be rejected.

- Proposed Rule 7.35P(g)(2) would provide that an order instruction received during the Auction Processing Period would be processed on arrival if it relates to an order that was received during the Auction Processing Period. This proposed rule text represents a substantive change from current Rule 7.35P(g), which provides that the Exchange rejects a request to cancel and replace an order that was entered during the Auction Processing Period. The Exchange believes that if the Exchange receives an order during the Auction Processing Period, because such order would not be eligible to participate in an auction and because such order is not yet eligible to trade following the auction or in the next trading session, there should be no restrictions on cancelling, replacing, or modifying such non-live order.

The Exchange also proposes to amend which orders may be entered during the Auction Processing Period. Currently, Rule 7.34P(c)(1)(C) provides that Limit Orders designated IOC and Cross Orders entered before or during the Early Trading Session and designated for the Core Trading Session will be rejected if entered before the Core Open Auction concludes. Because of the changes to order processing following the Auction Processing Period to process orders that

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<sup>6</sup> For example, assume that during the Auction Processing Period, an ETP Holder sends a request to cancel and replace an order. While still in the Auction Processing Period, the ETP Holder then sends a request to cancel the original order. When those order instructions are processed in time sequence, the first instruction would result in a cancellation of the original order and a new order. The second instruction would be a cancellation of a non-existing order.

are received during the Auction Processing Period in time sequence (as described in greater detail below), the Exchange proposes to accept Limit Orders designated IOC and Cross Orders during the Auction Processing Period. Because the Auction Processing Period occurs after 9:30 a.m. Eastern Time, an ETP Holder may be timing to send Limit Orders designated IOC as soon after 9:30 a.m. Eastern Time as feasible and would not know the precise time when the Exchange has transitioned to continuous trading. To avoid rejecting orders designated for the Core Trading Session that were entered during Core Trading Hours,<sup>7</sup> the Exchange proposes to amend Rule 7.34P(c)(1)(C) to provide that Limit Orders designated IOC and Cross Orders entered before or during the Early Trading Session and designated for the Core Trading Session would be rejected if entered before the Auction Processing Period for the Core Open Auction. The Exchange similarly proposes to amend Rules 7.31P(b)(2) and (g), which currently provide that a Limit Order with an IOC Modifier or a Limit IOC Cross Order will be cancelled if it arrives during auction processing, to delete the phrase “and it if arrives during auction processing, it will be cancelled.”

The Exchange further proposes to amend Rule 7.34P(c)(2) to add new subparagraph (C) that would provide that Limit Orders designated IOC and Cross Orders entered before and during the Core Trading Session and designated for the Late Trading Session would be rejected if entered before the Auction Processing Period for the Closing Auction. Currently, the rule is silent on the treatment of Limit Orders designated IOC and Cross Orders that are designated for the Late Trading Session only and entered during the Core Trading Session or earlier, but the treatment is the same as provided for in current Rule 7.34P(c)(1)(C). The Exchange proposes to

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<sup>7</sup> “Core Trading Hours” means the hours of 9:30 am Eastern Time through 4:00 pm Eastern Time or such other hours as may be determined by the Corporation from time to time. See Rule 1.1(j).

codify the treatment of such orders entered during the Core Trading Session, and in so doing, make the same substantive change as proposed for Rule 7.34P(c)(1)(C).

To effect the changes to how the Exchange would transition to continuous trading, the Exchange proposes to amend Rule 7.35P(h). The Exchange proposes a non-substantive clarifying change to the text of Rule 7.35P(h) to replace the phrase “the Exchange will transition to continuous trading session for the applicable trading session” with the phrase “the Exchange will transition to continuous trading following an auction or when transitioning from one trading session to another” to specify that Rule 7.35P(h) governs both trading session transition (which may involve an auction) and transition to continuous trading following a Trading Halt Auction. Rule 7.35P(h)(1), which is not changing, and proposed Rules 7.35P(h)(2) – (3), which will be new rule text, would specify how orders and order instructions would be processed as the Exchange transitions to continuous trading. The Exchange proposes to delete current Rule 7.35P(h)(2), (h)(3), and (h)(3)(A) – (D) (with the exception of the second sentence of current Rule 7.35P(h)(3)(B), which, as described below, will be included in proposed Rule 7.35P(h)(3)(C)).

Proposed Rule 7.35P(h)(2) would specify how the Exchange would process order instructions during the transition to continuous trading:

- Proposed Rule 7.35P(h)(2)(A) would provide that an order instruction received during the Auction Imbalance Freeze,<sup>8</sup> the transition to continuous trading, or the Auction Processing Period under paragraph (g)(1) of this Rule would be processed in time sequence with the processing of orders as specified in proposed Rule 7.35P(h)(3)(A) or

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<sup>8</sup> The “Auction Imbalance Freeze” means the period that begins before the scheduled time for the Early Open Auction, Core Open Auction, or Closing Auction, as specified in Rules 7.35P(b), (c), and (d), and that ends once the Auction Processing Period begins. See Rule 7.35P(a)(3).



(B) if it relates to an order that was received before the Auction Processing Period. As proposed, these order instructions would be processed in time sequence with the processing of orders as they become eligible to trade, as described below. Similar to proposed Rule 7.35P(g)(1), any subsequent order instructions relating to such order would be rejected. This proposed rule is based in part on current Rule 7.35P(h)(2)(A) [sic], which provides that any order instructions received during either the Auction Imbalance Freeze or Auction Processing Period that were not processed will be processed. The proposed changes are designed to provide more specificity that the specified order instructions would be processed in time sequence with all other order processing.

- Proposed Rule 7.35P(h)(2)(B) would provide that an order instruction received during the transition to continuous trading would be processed on arrival if it relates to an order that was entered during the Auction Processing Period or the transition to continuous trading. This proposed processing would therefore apply to orders that were not previously live and were entered after the Auction Processing Period began. Similar to proposed Rule 7.35P(g)(2), because these orders have not yet been processed, the Exchange believes it is appropriate to apply order instructions against such orders immediately.

Proposed Rule 7.35P(h)(3) would specify how orders would be processed when transitioning to continuous trading, as provided for in proposed Rules 7.35P(h)(3)(A) – (C):

- Proposed Rule 7.35P(h)(3)(A) would provide that a quote would be published based on unexecuted orders that were eligible to trade in the trading sessions both before and after the transition or auction, i.e., previously-live orders. This represents a substantive change from current Rule 7.35P(h)(3)(D), which provides that the Exchange will publish a quote

only after all marketable orders have routed or traded. As proposed, the Exchange would publish a quote before evaluating the orders that were not previously eligible to trade.

Proposed Rules 7.35P(h)(3)(A)(i) and (ii) would provide specificity regarding how such quote would be determined.

Proposed Rule 7.35P(h)(3)(A)(i) would provide that before publishing a quote when transitioning from a prior trading session or following the Early Open Auction, Core Open Auction, or Closing Auction: (1) previously-live orders that are marketable would be traded, routed, or cancelled in time sequence; (2) a new quote would be published only if different from the last-published quote;<sup>9</sup> and (3) if the new published quote would be worse than the previously-published quote and would lock or cross the PBBO, the display price of Limit Orders would be adjusted consistent with Rule 7.31P(a)(2)(C).

Because the Exchange does not currently update its quote solely because it transitions from one trading session to another, the Exchange would not be changing that behavior when evaluating whether to publish a quote. When assessing whether previously-live orders are marketable, the Exchange would re-price them first, as provided for in proposed Rule 7.35P(h)(3)(C). If such orders would become marketable against each other or a protected quote, they would be traded or routed, as applicable. In addition, because such orders would be subject to LULD Plan Price Bands, such orders may be

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<sup>9</sup> For example, assume that at 9:29 a.m. Eastern Time, NYSE Arca publishes a quote in XYZ of 100 shares 10.04 x 10.05 100 shares. Assume that after the Auction Processing Period, based on the orders that were previously eligible to trade, the quote would be 100 shares 10.04 x 10.05 100 shares. Because the quote has not changed, the Exchange would not republish that quote. By contrast, if the new quote is 100 shares 10.03 x 10.05 100 shares, the Exchange would publish a new quote.

cancelled if priced through a Price Band.<sup>10</sup>

With respect to proposed cross reference to Rule 7.31P(a)(2)(C), that rule describes how the Exchange would not publish a new BBO that would lock or cross a PBBO that initially had locked or crossed our previously-displayed quote. Because of updates to the PBBO during the Auction Processing Period, a similar set of facts and circumstances could arise, and rather than publishing a new quote that would lock or cross the PBBO, the Exchange would adjust the display price of Limit Orders as provided for in Rule 7.31P(a)(2)(C) until such time that the limit price of such orders no longer locks or crosses the PBBO.<sup>11</sup>

Proposed Rule 7.35P(h)(3)(A)(ii) would provide that before publishing a quote following a Trading Halt Auction: (1) previously-live Limit Orders that are designated with a Proactive if Locked/Crossed Modifier or that would be the result of reserve interest replenishing the fully-executed display quantity of a routable Reserve Order would route, if marketable against protected quotations on Away Markets; (2) previously-live orders marketable against other orders in the NYSE Arca Book that would not trade-through a protected quotation would trade; and (3) the display price of all other orders that are marketable against a protected quotation on an Away Market would be adjusted consistent with Rule 7.31P(a)(2)(C). The Exchange proposes this difference in

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<sup>10</sup> See Rule 7.11P(a)(5) (specifying when the Exchange would cancel buy (sell) orders priced above (below) the Upper (Lower) Price Band).

<sup>11</sup> For example, assume that before the Core Open Auction, the Exchange publishes a quote of 10.04 x 10.05, which is the NBBO. During the Auction Processing Period, an Away Market publishes a new protected offer of 10.02, which crosses the Exchange's best bid. That bid can stand its ground. However, if after the Auction Processing Period, the new Exchange best bid would be 10.03, because this is worse than the Exchange's last published best bid and would cross the new PBO of 10.02, the Exchange would adjust the display price of the Limit Order representing the best bid to 10.01 and the working price would be priced at 10.02.

processing following a Trading Halt Auction to avoid locking or crossing a protected quotation, the Exchange proposes to re-price the display price of such orders as provided for in Rule 7.31P(a)(2)(C). In addition, unlike a trading session transition change, because the Exchange would not have a published quote during a halt or pause, if there is sufficient interest, the Exchange would publish a quote at this stage following a Trading Halt Auction.

- Proposed Rule 7.35P(h)(3)(B) would provide that next, unexecuted orders that were not eligible to trade in the prior trading session (or were received during a halt or pause) or that were received during the Auction Processing Period, would be assigned a new working time at the end of the Auction Processing Period in time sequence relative to one another based on original entry time. This would be new processing of such orders. Currently, as provided for in Rule 7.36P(f)(1), an order is assigned a working time based on its original order entry time. That would remain true for such orders for purposes of participation in the applicable auction.<sup>12</sup> However, as proposed, after the Auction Processing Period, the Exchange would assign a new working time to such orders, i.e., orders that were not previously live. This proposed change is similar to how Bats BZX Exchange, Inc. (“Bats”) and the Nasdaq Stock Market LLC (“Nasdaq”) process orders following an auction that were not previously live.<sup>13</sup> By assigning a new working time,

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<sup>12</sup> See Rule 7.35P(a)(6) (describing Auction Ranking, which is based on the price-time priority of such orders as specified in Rules 7.36P(c) – (g)).

<sup>13</sup> See Bats Rules 11.23(b)(3)(A) and (B) and (c)(3)(A) (previously-live orders, i.e., “Limit order shares on the Continuous Book that are not executed in” an auction, will remain on the Bats’ book and thus will be represented in the quote and orders that were not previously live, i.e., “RHO Orders” will be added to the Bats’ book at the conclusion of the Opening Auction); Nasdaq Rules 4752(c) and 4753(c)(1) (If no opening or trading halt cross, orders are added to the book, i.e., the previously published quote, in time priority).

in continuous trading, such orders would no longer have time priority over orders that were entered later, but were eligible to trade in the prior trading session.<sup>14</sup>

- Proposed Rule 7.35P(h)(3)(C) would provide that when processing orders, the display price and working price of an order would be adjusted based on the PBBO or NBBO, as provided for in Rule 7.31P. This rule text is based on the first sentence of current Rule 7.31P(h)(3)(B). The second sentence of proposed Rule 7.35P(h)(3)(C) would retain the second sentence of current Rule 7.35P(h)(3)(B), which states that “when transitioning to continuous trading, the display price and working price of Day ISOs will be adjusted in the same manner as Arca Only Orders until the Day ISO is either traded in full or displayed at its limit price.”

The Exchange also proposes to amend Rule 7.18P regarding order handling during a halt or pause. During a UTP Regulatory Halt, the Exchange cancels any unexecuted portions of Market Orders. The Exchange proposes to add that the Exchange would also cancel orders not eligible to trade in the current trading session on the NYSE Arca Book. For example, assume there is a UTP Regulatory Halt at 8:00 a.m. Eastern Time. If the Exchange receives notice of such halt, it would cancel any orders in the impacted security resting on the NYSE Arca Book that are designated for the Core Trading Session only or designated for the Core and Late Trading Sessions, i.e., are not eligible to trade in the Early Trading Session, which is for

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<sup>14</sup> For example, assume a Limit Order to buy for 10.00 designated for the Core Trading Session only (Order A) is entered at 8:00 a.m. Eastern Time. Assume next that a Limit Order to buy for 10.00 designated for both the Early and Core Trading Sessions (Order B) is entered at 9:00 a.m. Eastern Time, and is eligible to trade on arrival. Assume that Order B is not executed in the Early Trading Session. In the Core Trading Auction, Order A will have time priority over Order B. However, after the Auction Processing Period for the Core Open Auction ends, Order A will be assigned a new working time. In continuous trading Order B, which was eligible to trade earlier than Order A, would have time priority over Order A.

purposes of this example, the current trading session. Because the Exchange does not conduct a Trading Halt Auction for UTP Securities, the Exchange proposes to cancel such non-live orders in order to reduce the potential for such orders to lock or cross a protected quotation if trading resumes in that security in the next trading session.

The Exchange also proposes to amend how orders are maintained on the NYSE Arca Book during a halt or pause. As proposed, rather than assign Limit Orders a working price and display price that is equal to the limit price of the Order, the Exchange proposes to amend Rule 7.18P(c)(2) to provide that during a halt or pause in Exchange-listed securities, it would maintain resting orders on the NYSE Arca Book at their last working price and display price. This proposed change would not alter how such orders would participate in a Trading Halt Auction, which would continue to be based on their limit price, and not their last working price.<sup>15</sup> Nor would it alter how they would be priced when transitioning to continuous trading, because as proposed in Rule 7.35P(h)(3)(C), the working price and display price of such orders would be adjusted based on any changes to the PBBO or NBBO, as provided for in Rule 7.31P. This proposed rule change would therefore not alter any priority for such orders, but would streamline order processing for the Exchange by eliminating an extra processing step. For consistency, the Exchange proposes to add the same clause to Rule 7.18P(b)(2).<sup>16</sup> Finally, the Exchange proposes to amend Rule 7.18P(c)(5) to provide more specificity of when the rules governing order acceptance during a halt or pause ends. Currently, the rule provides that the Exchange accepts all other incoming order instructions until the security has reopened. Because acceptance

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<sup>15</sup> See Rule 7.35P(a)(6)(A) (Limit Orders, LOO Orders, and LOC orders will be ranked based on their limit price and not the price at which they would participate in the auction).

<sup>16</sup> The Exchange also proposes a non-substantive, technical amendment to fix a typographical error in Rule 7.18P(c) to use the term “Marketplace” instead of “Markeplace.”

of orders and order instructions during the Auction Processing Period is governed by Rule 7.35P(g), the Exchange proposes to revise Rule 7.18P(c)(5) to provide that the Exchange would accept all other incoming order instructions until the Auction Processing Period for the Trading Halt Auction, at which point, Rule 7.35P(g) would govern the entry of incoming orders and order instructions.

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Because of the technology changes associated with this proposed rule change, the Exchange will announce by Trader Update the implementation date.

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),<sup>17</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>18</sup> in particular, because 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, to remove impediments to, and perfect the mechanism of, a free and open market and a national market system and, in general, to protect investors and the public interest.

The Exchange believes the proposed changes would remove impediments to and perfect the mechanism of a free and open market and a national market system, and in general, to protect investors and the public interest, because they are designed to simplify order and order instruction processing both during the Auction Processing Period and when transitioning to continuous trading. Specifically, the Exchange believes that publishing a quote based on orders that were previously live before the new trading session or auction would result in the Exchange

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<sup>17</sup> 15 U.S.C. 78f(b).

<sup>18</sup> 15 U.S.C. 78f(b)(5).

publishing an updated quote sooner than under current rules. In addition, the proposed change to process orders that become live after an auction or in a new trading session in time sequence rather than in price/time priority would similarly simplify order processing by processing such orders in the order they were received. The Exchange also believes that assigning a new working time to orders that were not live prior to the transition to continuous trading would preserve the time priority of those orders that were eligible to trade in an earlier trading session or before the auction. This proposed rule change is also based on how Bats and Nasdaq assign time priority to orders that were not live prior to an auction and that are added to the book after an auction.<sup>19</sup>

The Exchange also believes that the proposed changes to when the Exchange would process order instructions, both during the Auction Processing Period and when transitioning to continuous trading, are designed to provide consistent treatment of when order instructions would be processed, which would be based on when an order was entered. The Exchange believes that waiting to process order instructions that relate to an order that was entered before the Auction Processing Period (including order instructions entered during the Auction Imbalance Freeze that were not yet processed) would remove impediments to and perfect a free and open market and a national market system because it would ensure that a customer's order instructions would be processed in time sequence with the underlying order. Likewise, the Exchange believes that the proposed change to reject subsequent order instructions when order instructions are not processed on arrival, as provided for in proposed Rules 7.35P(g)(1) and 7.35P(2)(A) [sic], would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would reduce the potential for conflicting order

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<sup>19</sup> See supra note 13.



instructions being entered for the same order. By contrast, the Exchange believes that if a new order is entered during a transition phase, such as the Auction Processing Period or the transition to continuous trading, ETP Holders do not have an expectation that such orders would be processed yet, and therefore processing order instructions relating to such new orders on arrival would remove impediments to and perfect the mechanism of a free and open market and a national market system by ensuring that the most recent instruction for such not-yet-live order is available when the order will be processed in time sequence with other orders.

The Exchange also believes that the proposed change to accept Limit Orders designated IOC and Cross Orders during the Auction Processing Period would remove impediments to and perfect the mechanism of a free and open market and a national market system. Specifically, the Exchange believes that ETP Holders that enter such orders after 9:30 a.m. Eastern Time or after 4:00 p.m. Eastern Time have an expectation that such orders would be eligible to trade consistent with the IOC instruction. Because an ETP Holder would not be able to pinpoint the precise timing of the Auction Processing Period for a security and because the Exchange would be processing orders in time sequence following the Auction Processing Period, the Exchange believes that the applicable IOC instruction would in essence be processed on arrival.

The Exchange believes that the proposed changes to Rule 7.18P would remove impediments to and perfect the mechanism of a free and open market and a national market system because they are designed to streamline order processing during a halt or pause. The Exchange further believes that the proposed change during a UTP Regulatory Halt to cancel orders that are not eligible to trade in the current trading session would remove impediments and perfect the mechanism of a free and open market and a national market system because the changes are designed to reduce the potential for such orders to lock or cross a protected quotation

if trading resumes in that security in the next trading session.

The Exchange further believes that the proposed changes would remove impediments to and perfect the mechanism of a free and open market and in general, to protect investors and the public interest because the proposed changes would facilitate the Exchange in applying Price Bands under the LULD Plan to Exchange-listed securities immediately following the transition to the Core Trading Session or following a Trading Halt Auction during Core Trading Hours without waiting for such Price Bands to be published by the SIP based on the reference price provided by the Exchange.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the proposed rule change is not designed to address any competitive issues, but rather, to streamline and simplify order and order instruction processing both during and immediately after the Auction Processing Period.

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

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, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>20</sup>

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<sup>20</sup> 15 U.S.C. 78s(b)(3)(A).

and Rule 19b-4(f)(6) thereunder.<sup>21</sup>

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act<sup>22</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)<sup>23</sup> permits the Commission to 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 proposal may become operative immediately upon filing. According to the Exchange, the proposed rule change would help the Exchange in providing more information about orders on the Arca Book at an earlier stage, would simplify certain order processing, and would facilitate the Exchange in applying LULD Price Bands immediately following an auction in Exchange-listed securities, rather than waiting for the SIP to publish such Price Bands based on a reference price provided by the Exchange. The Exchange further stated that it expects to be able to implement the technology changes supporting this proposed rule change in less than 30 days from filing. The Commission believes the waiver of the operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the operative delay and designates the proposal operative upon filing.<sup>24</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission

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<sup>21</sup> 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

<sup>22</sup> 17 CFR 240.19b-4(f)(6).

<sup>23</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>24</sup> For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEArca-2016-117 on the subject line.

##### Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSEArca-2016-117. 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 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-NYSEArca-2016-117, 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>25</sup>

Robert W. Errett  
Deputy Secretary

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<sup>25</sup> 17 CFR 200.30-3(a)(12).