

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73544; File No. SR-NYSEMKT-2014-14)

November 6, 2014

Self-Regulatory Organizations; NYSE MKT LLC; Notice of Filing of Proposed Rule Change Amending Rule 967NY to Enhance the Functionality of the Trade Collar Protection Mechanism

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (the “Act”)² and Rule 19b-4 thereunder,³ notice is hereby given that, on October 24, 2014, NYSE MKT LLC (the “Exchange” or “NYSE MKT”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III 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 967NY to enhance the functionality of the trade collar protection mechanism. The text of the proposed rule change is available on the Exchange’s website at www.nyse.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places

¹ 15 U.S.C.78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

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 is proposing to amend Rule 967NY(a) to clarify and conform with the functionality of the trade collar protection mechanism in use on the Exchange. The Exchange’s amendment is to specify (a) how marketable Limit Orders behave when received in a wide market, (b) how subsequently-arriving Market Orders effect collared orders, and (c) the values associated with a Trading Collar. The Exchange also seeks to make non-substantive wording changes to Rule 967NY(a).

Background

Pursuant to Rule 967NY(a), the Exchange applies a “Trade Collar Protection” mechanism that prevents the immediate execution of certain orders at prices outside of a specified parameter (referred to as a “Trading Collar”).⁴ Pursuant to Rule 967NY(a)(3), the Trade Collar Protection mechanism is not available for quotes or for orders with execution conditions IOC, AON, FOK and NOW.

Trading Collars are determined by the Exchange on a class-by-class basis and, unless announced otherwise via Trader Update, are the same value as the bid-ask differential guidelines established pursuant to Rule 925NY(b)(4), as set forth in Rule 967NY(a)(2). For example, Rule 925NY(b)(4) sets the bid-ask differential for an option priced less than \$2.00 at \$0.25. For any option that has a bid less than \$2.00, the Trading Collar will be \$0.25. Accordingly, if the

⁴ The Exchange adopted Rule 967NY governing Trade Collar Protection in 2013. See, Exchange Rule 967NY (Securities Exchange Act Release No. 70037) (July 25, 2013), 78 FR 46399 (July 31, 2013) (NYSEMKT-2013-62).

National Best Bid and Offer (“NBBO”) for XYZ is \$0.75 bid and \$1.75 offer, certain orders the Exchange receives will be subject to a \$0.25 Trading Collar.⁵ If necessary to preserve a fair and orderly market, the Exchange may, with the approval of two Trading Officials,⁶ widen or narrow the Trading Collar for one or more option series.

Trade Collar Protection applies to two scenarios. First, pursuant to Rule 967NY(a)(1)(i), Trade Collar Protection prevents executions of certain orders when the difference between the National Best Offer (“NBO”) and the National Best Bid (“NBB”) is greater than one Trading Collar. Second, pursuant to Rule 967NY(a)(1)(ii), Trade Collar Protection prevents the execution of the balance of an eligible buy order if it were to execute at a price that is the NBO plus a Trading Collar (or a price that is the NBB minus a Trading Collar for an eligible sell orders).

Pursuant to Rule 967NY(a)(1)(i), if the difference between the NBO and the NBB is greater than one Trading Collar, the Exchange will prevent execution or routing of certain orders. Instead, pursuant to Rule 967NY(a)(4)(A), the Exchange will display the order at a price equal to the NBO minus one Trading Collar for sell orders or the NBB plus one Trading Collar for buy orders (the “collared order”). The Exchange will then attempt to execute or route the collared order to buy (sell) against any contra interest priced within one Trading Collar above (below) the displayed price of the collared order.⁷ As set forth in Rule 967NY(a)(4)(C)(iii), should market conditions prevent the order from trading or recalculating for a period of one second, the order

⁵ The bid-ask differential changes as the price increases. Rule 925NY(b)(4) sets the bid-ask differential at no more than \$0.40 where the bid is \$2.00 or more but does not exceed \$5.00. Accordingly, if the NBBO for XYZ is \$3.00 bid and \$3.50 offer, certain orders the Exchange receives will be subject to a \$0.40 Trading Collar Protection.

⁶ A Trading Official, as defined by Rule 900.2NY(82) is an officer or employee of the Exchange. Trading Officials are not affiliated with ATP Holders.

⁷ See, Rule 967NY(a)(4)(B).

will improve its displayed price by an amount equal to an additional Trading Collar.

The collared order will re-price before the expiration of one second as a result of certain changes in the market. Pursuant to Rule 967NY(a)(4)(C)(i), an update to the NBBO (based on another market center or a quote or order on the Exchange) that improves the same side of the market as the collared order will cause the collared order to be redisplayed at the same price as the updated NBBO. In accordance with Rule 967NY(a)(4)(C)(ii), a Limit Order (which is not an IOC Order, AON Order, FOK Order or NOW Order) on the same side of the market priced better than one Trading Collar from the collared order will also become subject to Trade Collar Protection and will cause the collared order to improve by one Trading Collar (which will redisplay at the new price and additional size of the new Limit Order).⁸

As set forth in Rule 967NY(a)(1)(ii), when the difference between the NBB and NBO is within the bid-ask differential guidelines, orders execute against the NBB or NBO, but Trade Collar Protection prevents execution of the balance of certain order at prices that are a Trading Collar above the NBO for buy orders (or at prices that are a Trading Collar below the NBB for sell orders). Essentially, the Exchange will permit the immediate execution of a Market Order or a marketable Limit Order (together a “marketable order”) up to a Trading Collar away from the NBBO. Pursuant to Rule 967NY(a)(5), the balance of the partially executed order will be subject to Trade Collar Protection and will display at the last sale price. However, if there is an opportunity for trading within one Trading Collar of the last sale price, the order will continue to be displayed at the NBB (NBO) established at the time of the initial execution. Once subject to Trade Collar Protection, the order will follow the re-pricing mechanism described above.

⁸ Rule 967NY(a)(4)(C)(iv) states that a new Market Order on the same side as a collared order will not cause the order subject to Trade Collar Protection to be recalculated (but will redisplay with the additional size of the new Market Order).

Proposed Change

The Exchange seeks to clarify and correct Rule 967NY so as to conform to current functionality. Pursuant to the language of Rule 967NY(a)(1)(i), the Exchange will prevent the immediately [sic] execution of “Market Orders or marketable Limit Orders” if the width of the bid-ask differential of the NBBO is greater than one Trading Collar. However, during wide market conditions, the Exchange only prevents the immediate execution of Market Orders. Orders with limit prices that are executable against the NBB or NBO, regardless of the width of the bid-ask differential of the NBBO, immediately execute.⁹ The Exchange believes that Market Orders need this additional level of protection as such orders do not suggest that the submitting market participant is aware of the market (or the dislocation associated therewith). Conversely, the Exchange believes that an order with a limit price evidences specific interest at which the submitting market participant is willing to trade. While marketable Limit Orders are immediately executable in situations where the bid-ask differential of the NBBO is greater than one Trading Collar, they nonetheless remain subject to the protections of the Limit Order Filter of 967NY(b).

The Exchange also seeks to delete 967NY(a)(4)(C)(iv), which states that a Market Order that arrives while another order is being displayed due to Trade Collar Protection will join the collared order and display at the same price. While the Exchange believes this behavior beneficial to the market, it has not yet deployed the functionality. While it intends to incorporate such an enhancement in the near future, the Exchange is deleting (a)(4)(C)(iv) in order for its rules to comply with current functionality. Market Orders that arrive while another order is

⁹ Rule 967NY(a)(4)(C)(ii) and 967NY(b) explain two scenarios where marketable Limit Orders might not immediately execute: (1) when there is already a collared order or (2) when the Limit Order is priced significantly through the contra-side BBO.

displayed due to Trade Collar Protection will behave in the same manner as later-arriving marketable Limit Orders. Specifically, the later-arriving Market Order will join the already collared order and both will display at a price one Trading Collar above (below) the previous displayed price. The Exchange intends to make another filing to re-establishing the language of (a)(4)(C)(iv) once the functionality is available.

The Exchange also proposes to amend Rule 967NY(a) to add language that clarifies the current operation of the trading collar mechanism. In particular, the Exchange proposes to delete the reference to Rule 925NY(b)(4) and instead codify the values of the Trading Collar directly in Rule 967NY(a). Rule 925NY(b)(4) sets the bid-ask differentials based exclusively on the bid price. The trading collar mechanism employs the same values for determining the Trading Collar. However, while those values are based upon the NBB for buy orders, the value of the Trading Collar for sell orders is based upon the NBO. The Exchange uses the NBB for buy orders because it believes that a market participant who is looking to buy would derive its price off of what other market participants are willing to pay (i.e. the prevailing bid). Similarly, the Exchange uses the NBO for sell orders because it believes that a market participant who is looking to sell would derive its price off of what other market participants are willing to sell (i.e. the prevailing offer). Accordingly, the Exchange proposes new sections (a)(2)(A) and (a)(2)(B) to Rule 967NY, which specifies the values based upon whether the order subject to Trade Collar Protection is to buy or sell.

As an example, the NBBO for XYZ is \$1.00 bid and \$6.00 offer. Based upon Rule 967NY's reference to Rule 925NY(b)(4), it could be interpreted that the Trading Collar would be \$0.25 regardless of whether the Exchange received an order to buy or sell (based upon the bid being less than \$2.00). However, collared sell orders currently derive their Trading Collar and

display price from the NBO. Accordingly, a Market Order to buy would display at \$1.25 (i.e., the \$1.00 NBB plus the \$0.25 Trading Collar (based upon the NBB being less than \$2.00)) and would attempt to execute against any contra interest (on any market) priced \$1.50 or less (i.e., \$1.25 bid plus the \$0.25 Trading Collar). However, a Market Order to sell would display at \$5.50 (i.e., the \$6.00 NBO minus the \$0.50 Trading Collar (based upon the NBO being more than \$5.00 but does not exceed \$10.00)) and would attempt to execute against any contra interest (on any market) priced \$5.00 or greater (i.e., \$5.50 offer minus the \$0.50 Trading Collar).

As a further example, the NBBO for XYZ is \$1.45 x 200 bid and \$2.10 x 200 offer with a \$0.05 MPV. If the Exchange receives a market order to buy 100 contracts, the Trading Collar would be \$0.25 (pursuant to new section (a)(2)(B)(i)). Accordingly, the order will be displayed at \$1.70 (i.e., \$1.45 bid plus the \$0.25 Trading Collar). For a period of one second, the Exchange will attempt to execute the buy order against any contra interest (on any market) priced \$1.95 or less (i.e., \$1.70 plus the \$0.25 Trading Collar). Under Rule 967NY(a)(4)(C)(iii), at the expiration of one second, the Exchange will attempt to redisplay the market buy order subject to Trade Collar Protection at \$1.95 (i.e., \$1.70 plus the \$0.25 Trading Collar). However, since the \$2.10 NBO represents contra interest priced \$2.20 or less (i.e. \$1.95 plus the \$0.25 Trading Collar), the market buy order would execute its 100 contracts against the NBO at \$2.10. In comparison, in the same market for XYZ, if the Exchange receives a market order to sell 100 contracts, the Trading Collar would be \$0.40 (pursuant to new section (a)(2)(B)(ii)). Accordingly, the Exchange will attempt to display the market sell order at \$1.70 (i.e., \$2.10 offer minus the \$0.40 Trading Collar). However, since the \$1.45 NBB represents contra interest priced \$1.45 or greater, (i.e. \$1.70 minus the \$0.25 Trading Collar) , the market sell order would execute its 100 contracts against the NBB at \$1.45 .

The Exchange also proposes to amend Rule 967NY(a) to strike the extraneous term “inbound” from the rule, which could cause confusion as to when Trade Collar Protection is available because the trade collar mechanism continues to apply to resting orders. In addition, the Exchange proposes to delete the reference in 967NY(a)(3) to the cancellation of IOC Orders, AON Orders, FOK Orders and NOW Orders if not immediately executed, as such is not the behavior of AON Orders. The Exchange also proposes to capitalize the term “limit order” as used in Rule 967NY(a)(4)(D) to conform with its use in the rest of the rule. Finally, the Exchange proposes to make non-substantive changes to Rule 967NY(a)(4)(C)(i) and (ii) to better clarify behavior in situations where there already exists an already collared order.

2. Statutory Basis

The statutory basis for the proposed rule change is Section 6(b)(5) of the Securities Exchange Act of 1934 (the “Act”), in general, and furthers the objectives of Section 6(b)(5)¹⁰ which requires the rules of an exchange 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. The proposed rule change also is designed to support the principles of Section 11A(a)(1)¹¹ of the Act in that it seeks to assure fair competition among brokers and dealers and among exchange markets. The Exchange believes that the proposed rule amendments relating to the behavior of Limit Orders in a wide market and the effect on Market Orders on already collared orders assist with the maintenance of fair and orderly markets and protects investors by correcting inaccurate language and clarifying existing functionality so that market participants better understand how the Exchange handles certain orders in times of market dislocation. The Exchange also believes that

¹⁰ 15 U.S.C. 78f(b)(5).

¹¹ 15 U.S.C. 78k-1(a)(1).

it promotes just and equitable principles of trade to allow marketable Limit Orders received in a wide market to immediately execute against contra-side interest before receiving Trade Collar Protection because Limit Orders provide evidence of prices for which market participants are willing to trade. Accordingly, to the extent contra-side interest exists at the NBBO, the Exchange believes it is appropriate to permit such executions before providing Trade Collar Protection for potential subsequent executions at inferior prices. Furthermore, the Exchange believes that it assists in the fair and orderly market to have Market Orders advance an already collared order in the same fashion as marketable Limit Orders as both are subsequent orders representing executable interest. The Exchange believes that its proposal to clarify that Trading Collar values are based upon the NBB for buy orders and the NBO for sell orders removes impediments to and perfects the mechanism of a free and open market by basing the Trading Collar upon the benchmark from which a market participant would most likely derive its price. The Exchange recognizes that there could be potential market conditions that result in different Trading Collar values depending on whether the order submitted is to buy or sell. However, the Exchange believes that any such differences are outweighed by meeting the expectations of market participants who submit buy orders based upon the price of the prevailing NBB and sell orders based upon the price of the prevailing NBO. Further, the Exchange believes that clearly setting forth these benchmarks removes impediments to and perfects the mechanism of a free and open market by ensuring that market participants better understand the functionality of the trade collar mechanism on the Exchange and the execution opportunities afforded their orders in certain market conditions. The Exchange also believes that making non-substantive wording changes enhances the description of Trade Collar Protection will add transparency and clarity to the Exchange's rules.

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 not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes the proposal will provide market participants with clarity relating to how the Exchange systems provides protection from anomalous executions. Thus, the Exchange does not believe the proposal creates any significant impact on competition.

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 (i) as the Commission may designate up to 90 days of such date 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. Please include File Number SR-NYSEMKT-2014-14 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-NYSEMKT-2014-14. 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-NYSEMKT-2014-14, 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.¹²

Kevin M. O'Neill
Deputy Secretary

¹² 17 CFR 200.30-3(a)(12).