

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-84451; File No. SR-NYSEArca-2018-74)

October 18, 2018

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change to Amend Rules 6.62-O and 6.37A-O to Add New Order Types and Quotation Designations

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (“Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on October 5, 2018, NYSE Arca, Inc. (“Exchange” or “NYSE Arca”) 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 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 Rules 6.62-O (Certain Types of Orders Defined) and 6.37A-O (Market Maker Quotations) to add new order types and quotation designations. The proposed 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 places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and

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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.

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 purpose of this filing is to modify Rules 6.62-O and 6.37A-O to add new order types and quotation designations as described herein. The Exchange also proposes to make conforming changes to these rules to reflect the proposed order types and quotations designations.

Existing Order Types

Current Rule 6.62-O sets forth the order types available on the Exchange, including Liquidity Adding Orders (each an “ALO”) and PNP (Post No Preference) Orders, both of which provide market participants control over how their orders interact with contra-side liquidity. Specifically, an ALO is a Limit Order that is rejected if it is marketable against the NBBO on arrival.<sup>4</sup> A PNP Order is eligible to interact solely with interest on the Exchange, will not route, and will cancel if it locks or crosses the NBBO.<sup>5</sup> The Exchange proposes to add order types that

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<sup>4</sup> See Rule 6.62-O(t) (providing that “a Liquidity Adding Order is a Limit Order which is to be accepted only if it is not executable at the time of receipt. Orders with the liquidity adding instruction will not be routed if marketable against the NBBO, but will be rejected. Liquidity adding orders may only be entered as a Day Order”). The Exchange proposes to modify paragraph (t) of this Rule to define Liquidity Adding Orders as ALOs and make conforming changes to the Rule. See proposed Rule 6.62-O(t). The Exchange also proposes to modify the rule to reflect that “[a]n ALO or RALO, as defined in paragraph (t)(1) of this Rule, will be rejected if entered outside of Core Trading Hours or during a trading halt or, if resting, will be cancelled in the event of a trading halt,” which is a functionality update that ensures these rule types operate as intended. See *id.*

<sup>5</sup> See Rule 6.62-O(p) (providing that a PNP Order “is a Limit Order to buy or sell that is to be executed in whole or in part on the Exchange, and the portion not so executed is to be ranked in the Consolidated Book, without routing any portion of the order to another market center; provided, however, the Exchange shall cancel a PNP Order that would lock or cross the NBBO”). The Exchange proposes to capitalize the “Market Center” as used in paragraph (p) of the Rule, which is a defined term in Rule 6.1A-O(6). See proposed Rule 6.62-O(p).

build on the existing ALO and PNP Order functionality to allow for repricing (rather than cancellation or rejection of orders) under certain circumstances.

### Repricing ALO (“RALO”)

The Exchange proposes to allow market participants the option to send in ALOs designated as RALO.<sup>6</sup> As proposed, a RALO would be repriced (rather than be rejected) if it would either trade as the liquidity taker or display at a price that locks or crosses any interest on the Exchange or the NBBO. Specifically, an incoming RALO to buy (sell) that would trade with any displayed or undisplayed sell (buy) interest on the Consolidated Book would be displayed at a price one minimum price variation (“MPV”) below (above) such sell (buy) interest. An incoming RALO to buy (sell) that is not marketable against interest in the Consolidated Book but that would lock or cross the NBO (NBB) would be displayed at a price that is one MPV below (above) the NBO (NBB). If the sell (buy) interest in the Consolidated Book or NBO (NBB) moves up (down), the display price of the RALO to buy (sell) and the undisplayed price at which it is eligible to trade would be continuously adjusted, up (down) to the RALO’s limit price. In other words, to avoid trading as the liquidity taker, the RALO would be displayed at a price one MPV away from the best-priced contra-side interest, whether on the Exchange or an away market, and its display price would continue to be adjusted up to its limit price.

As proposed, a resting RALO to buy (sell) that is displayed one MPV below (above) interest on the Consolidated Book would be eligible to trade at its display price. As further proposed, a resting RALO to buy (sell) that is displayed at a price one MPV below (above) the NBO (NBB) would be eligible to trade at the NBO (NBB); provided, however, that if the NBO

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<sup>6</sup> See proposed Rule 6.62-O(t)(1). The Exchange proposes that a RALO that is designated as a Reserve Order (i.e., with a portion of the order not displayed) would be rejected because of the complexity (and potential priority conflict) that could be introduced if the Exchange allowed a combination of these two order types. See *id.*

(NBB) updates to lock or cross the RALO's display price, such RALO would trade at its display price in time priority behind other eligible interest already displayed at that price.<sup>7</sup> Because in such circumstances the RALO would be trading at its display price, which would be different than the (less aggressive) price it was previously eligible to trade, the Exchange believes that principles of price-time priority dictate that the repriced RALO should be ranked behind other interest already displayed at the RALO's updated display price.<sup>8</sup> Similarly, the Exchange proposes that each time there is an update to the RALO's price, the RALO would be ranked by time priority behind other eligible interest already at that price. And, if multiple RALOs simultaneously reprice to the same price at which they are eligible to trade, the RALOs would be prioritized based on the time of original order entry. The Exchange believes that this proposed handling of RALOs likewise would respect and preserve the Exchange price-time priority model.

To avoid accepting RALOs priced too far through the NBBO, the Exchange proposes to limit the extent to which it would reprice such interest. Specifically, the Exchange would cancel an incoming RALO that has a limit price to buy (sell) that is more than a configurable number of MPVs above (below) the initial display price (on arrival) of the RALO.<sup>9</sup> The Exchange would determine the configurable number of MPVs, which will be announced by Trader Update.<sup>10</sup>

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<sup>7</sup> The proposed RALO operates in substantially the same manner as the ALO Order, available on the Exchange's equity market, which, like the RALO, would not remove liquidity and reprices if it would lock or cross interest on the Consolidated Book or the NBBO. See Rule 7.31-E(e)(2).

<sup>8</sup> The proposal to re-rank an order when the price at which an order is eligible to trade changes is consistent with how the Exchange's equity order types function. See Rule 7.36-E(f)(3) (providing that an order is assigned a new working time (i.e., effective time sequence assigned to an order for purposes of determining its priority ranking) any time the working price (i.e., the price at which an order is eligible to trade) changes).

<sup>9</sup> See proposed Rule 6.62[sic](t)(1)(B).

<sup>10</sup> For example, in a Penny Pilot issue, if the local best offer is 0.99 and the away best offer is 1.00 with a configuration set to 3 MPV, a RALO to buy of 1.02 or greater will cancel

The following examples illustrate the proposed RALO order type.

**RALO Example 1**

Exchange BBO: (100) 1.98 x 2.22 (100)

Away BBO: (50) 1.97 x 2.23 (50)

Order 1: RALO Buy 50 @ 2.25

- The incoming RALO (Order 1) will reprice to display and be eligible to trade @ 2.21 (i.e., one MPV below the NBO, which is also the Exchange BO).

Order 2: Sell 50 @ 2.18

- Order 2 will trade on arrival with the RALO (Order 1) @ 2.21.

**RALO Example 2**

Exchange BBO: (100) 2.15 x 2.22 (100)

Away BBO: (50) 2.20 x 2.23 (50)

Order 1: PNPB<sup>11</sup> Sell 50 @2.19

- The PNPB (Order 1) will be eligible to trade @ 2.20 (but will not be displayed at this price because it crosses the NBB).

Order 2: RALO Buy 50 @ 2.25

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on arrival because the initial display price would be 0.98 which is 4 MPVs away from its limit price.

<sup>11</sup> A PNP-Blind Order (or PNPB) order “is a Limit Order to buy or sell that is to be executed in whole or in part on the Exchange, and the portion not so executed is to be ranked in the Consolidated Book, without routing any portion of the order to another market center; however, if the [PNPB] order would lock or cross the NBBO, the price and size of the order will not be disseminated. Once the [PNPB] order no longer locks or crosses the NBBO, the price and size will be disseminated.” See Rule 6.62-O(u).

- a. The RALO (Order 2) will reprice to display and be eligible to trade @ 2.19 (i.e., one MPV below the PNPB (Order 1) @ 2.20, which is the best priced (undisplayed) contra-side interest in the Consolidated Book).

Order 3: Sell 100 @ 2.18

- b. Order 3 will route 50 to the Away BB @ 2.20, and trade the remaining 50 with the RALO (Order 2) @ 2.19.
- c. The PNPB (Order 1) will then display (because it is no longer crossing the NBB) and be eligible to trade @ 2.19.

### **RALO Example 3**

Exchange BBO: (100) 1.98 x 2.22 (10)

Away BBO: (50) 1.97 x 2.25 (50)

Order 1: Sell Limit 10 @ 2.23

Order 2: Sell Limit 10 @ 2.24

Order 3: RALO Buy 50 @ 2.25

- The RALO (Order 3) will reprice to display and be eligible to trade @ 2.21 (i.e., one MPV below the NBO, which is also the Exchange BO).

Order 4: Buy Limit 10 @ 2.25

- Order 4 will trade with the Exchange BO @ 2.22.

Update to Exchange BBO: (50) 2.21 x 2.23 (10)

- Order 3 (RALO) will be repriced to display and be eligible to trade @ 2.22.

Order 5: Sell 50 @ 2.20

- Order 5 will trade with Order 3 (RALO) @ 2.22.

#### **RALO Example 4**

Exchange BBO: (100) 1.98 x 2.22 (10)

Away BBO: (50) 1.97 x 2.25 (50)

Order 1: RALO Buy 50 @ 2.23

- The RALO (Order 1) will reprice to display and be eligible to trade @ 2.21 (i.e., one MPV below the NBO, which is also the Exchange BO).

Order 2: Buy Limit 50 @ 2.23

- Order 2 will trade 10 contracts with the Exchange BO @ 2.22 and the remaining 40 contracts of Order 2 will be added the Consolidated Book at 2.23. The RALO (Order 1) will reprice to display and be eligible to trade @ 2.23, at which time the RALO will get a new priority timestamp making it eligible to trade behind Order 2 (already displayed at this price) in time priority.

Order 3: Sell Limit 10 @ 2.23

- Order 3 will trade with Order 2, as Order 2 has time priority over the RALO (Order 1).

Order 4: Sell 10 @ 2.50

New Exchange BBO: (80) 2.23 x 2.50 (10)

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The Exchange believes the proposed RALO would give market participants more flexibility and control over the circumstances under which their orders trade with contra side-interest (i.e., by ensuring that a RALO would always add liquidity as maker, rather than remove

liquidity as taker), while ensuring that RALOs priced too far through the contra-side NBBO would be rejected. The Exchange believes the proposed RALO would assist market participants in maximizing opportunities for execution (as such orders would reprice rather than reject) while encouraging the provision of greater displayed liquidity to the market, which would contribute to public price discovery.

#### Repricing PNP Order (“RPNP”)

The Exchange proposes to allow market participants the option to send in PNP Orders as RPNP.<sup>12</sup> As proposed, an RPNP is a PNP Order that would be repriced (rather than be cancelled after trading with interest in the Consolidated Book) if it would lock or cross the NBBO. Specifically, an RPNP to buy (sell) that would lock or cross the NBO (NBB) would be displayed at a price one MPV below (above) the NBO (NBB). If the NBO (NBB) moves up (down), the display price of the RPNP to buy (sell) and the undisplayed price at which it is eligible to trade would be continuously adjusted, up (down) to the limit price of the RPNP.

As proposed, a RPNP to buy (sell) that is displayed at a price one MPV below (above) the NBO (NBB) would be eligible to trade at the NBO (NBB), up (down) to the limit price of the RPNP; provided, however, that if the NBO (NBB) updates to lock or cross the RPNP’s display price, such RPNP would trade at its display price in time priority behind other eligible interest

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<sup>12</sup> See proposed Rule 6.62-O (p)(1). The Exchange proposes that an RPNP received during pre-open or during a trading halt will be treated as a PNP Order (i.e., as a Limit Order and will not reprice) for purposes of participating in opening auctions or re-opening auctions. See proposed Rule 6.62-O (p). An RPNP may only be entered as a Day Order (i.e., that expires at the end of the trading day). See proposed Rule 6.62-O (p)(1). The Exchange proposes that an RPNP that is designated as a Reserve Order (i.e., with a portion of the order not displayed) would be rejected because of the complexity (and potential priority conflict) that could be introduced if the Exchange allowed a combination of these two order types. See *id.*

already displayed at that price.<sup>13</sup> And, if multiple RPNPs simultaneously reprice to the same price at which they are eligible to trade, the RPNPs would be prioritized based on the time of original order entry. For the same reason as described above for the proposed RALO, the Exchange believes that ranking the RPNP to buy (sell) behind other interest already displayed at the RPNP's updated display price, and ranking RPNPs that simultaneously reprice to the same price based on time of original order entry, would respect and preserve principles of priority. Also consistent with the Exchange's price-time priority model, the Exchange proposes that each time there is an update to the RPNP's price, the RPNP would be ranked by time priority behind other eligible interest already at that price.

Similar to the proposed RALO, to avoid accepting RPNPs priced too far through the NBBO, the Exchange proposes to limit the extent to which it would reprice such interest.<sup>14</sup> An incoming RPNP would be cancelled after trading with eligible interest (if any) if its limit price to buy (sell) is more than a configurable number of MPVs above (below) the initial display price (on arrival). The Exchange would determine the configurable number of MPVs, which would be announced by Trader Update.<sup>15</sup>

The Exchange believes the proposed RPNP would give market participants more flexibility and control over the circumstances under which their orders trade with contra side-interest, while ensuring that RPNPs priced too far through the contra-side NBBO would be

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<sup>13</sup> The proposed RPNP operates in substantially the same manner as the Non-Routable Limit Order available on the Exchange's equities market, which, like the RPNP, reprices if it would lock or cross a protected quotation of an Away Market or trade through a protected quotation. See Rule 7.31-E(e)(1).

<sup>14</sup> See proposed Rule 6.62[sic](p)(1)(B).

<sup>15</sup> For example, in a Penny Pilot issue, if the local best offer is 0.99 and the away best offer is 1.00 with a configuration set to 3 MPV, a RPNP to buy at 1.03 or greater would trade with the local offer at 0.99 and any remaining interest will be cancelled (because the initial display price would be 0.99 which is 4 MPVs away from its limit price).

rejected. The Exchange believes the proposed RPNP would assist market participants in maximizing opportunities for execution (as such orders would reprice rather than reject) while encouraging the provision of greater liquidity to the market, which would contribute to public price discovery.

The following examples illustrate the proposed RPNP order type.

### **RPNP Example 1**

Exchange BBO: (100) 1.98 x 2.22 (100)

Away BBO: (50) 2.00 x 2.20 (50)

Order 1: RPNP Buy 50 @ 2.25

- The RPNP (Order 1) will display @ 2.19 (i.e., one MPV below the NBO) and will be eligible to trade @ 2.20 (i.e., the NBO).

Order 2: Sell 50 @ 2.18

- Order 2 will trade on arrival with the RPNP (Order 1) @ 2.20.

### **RPNP Example 2**

Exchange BBO: (100) 1.98 x 2.22 (100)

Away BBO: (50) 2.00 x 2.20 (50)

Order 1: PNPB Buy 50 @ 2.22

- The PNPB (Order 1) will be eligible to trade @ 2.20 (but will not be displayed at this price because it crosses the NBO).

Order 2: RPNP Buy 50 @ 2.21

- The RPNP (Order 2) will display @ 2.19 (i.e., one MPV below the NBO) and be eligible to trade @ 2.20 behind Order 1 in time priority.

Order 3: Sell 10 @ 2.18

- Order 3 will trade on arrival with Order 1 @ 2.20.

### **RPNP Example 3**

Exchange BBO: (100) 1.98 x 2.22 (100)

Away BBO: (50) 2.00 x 2.20 (50)

Order 1: PNPB Buy 50 @ 2.21

- The PNPB (Order 1) will be eligible to trade at 2.20 (but will not be displayed at this price because it crosses the NBO).

Order 2: RPNP Buy 50 @ 2.22

- The RPNP (Order 2) will display @ 2.19 and will be eligible to trade @ 2.20 behind Order 1 in time priority.

Away BBO updates to (50) 2.00 x 2.19 (50)

- The updated NBO locks the display price of the RPNP Buy 50 (Order 2).
- The PNPB (Order 1) and the RPNP (Order 2) are both eligible to trade @ 2.19. The RPNP has priority to trade ahead of the PNPB because the RPNP was displayed @ 2.19 before the away market updated (and the PNPB is still undisplayed because its limit price is still crossing the NBO).

Order 3: Sell 10 @ 2.18

- Order 3 will trade on arrival with the RPNP (Order 2) @ 2.19.

### **RPNP Example 4**

Exchange BBO: (100) 1.98 x 2.22 (100)

Away BBO: (50) 2.00 x 2.20 (50)

Order 1: Limit Buy 50 @ 2.19.

Order 2: RPNP Buy 50 @ 2.22

- The RPNP will display @ 2.19 (because crosses the NBO) and will be eligible to trade @ 2.20.

Away BBO updates to (50) 2.00 x 2.19 (50)

- NBO now locks the display price of Order 2 (RPNP).
- The RPNP (Order 2) will reprice to display and (will continue to) be eligible to trade @ 2.19, but Order 1 will have priority over Order 2 as it was already being displayed at this price.

Order 3: Sell 10 @ 2.18

- Order 3 will trade on arrival with Order 1 @ 2.19.

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#### Existing Market Maker Quotations

Current Rule 6.37A-O(a) defines Market Maker quotes, including quotations designated as Market Maker - Light Only (“MMLO”), and specifies how such quotes are processed when a series is open for trading. The Exchange proposes to modify Rule 6.37A-O(a) to add two new quote designations to provide market makers with the same functionality for their quotations as are proposed for orders entered on the Exchange. The proposed quotation designations are similar to how the proposed RALO and RPNP would function and would enable Market Makers to exert greater control over how their quotes would interact with contra-side liquidity, while affording them more opportunities to provide liquidity.

#### Market Maker - Add Liquidity Only Quotation (“MMALO”)

The Exchange proposes to allow Markets Makers the option to designate quotations as

MMALO.<sup>16</sup> Similar to how the proposed RALO would function, as proposed, an incoming or resting MMALO would never trade as the liquidity taker nor would it display at a price that would lock or cross any interest on the Exchange or the NBBO.<sup>17</sup> Rather than trade, an MMALO would be repriced based on contra-side interest.<sup>18</sup> Specifically, an incoming MMALO to buy (sell) that would trade with any sell (buy) interest on the Consolidated Book would be displayed at a price one minimum price variation (“MPV”) below (above) such sell (buy) interest. Similarly, an incoming MMALO to buy (sell) that is not marketable against interest in the Consolidated Book but that would lock or cross the NBO (NBB) would be displayed at a price that is one MPV below (above) the NBO (NBB). If the sell (buy) interest in the Consolidated Book or NBO (NBB) moves up (down), the display price of the MMALO to buy (sell) and the undisplayed price at which it is eligible to trade would be continuously adjusted, up (down) to the MMALO’s limit price. In other words, to avoid trading as the liquidity taker, the MMALO would be displayed at a price one MPV away from the best-priced contra-side interest, whether on the Exchange or an away market. The above trading examples illustrating how a RALO is processed (RALO Examples 1 - 4) apply equally to an MMALO of the same size and price of the RALO in each example.

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<sup>16</sup> See proposed Rule 6.37A-O(a)(3)(B) and (a)(4)(A)(i). The Exchange proposes to delete reference to MMLO in paragraph (a)(4), regarding the “[t]reatment of Market Maker Quotations,” as too restrictive in light of the proposed quote types; instead, the Exchange proposes to separately describe the treatment of the various quote types when a series is open for trading. See proposed Rule 6.37A-O(a)(4).

<sup>17</sup> Because incoming quotations, other than an MMALO, would immediately “trade with contra-side interest in the Consolidated Book at prices that do not trade through interest on another Market Center,” the Exchange proposes to modify the rule to carve out incoming MMALOs. See proposed Rule 6.37A-O(a)(4)(A). The Exchange also proposes to replace references to “another Market Center” with “the NBBO” to add clarity and consistency to the Rule. See id.; see also proposed Rule 6.37A-O(a)(4)(C)(i),(D)(i)-(ii).

<sup>18</sup> See proposed Rule 6.37A-O(a)(4)(A)(i).

Similar to the proposed RALO, a resting MMALO to buy (sell) that is displayed one MPV below (above) interest on the Consolidated Book would be eligible to trade at its display price. Also similar to the proposed RALO, a resting MMALO to buy (sell) that is displayed at a price one MPV below (above) the NBO (NBB) would be eligible to trade at the NBO (NBB); provided, however, that if the NBO (NBB) updates to lock or cross the MMALO's display price, such MMALO would trade at its display price in time priority behind other eligible interest already displayed at that price.<sup>19</sup> For the same reasons as described above for the proposed RALO and RPNP, the Exchange believes that ranking the MMALO to buy (sell) behind other interest already displayed at the MMALO's updated display price would respect and preserve principles of priority. Also consistent with the handling of RALOs, , the Exchange proposes that each time there is an update to the MMALO's price, the MMALO would be ranked by time priority behind other eligible interest already at that price.<sup>20</sup> And, if multiple MMALOs simultaneously reprice to the same price at which they are eligible to trade, the MMALOs would be prioritized based on the time of original order entry. The Exchange believes that this handling of MMALOs (which is consistent with proposed handling of RALOs) in the event of a reprice, including when multiple MMALOs simultaneously reprice, is consistent with the Exchange's price-time priority model.

To incorporate MMALO (and MMRP discussed below) into existing rule text, the Exchange proposes to streamline Rule 6.37A-O, by re-organizing and re-numbering related text regarding the treatment of untraded incoming quotations. Specifically, the Exchange proposes to provide that “[a]ny untraded quantity of an incoming quotation will be added to the Consolidated Book, except in the circumstances specified below, which result in the remaining balance being

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<sup>19</sup> See proposed Rule 6.37A-O(a)(4)(A)(i)(b).

<sup>20</sup> See proposed Rule 6.37A-O(a)(4)(A)(i)(c).

cancelled,”<sup>21</sup> including when the incoming quotation “is not designated as MMALO or MMRP” and locks or crosses the NBBO and when it is designated as MMLO and locks or crosses undisplayed interest.<sup>22</sup> Similarly, the Exchange would modify the rule providing that an incoming quotation that locks or crosses the NBBO would be rejected, provided “it is not designated as MMALO or MMRP” and cannot trade with interest in the Consolidated Book at prices that do not trade through the NBBO.<sup>23</sup>

To avoid accepting MMALOs priced too far through the NBBO, the Exchange proposes to limit the extent to which it would reprice such interest. Specifically, the Exchange would reject an incoming quote that is designated as MMALO that has a limit price to buy (sell) that is more than a configurable number of MPVs above (below) the initial display price of the MMALO.<sup>24</sup> The Exchange would determine the configurable number of MPVs, which will be announced by Trader Update.<sup>25</sup>

The Exchange believes the proposed MMALO would give Market Makers more flexibility and control over the circumstances under which their quotes trade with contra side-

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<sup>21</sup> See proposed Rule 6.37A-O(a)(4)(C).

<sup>22</sup> See proposed Rule 6.37A-O(a)(4)(C)(i) and (ii).

<sup>23</sup> See proposed Rule 6.37A-O(a)(4)(D)(i).

<sup>24</sup> See proposed Rule 6.37A-O(a)(4)(D)(iii). The Exchange notes that incoming MMALOs that fail the MPV check are rejected while similarly-priced RALOs would be accepted and then cancelled. The Exchange notes that this is a distinction without a difference and simply reflects an operational difference in how the Exchange evaluates these types of interest. The Exchange also proposes to re-locate text that is currently at the end of this provision to the beginning, such that the Rules states that “[a]n incoming quotation will be rejected, and the Exchange will cancel the Market Maker’s current quotation on the same side of the market, if:” as the Exchange believes this would streamline the Rule making it easier to navigate and understand. See proposed Rule 6.37A-O(a)(4)(D).

<sup>25</sup> For example, in a Penny Pilot issue, if the local best offer is 0.99 and the away best offer is 1.00 with a configuration set to 3 MPV, a MMALO to buy of 1.02 or greater would be rejected because the initial display price would be 0.98, which is 4 MPVs away from its limit price.

interest (i.e., by ensuring that an MMALO would always add liquidity as maker, rather than remove liquidity as taker), while ensuring that MMALOs priced too far through the contra-side NBBO would be rejected. The Exchange believes the proposed MMALO would assist Market Makers in maintaining a fair and orderly market, as it would encourage Market Makers to provide displayed liquidity to the market and thereby contribute to public price discovery.

#### Market Maker - Repricing Quotation (“MMRP”)

The Exchange also proposes to allow Markets Makers the option to designate quotations as MMRP, which is similar to the proposed RPNP.<sup>26</sup> As proposed, an incoming or resting quotation designated as MMRP would never display at a price that locks or crosses the NBBO. Instead, after trading with interest in the Consolidated Book, an incoming MMRP to buy (sell) that locks or crosses the NBO (NBB) would be displayed at a price that is one MPV below (above) the NBO (NBB). If the NBO (NBB) moves up (down), the display price of the MMRP to buy (sell) and the undisplayed price at which it is eligible to trade would be continuously adjusted, up (down) to the MMRP’s limit price.

Similar to the proposed RPNP, an MMRP to buy (sell) that is displayed at a price one MPV below (above) the NBO (NBB) would trade at the NBO (NBB); provided, however, that if the NBO (NBB) updates to lock or cross the MMRP’s display price, such MMRP would trade at its display price in time priority behind other eligible interest already displayed at that price. For the same reasons described above for the proposed RALO and RPNP, the Exchange believes that ranking the MMRP to buy (sell) behind other interest already displayed at the MMRP’s updated display price would respect and preserve principles of priority.<sup>27</sup> Also consistent with the handling of RALOs and RPNPs, , [sic] the Exchange proposes that each time there is an update

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<sup>26</sup> See proposed Rule 6.37A-O(a)(3)(C) and (a)(4)(B).

<sup>27</sup> See proposed Rule 6.37A-O (a)(4)(B)(i).

to the MMRP's price, the MMRP would be ranked by time priority behind other eligible interest already at that price.<sup>28</sup> And, if multiple MMRPs simultaneously reprice to the same price at which they are eligible to trade, the MMRPs would be prioritized based on the time of original order entry. The Exchange believes that this handling of MMRPs (which is consistent with the proposed handling of RALOs and RPNPs) in the event of a reprice, including when multiple MMRPs simultaneously reprice, is consistent with the Exchange's price-time priority model.

The Exchange notes that an MMRP may be submitted when a series is not open for trading (i.e., during pre-open or a trading halt) and such MMRP would be eligible to participate in the opening auction and re-opening auction (as applicable) at the limit price of the MMRP.<sup>29</sup> Such MMRPs would not be repriced as an option series may not open (or re-open) if a quote is locked or crossed.<sup>30</sup>

To avoid accepting MMRPs priced too far through the NBBO, the Exchange proposes to limit the extent to which it would reprice such interest. Specifically, an incoming MMRP that has a limit price more than a configurable number of MPVs above (below) the initial display price (on arrival) would first trade with marketable interest in the Consolidated Book up (down) to the NBO (NBB) and any remaining balance would be cancelled.<sup>31</sup> Similarly, the Exchange would reject an incoming MMRP that does not trade (i.e., because there is no marketable interest in the Consolidated Book) and has a limit price to buy (sell) that is more than a configurable

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<sup>28</sup> See proposed Rule 6.37A-O (a)(4)(B)(ii).

<sup>29</sup> See proposed Rule 6.37A-O(a)(5). The Exchange also proposes to make clear that “[a]ll resting quotations will be cancelled in the event of a trading halt.” See *id.*

<sup>30</sup> See Rule 6.64-O(b)(E)(providing in relevant part, that “[i]f the OX System does not open a series with an Auction Process, the OX System shall open the series for trading after receiving notification of an initial uncrossed NBBO disseminated by OPRA for the series”).

<sup>31</sup> See proposed Rule 6.37A-O(a)(4)(C)(iii).

number of MPVs above (below) the initial display price (on arrival) of the MMRP.<sup>32</sup> The Exchange would determine the applicable number of MPVs and announce the configurable by Trader Update.<sup>33</sup> The above trading examples illustrating how a RPNP is processed (RPNP Examples 1 - 4) apply equally to an MMRP of the same size and price of the RPNP in each example.

The Exchange notes that absent the proposed MMRP, incoming quotes (or portions thereof) would reject or cancel if such quotes locked or crossed away markets, which aligns with the NMS plan for Options Order Protection And Locked/Crossed Market Plan (“Plan”), to which the Exchange is a party.<sup>34</sup> Thus, the Exchange believes that affording Market Makers the ability to designate quotes as MMRP affords Market Makers more certainty when providing liquidity,

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<sup>32</sup> See proposed Rule 6.37A-O(a)(4)(D). The Exchange notes that incoming MMRPs that fail the MPV check are rejected while similarly-priced RPNPs would be accepted and then cancelled. The Exchange notes that this is a distinction without a difference and simply reflects an operational difference in how the Exchange evaluates these types of interest.

<sup>33</sup> For example, in a Penny Pilot issue, if the local best offer is 0.99 and the away best offer is 1.00 with a configuration set to 3 MPV, a MMRP to buy at 1.03 or greater would trade with the local offer at 0.99 and any remaining interest will be cancelled (because the initial display price would be 0.99 which is 4 MPVs away from its limit price). Because the MMRP is cancelled, the Exchange would also cancel the opposite-side quote for that Market Maker. See Rule 6.37A-O(a)(4)(B)(or, as renumbered, proposed Rule 6.37A-O(a)(4)(C) (providing, “[w]hen such quantity of an incoming quotation is cancelled, the Exchange will also cancel the Market Maker’s current quotation on the opposite side of the market).

<sup>34</sup> See Plan, dated April 14, 2009, available [here](http://www.optionsclearing.com/components/docs/clearing/services/options_order_protection_plan.pdf), [http://www.optionsclearing.com/components/docs/clearing/services/options\\_order\\_protection\\_plan.pdf](http://www.optionsclearing.com/components/docs/clearing/services/options_order_protection_plan.pdf). See also Securities Exchange Act Release No. 60405 (July 30, 2009), 74 FR 39362 (August 6, 2009) (File No. 4-546) (order approving the Plan). The Plan obligates the participating exchanges to provide order protection, including addressing locked and crossed markets and the potential for trade-throughs in certain options classes. See *id.* Consistent with the Plan, the rules of the Exchange include prohibitions against trade-throughs and a pattern or practice of displaying certain quotations that lock or cross away markets. See, e.g., Rules 6.94-O, 6.95-O.

while ensuring that MMRPs priced too far through the contra-side NBBO would cancel or reject after trading with any eligible interest on the Exchange.

To reflect the quote types proposed herein, the Exchange proposes to re-organize paragraph (a) of Rule 6.37A-O, by re-locating text that a quote will never route from existing paragraph (a)(4) to paragraph (a)(2); adding new paragraph (a)(3) to provide that “[a] Market Maker may designate a quote as follows”; and re-numbering the balance of the paragraph to account for such changes.<sup>35</sup> In addition, as proposed, the description of a Market Maker -Light Only Quotation (“MMLO”) would be re-numbered as paragraph (a)(3)(A), and the text would be streamlined to provide simply that “[o]n arrival, a quotation designated MMLO will trade with displayed interest in the Consolidated Book only. Once resting, the MMLO designation no longer applies and such quotation is eligible to trade with displayed and undisplayed interest.”<sup>36</sup>

The Exchange notes that this proposal does not relieve a Market Maker of its continuous quoting or firm quote obligations pursuant to Rules 6.37A-O and 6.86-O, respectively. Further, the Exchange notes that Market Makers would still be able to send orders in (and out of) classes to which they are appointed, as orders are not affected by this proposal.

### Implementation

The Exchange will announce by Trader Update the implementation date of the proposed rule change within 90 days of the effective date of this rule filing.

## 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>37</sup> in general, and furthers the objectives of Section 6(b)(5) of

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<sup>35</sup> See proposed Rule 6.37A-O(a)(2)-(3).

<sup>36</sup> See proposed Rule 6.37A-O(a)(3)(A).

<sup>37</sup> 15 U.S.C. 78f(b).

the Act,<sup>38</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 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.

#### RALO and RPNP

The proposed RALO and RPNP would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed order types would provide market participants with greater flexibility and control over how their orders interact with liquidity on the Exchange. The Exchange believes this proposal allows market participants to provide and access greater liquidity on the Exchange, thus benefiting Exchange members. Both proposed order types provide a means to display such orders at prices that are designed to maximize their opportunities for execution. Specifically, allowing any eligible RALO and RPNP to be repriced and potentially trade at multiple price points would improve the mechanism of price discovery. The Exchange believes that ranking a repriced RALO or repriced RPNP behind other interest already eligible to trade at a price, as well as ranking such orders that simultaneously reprice to the same price by time of original order entry, respects and preserves principles of priority and therefore would promote just and equitable principles of trade. The Exchange notes that similar order types are offered by other options exchanges.<sup>39</sup> In addition, the

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<sup>38</sup> 15 U.S.C. 78f(b)(5).

<sup>39</sup> See, e.g., Nasdaq Options Market (“NOM”), Chapter VI Trading Systems, Sec. 1(e)(11) (providing for a non-routable Post-Only Order that will reprice upon entry rather than remove liquidity or lock or cross the NBBO as described herein) and Nasdaq PHLX LLC (“PHLX”) Rule 1080(m)(iv)(A) (providing for a non-routable Do Not Route (“DNR”) Order that that will repeatedly reprice as described herein).

Exchange has approved order types that function similar to the proposed RALO, and RPNP in its equities market rules.<sup>40</sup>

Specifically, the proposed RALO is substantially similar to the Post-Only Order available on NOM. A NOM Post-Only Order is a non-routable order that will not remove liquidity from the NOM System and is ranked and executed on the exchange or cancelled (at the request of a market participant), as appropriate, without routing away to another market. A RALO, like a NOM Post-Only Order, is evaluated at the time of entry with respect to locking or crossing other orders and if such order would lock or cross an order on the Exchange, the order would be repriced to one MPV below the current best offer (for bids) or above the current best bid (for offers) and displayed at one MPV below the current best offer (for bids) or above the current best bid (for offers). Also, like NOM's Post-Only Order, if a proposed RALO would not lock or cross an order on the local book but would lock or cross the NBBO of another market center, in violation of the Plan, such order would be repriced to the current NBO (for bids) or the current NBB (for offers) and displayed at one MPV above (for offers) or below (for bids) the national best price. Given that an incoming RALO (like a NOM Post-Only Order) would need to be evaluated for potential repricing, it may only be entered with a time-in-force of Day (i.e., like NOM's Post-Only Order, a RALO could not be submitted as an Immediate-or-Cancel (IOC) or Good-till-Cancel (GTC)).<sup>41</sup> The RALO, however, will continuously reprice to avoid locking or crossing once resting, while the NOM Post-Only Order appears to be evaluated and repriced only upon entry, which distinction does not change the underlying principle to both order types, which

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<sup>40</sup> See Rules 7.31-E(e)(1) (describing the "Non-Routable Limit Order", which reprices if it would lock or cross a protected quotation of an Away Market or trade through a protected quotation) and 7.31-E(e)(2) (describing the "ALO Order," which is a non-routable limit order that would also reprice if it would remove liquidity from the NYSE Arca Book).

<sup>41</sup> See proposed Rule 6.62-O(t) (providing that an ALO may only be entered as a Day order) and (t)(1) (providing that a RALO in an ALO that may be repriced).

is to avoid locking and crossing the market.<sup>42</sup>

The Exchange's ALO and the RALO combine elements of the NOM Post-Only Order in that NOM market participants can opt to have their Post-Only Order cancelled back if such order locks or crosses another market (an ALO would simply be rejected) and/or if the Post-Only Order would be posted to the NOM System at a price other than its limit price (whereas the RALO is designed to provide additional flexibility for a potential executions until the order reaches its limit price). The NOM Post-Only Order does not specify how it interacts, if at all, with undisplayed interest. The Exchange notes that NOM does not appear to provide for the cancellation of Post-Only Orders that have a limit price that is more than a certain number of MPVs through the best-priced contra-side interest. The Exchange notes that this feature does not alter the repricing feature of the proposed RALO, but rather operates as a check for market participants that may have priced their RALO erroneously. The Exchange therefore believes that any differences between the proposed RALO and the NOM Post-Only Order are minimal and do not change the underlying principle to both order types, which is to avoid locking and crossing the market (with the RALO offering additional protection against erroneous orders).

The RPNP is substantially similar to PHLX's "DNR Order," which is a non-routable order that, after trading with eligible interest on PHLX on arrival, is displayed one MPV "inferior" to the away best bid/offer" and is eligible to trade with the best-priced contra-side interest.<sup>43</sup> The proposed RPNP, like the DNR Order, automatically reprices if the best away

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<sup>42</sup> The continuous repricing feature of the RALO is similar to the "multiple display price sliding" available on Cboe BZX Exchange, Inc. for its Post Only Order; however that order type has certain differences from the proposed RALO, including that the BZX Post Only Order allows such orders to remove liquidity when cost beneficial or cost neutral to market participants and does not appear to reprice the Post Only Order based on interest in the local book. See BZX Rule 11.9(c)(6) and (g).

<sup>43</sup> See PHLX Rule 1080(m)(iv)(A). See also proposed Rule 6.62[sic](p)(1)(A). The

market changes, or moves to an inferior price level, and such orders are displayed at the NBBO only if the repriced order locks or crosses the best-priced local interest. A RPNP (like a DNR Order) may reprice until it reaches its limit price, at which time it will remain at that price until executed or cancelled. And, for both the RPNP and a DNR Order, if the best away market improves its price such that it locks or crosses its limit price, the exchange executes the incoming order that is routed from the away market that locked or crossed the order's limit price. Finally, similar to DNR Orders, any RPNPs that are submitted outside of trading hours will be executed to the extent possible, i.e., at their limit price.<sup>44</sup> The Exchange notes that PHLX does not appear to provide for the cancellation of DNR Orders that have a limit price that is more than a certain number of MPVs through the best-priced contra-side interest. The Exchange notes that this feature does not alter the repricing feature of the proposed RPNP, but rather operates as a check for market participants that may have priced their RPNP erroneously. The Exchange believes that such difference between the proposed RPNP and PHLX's DNR Order is minimal and is designed to protect against erroneous orders.

#### MMALO and MMRP

Similar to the proposed RALO and RPNP, the proposed MMALO and MMRP quote designations would remove impediments to and perfect the mechanism of a free and open market and a national market system because they would provide Market Makers with increased control

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Exchange notes, however, that immediately upon receipt, the DNR Order is exposed at the NBBO, which differs from the proposed RPNP. However, the Exchange believes this is not a material difference as a DNR Orders (like the proposed RPNP) may not trade at prices inferior to the NBBO.

<sup>44</sup> See PHLX Rule 1017(k)(C)(6)(providing that DNR Orders will be executed to “to the extent possible” if received pre-open ). See also proposed Rule 6.62[sic](p) (providing that an RPNP received during pre-open or during a trading halt will be treated as a PNP Order (i.e., as a Limit Order and will not reprice) for purposes of participating in opening auctions or re-opening auctions”).

over interactions with contra-side liquidity and would increase opportunities for such interactions. The Exchange notes that, absent the proposed repricing functionality associated with the MMALO and MMRP, a Market Maker quote that locks or crosses interest on the Exchange or an away market would reject or cancel. In the case of MMALOs, the proposal would promote the display of liquidity because such quotations would be displayed at the next-best aggressive price instead of being cancelled. The proposal would also ensure that an MMALO would always add liquidity as maker, rather than remove liquidity as taker, while ensuring that MMALOs priced too far through the contra-side interest on the Exchange or the NBBO would be rejected. As such, the proposed MMALO would assist Market Makers in maintaining a fair and orderly market, as it would encourage Market Makers to provide displayed liquidity to the market and thereby contribute to public price discovery. In the case of MMRPs, the proposal would afford Market Makers more certainty when providing liquidity, while ensuring that MMRPs priced too far through the contra-side NBBO would cancel or reject after trading with any eligible interest on the Exchange. The Exchange notes that the proposed MMALO and MMRP are optional and Market Makers have the option to utilize these quote types (or not). The Exchange believes that ranking the repriced MMALO or repriced MMRP by time priority behind other interest already available to trade at a price respects and preserves principles of priority and therefore would remove impediments to and perfect the mechanism of a free and open market and a national market system.

Because the options market is quote driven and Market Makers are vital to the price discovery process, the Exchange believes that the proposed (optional) quote types would provide Market Makers with a greater level of determinism, in terms of managing their exposure, and thus may encourage more aggressive liquidity provision, resulting in more trading opportunities

and tighter spreads. This too would help improve the mechanism of price discovery.

Accordingly, the Exchange believes that the proposal would improve overall market quality and enhance competition on the Exchange to the benefit of all market participants. Moreover, the Exchange also notes that other options exchanges have recently adopted quote types designed to strengthen market making.<sup>45</sup> Accordingly, the Exchange believes that the proposal would improve overall market quality and improve competition on the Exchange, to the benefit of all market participants.

#### Technical Changes

The Exchange notes that the proposed organizational and non-substantive changes to the rule text would provide clarity and transparency to Exchange rules and would promote just and equitable principles of trade and remove impediments to, and perfect the mechanism of, a free and open market and a national market system.<sup>46</sup> The proposed rule amendments would also provide internal consistency within Exchange rules and operate to protect investors and the investing public by making the Exchange rules easier to navigate and comprehend.

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<sup>45</sup> See, e.g., MIA X Options Exchange (“MIA X”) Rule 515(d) (providing that “[i]f a Market Maker order or quote could not be executed or could not be executed in full upon receipt, the System will continue to execute the Market Maker’s order or quote at multiple prices until (i) the Market Maker’s quote has been exhausted or its order has been completely filled; (ii) the executions have reached the Market Maker’s limit price; or (iii) further executions will trade at a price inferior to the ABBO [Away Best Bid or Offer], whichever occurs first”). The Exchange notes that MIA X does not appear to provide for the rejection of Market Maker quotes that have a limit price that is more than a certain number of MPVs through the best-priced contra-side interest. The Exchange notes that this feature does not alter the repricing feature of the proposed MMALO/MMRP, but rather operates as a check for market participants that may have priced their MMALO/MMRP erroneously. See also BOX Options Exchange LLC (“BOX”) IM-8050-3 (providing that “[i]f an incoming quote is marketable against the BOX Book and will execute against a resting order or quote, it will be rejected”). The Exchange notes that other options exchanges currently offer repricing functionality that are substantially similar to the proposed functionality for quotes. See *supra* n. 39.

<sup>46</sup> See, e.g., *supra* nn. 4, 5, 16, 17, 24.

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 Exchange believes the proposed quote designations would add value to market making on the Exchange and the proposed order types would provide market participants the option of exercising greater control over how orders interact with contra-side liquidity both on the Exchange and on away markets. The proposed quotations and order types would allow market participants to exert greater control over how their quotes and orders interact with liquidity on the Exchange, thereby attracting more investors to the Exchange, which, in turn, leads to greater price discovery and improves overall market quality.

The Exchange does not believe the proposal would impose a burden on competition among the options exchanges but instead, because the Exchange would be offering the proposed optional quotes and order types, the proposal would add to the existing competitive landscape. In this highly competitive market, the Exchange would be at a competitive disadvantage absent this proposal, which adopts functionality available on other options exchanges. Permitting the Exchange to operate on an even playing field relative to other exchanges that have similar functionality removes impediments to and perfects the mechanism for a free and open market and a national market system. The proposal does not impose an undue burden on intramarket competition because the proposed quote designations would be available to all Market Makers on the Exchange and the proposed order types would be available to all market participants. The proposal is structured to offer the same enhancement to all Market Makers and/or market participants, regardless of size, and would not impose a competitive burden on any participant.

The proposed quote designations, which provide Market Makers with enhanced determinism over their quotes, may contribute to more aggressive quoting by Market Makers, resulting in more trading opportunities and tighter spreads. To the extent this purpose is achieved, the proposed quote designations would enhance the market making function on the Exchange, which would improve overall market quality and improve competition on the Exchange to the benefit of all market participants.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be 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-

2018-74 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-NYSEArca-2018-74. 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-NYSEArca-2018-74 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>47</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>47</sup> 17 CFR 200.30-3(a)(12).