

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-81717; File No. SR-NYSEArca-2017-96)

September 25, 2017

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rule 6.40-O to Allow Certain Order Types to Be Excluded from the Risk Limitation Mechanism

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 September 11, 2017, 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 the Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 6.40-O (Risk Limitation Mechanism) to allow certain order types to be excluded from the risk limitation mechanism. 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 it received on the proposed rule change. The text of those statements may be examined at the

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

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

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

places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

1. Purpose

The Exchange proposes to amend Rule 6.40-O (Risk Limitation Mechanism) to allow certain order types to be excluded from the risk limitation mechanism. Specifically, the Exchange proposes to provide OTP Holder and OTP Firms (collectively, “OTPs”) with the option to exclude Immediate-Or-Cancel (“IOC”) orders from being counted against risk limitation thresholds.<sup>4</sup>

Risk Limitation Mechanisms

The Exchange offers OTPs the option of utilizing risk limitation settings to assist OTPs in managing risk related to submitting orders during periods of increased and significant trading activity.<sup>5</sup> An OTP can utilize one of three risk limitation mechanisms for its orders – based on the number of transactions executed, the number of contracts traded, or the percent of the OTP’s order size – which automatically cancels such orders when certain parameter settings are breached.<sup>6</sup> The Exchange maintains trade counters that increment based on the number of trades executed, either from a single-leg order or any leg of a Complex Order, in any series in a

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<sup>4</sup> An IOC order is “[a] Limit Order that is to be executed in whole or in part on the Exchange as soon as such order is received, and the portion not so executed is to be canceled.” See Rule 6.62(k).

<sup>5</sup> See Commentary .04(b) to Rule 6.40-O (providing that OTPs may avail themselves of one of the three risk limitation mechanisms for certain of their orders). Under the current Rule, Market Makers are required to utilize the risk limitation settings for quotes and the Exchange is not proposing to alter any aspect of this Rule in this regard. See also Commentary .04(a) to Rule 6.40-O; and Rule 6.40(b)(2), (c)(2), (d)(2) and (e)(2).

<sup>6</sup> See Rule 6.40-O(b)(1), (c)(1), (d)(1) and Commentaries .01 to Rule 6.40-O (regarding the cancellation of orders once the risk settings have been breached).

specified class.<sup>7</sup> The trade counters reset after an Exchange-determined time period.<sup>8</sup> When an OTP has breached its risk settings (i.e., has traded more than the contract or volume limit or cumulative percentage limit of a class during the specified measurement interval), the Exchange will cancel all of the OTP's open orders in that class until the OTP notifies the Exchange it will resume submitting orders.<sup>9</sup> The temporary suspension of orders from the market that results when the risk settings are triggered is meant to operate as a safety valve that enables OTPs to re-evaluate their positions before requesting to re-enter the market.

Proposed Exclusion of IOC orders from risk settings

Under the current Rule, an OTP may activate a Risk Limitation Mechanism, and corresponding settings, for orders in a specified class and, once activated, the mechanism and the settings established will remain active unless, and until, the OTP deactivates the Risk Limitation Mechanism or changes the settings.<sup>10</sup> Thus, once an OTP activates risk settings for orders in a specified class, the risk settings apply to all order types in that options class. The Exchange proposes to modify the rule to provide an OTP that chooses to utilize risk settings for its orders the option to exclude both single-legged orders and Complex Orders designated as IOC from being considered by the trade counter. To effect this change, proposed Commentary .07 to Rule 6.40-O would be amended to provide that “[a]ny OTP that activates the Risk Limitation

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<sup>7</sup> See Rule 6.40-O(a)(1), (f). See also Commentaries .05 -.07 to Rule 6.40 (regarding the operation of the trade counters).

<sup>8</sup> See Commentary .06 to Rule 6.40-O.

<sup>9</sup> See Commentaries .01 and .02 to Rule 6.40-O (requiring that an OTP request that it be re-enabled after a breach of its risk settings). In the event that an OTP experiences multiple, successive triggers of its risk settings, the Exchange would cancel all of the open orders – as opposed to cancelling only those in the option class (underlying symbol) in which the risk settings were triggered. See Rule 6.40-O(f) and Commentary .02 to Rule 6.40-O.

<sup>10</sup> See Commentary .04(b) to Rule 6.40-O.

Mechanisms for orders pursuant to Commentary .04(b) of this Rule may opt to exclude any orders (i.e., whether single-leg orders or Complex Orders) designated with a time-in-force of IOC from being considered by a trade counter.”

By their terms, IOC orders (or portions thereof) will cancel if not immediately executed. As such, IOC orders are never ranked (as resting interest) in the Consolidated Book. The Exchange believes that certain OTPs utilize IOC orders to access liquidity on the Exchange. Thus, the proposed change is designed to accommodate participants that utilize IOCs in this manner by enabling them to exclude IOC orders from being counted and avoid potentially triggering their risk settings (prematurely), resulting in the cancellation of open orders. The Exchange believes that providing OTPs this additional flexibility may encourage more OTPs to utilize the risk settings, which benefits all market participants. The Exchange also believes that the proposed change would result in risk settings that may be better calibrated to suit the needs of certain OTPs (i.e., those that routinely utilize IOC orders to access liquidity on the Exchange), which improved risk settings should encourage OTPs to direct additional order flow and liquidity to the Exchange.

The Exchange notes that the proposed change is limited to IOC orders being counted towards whether a risk limitation threshold has been reached. In the event an OTP breaches its risk limitation settings, any new orders in the specified class, including incoming IOC orders, sent by the OTP would be rejected until the OTP requests that the Exchange enable the entry of new orders.<sup>11</sup>

#### Implementation

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<sup>11</sup> See Commentary .02 to Rule 6.40-O.

The Exchange will announce by Trader Update the implementation date of the proposed rule change, which implementation will be no later than 90 days after the effectiveness of this rule change.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),<sup>12</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>13</sup> 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 regulating, clearing, settling, processing information with respect to, and 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 that the proposed rule change removes impediments to and perfects the mechanism of a free and open market by providing OTPs greater control and flexibility over setting their risk tolerance, which may enhance the efficacy of the risk settings. By their terms, IOC orders (or portions thereof) will cancel if not immediately executed. As such, IOC orders are never ranked (as resting interest) in the Consolidated Book. The Exchange believes that certain market participants utilize IOC orders to access liquidity on the Exchange. Thus, the proposed change is designed to accommodate participants that utilize IOCs in this manner by enabling them to exclude IOC orders from being counted and avoid potentially triggering their risk settings (prematurely), resulting in the cancellation of open orders. The Exchange believes that providing OTPs this additional flexibility may encourage more OTPs to

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<sup>12</sup> 15 U.S.C. 78f(b).

<sup>13</sup> 15 U.S.C. 78f(b)(5).

utilize the risk settings, which benefits all market participants. Further, the proposed change would promote just and equitable principles of trade because it would result in risk settings that may be better calibrated to suit the needs of certain OTPs (i.e., those that routinely utilize IOC orders to access liquidity on the Exchange), which improved risk settings should encourage OTPs to direct additional order flow and liquidity to the Exchange. To the extent additional order flow is submitted to the Exchange as a result of the proposed change, all market participants stand to benefit from increased trading.

The Exchange notes that an OTP has the option of utilizing risk settings for all orders submitted to the Exchange and, as proposed, would have the additional option of excluding from these risk settings any IOC orders in a given options class submitted to the Exchange.

This proposed change, which was specifically requested by some OTPs, would foster cooperation and coordination with persons engaged in regulating, clearing, settling, and processing information with respect to, and facilitating transactions in, securities as it will be available to all OTPs on an optional basis and may encourage more OTPs to utilize this enhanced functionality to [sic] benefit of all market participants. Because the risk controls are designed to prevent the execution of erroneously priced trades, the Exchange believes that any proposal designed to increase the number of OTPs that utilize the functionality would benefit all market participants.

**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 is proposing a market enhancement that would provide OTPs with greater control and flexibility over setting their risk tolerance and, potentially, more protection over risk exposure.

The proposal is structured to offer the same enhancement to all OTPs, regardless of size, and would not impose a competitive burden on any participant. The Exchange does not believe that the proposed enhancement to the existing risk limitation mechanism would impose a burden on competing options exchanges. Rather, the availability of this mechanism may foster more competition. Specifically, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues. When an exchange offers enhanced functionality that distinguishes it from the competition and participants find it useful, it has been the Exchange's experience that competing exchanges will move to adopt similar functionality. Thus, the Exchange believes that this type of competition amongst exchanges is beneficial to the market place [sic] as a whole as it can result in enhanced processes, functionality, and technologies.

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>14</sup> and Rule 19b-4(f)(6) thereunder.<sup>15</sup>

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<sup>14</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>15</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.

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act<sup>16</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)<sup>17</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 Exchange can implement the proposal without delay. The Exchange believes that waiver of the operative delay would be consistent with the protection of investors and the public interest because it would enable the Exchange to implement without delay the proposed optional functionality, which the Exchange believes may, in turn, encourage more OTPs to utilize the optional risk settings for orders. Thus, the Exchange believes waiver of the operative delay would protect investors by enabling the Exchange to provide greater flexibility to its Risk Limitation Mechanisms for orders, which may result in increased usage of the risk settings to the benefit of all market participants. The Commission believes that waiver of the operative delay is consistent with the protection of investors and the public interest because it will provide OTP Holders with the flexibility to exclude IOC orders from consideration by a trade counter, which, the Exchange believes, could encourage additional OTP Holders to use the risk limitation settings. As noted above, the risk limitation settings are designed to assist OTP Holders in managing risk related to submitting orders during periods of increased and significant trading activity. Under the proposal, the ability to exclude IOC orders from consideration by a trade counter is optional; thus, an OTP Holder that utilizes the risk limitation settings and wishes to continue to have its IOC orders considered by a trade counter will be able to do so. Accordingly, the Commission hereby waives the operative delay and

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<sup>16</sup> 17 CFR 240.19b-4(f)(6).

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



designates the proposed rule change operative upon filing.<sup>18</sup>

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](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEArca-2017-96 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-2017-96. 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

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<sup>18</sup> For purposes only of waiving the 30-day operative delay, the Commission also has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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-2017-96, 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>19</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>19</sup> 17 CFR 200.30-3(a)(12).