

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-80330; File No. SR-NYSEMKT-2017-08)

March 29, 2017

Self-Regulatory Organizations; NYSE MKT LLC; Order Approving Proposed Rule Change to Amend Rule 925.1NY Regarding Market Maker Quotations, Including to Adopt a Market Maker Light Only Quotation

I. Introduction

On February 10, 2017, NYSE MKT LLC (the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to amend Rule 925.1NY regarding Market Maker Quotations, including to adopt a Market Maker Light Only Quotation. The proposed rule change was published for comment in the Federal Register on February 27, 2017.³ The Commission received no comment letters on the proposed rule change. This order approves the proposed rule change.

II. Description of the Proposed Rule Change

The Exchange proposes to amend Rule 925.1NY(a), which provides that a Market Maker may enter quotes in the option issues included in its appointment, to define a Market Maker “quote,” add a new quote type, and specify how such quotes would be processed when a series is open for trading.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 80073 (February 21, 2017), 82 FR 11952 (“Notice”).

First, the Exchange proposes to define a Market Maker quote to provide that “[t]he term ‘quote’ or ‘quotation’ means a bid or offer entered by a Market Maker that updates the Market Maker’s previous bid or offer, if any.”⁴

Second, the Exchange proposes to add a Market Maker Light Only Quotation (“MMLO”) to provide Market Makers the option to designate incoming quotes to trade solely with displayed interest on the Consolidated Book.⁵ This proposed change would allow Market Makers to designate quotes as MMLO to prevent such quotes from trading with undisplayed liquidity upon arrival. Once an MMLO is added to the Consolidated Book, the MMLO designation would no longer apply and any unexecuted portion could trade with displayed and undisplayed interest.

Finally, the Exchange proposes to modify the processing of Market Maker quotations, including MMLOs, in a manner that aligns with the Options Order Protection And

⁴ See proposed Rule 925.1NY(a)(1). The Exchange notes that its proposed definition is identical or substantially similar to related definitions on other options exchanges. See, e.g., International Securities Exchange, LLC Rule 100(a)(42); BOX Options Exchange LLC Rule 100(a)(55). The Exchange also proposes to modify the current definition of “Quote with Size” to include a cross reference to the proposed definition of “quotation.” See proposed Rule 900.2NY(65).

⁵ See proposed Rule 925.1NY(a)(2). The Exchange noted that this proposed functionality for Market Maker quotations is comparable to functionality on another options exchange for orders. See Notice, *supra* note 3, at 11953 n.9. See also NYSE Arca, Inc. (“NYSE Arca”) Rule 6.62(v) (defining Post No Preference Light Orders as non-routable orders that are only eligible to execute against displayed liquidity). The Exchange further noted that NYSE Arca previously offered, and later eliminated, a Post No Preference Light Only Quotation (“PNPLO”), which, like the MMLO, allowed Market Makers to designate certain quotations to only interact with displayed liquidity. See Notice, *supra* note 3, at 11953 n.10. See also Securities Exchange Act Release Nos. 67252 (June 25, 2012), 77 FR 38879 (June 29, 2012) (SR-NYSEArca-2012-05) (order approving adoption of PNPLO for Penny Pilot issues only); 68339 (December 3, 2012), 77 FR 73109 (December 7, 2012) (SR-NYSEArca-2012-130) (extending the PNPLO to non-Penny Pilot issues); 69641 (May 28, 2013), 78 FR 33134 (June 3, 2013) (SR-NYSEArca-2013-51) (eliminating reference to the PNPLO).

Locked/Crossed Market Plan (“Plan”), to which the Exchange is a party.⁶ Specifically, as proposed, an incoming quotation would only trade against contra-side interest in the Consolidated Book at prices that would not trade through interest on another Market Center.⁷ Any untraded size of an incoming quote would be added to the Consolidated Book, unless it locks or crosses interest on another Market Center or if the quote is an MMLO and locks or crosses undisplayed interest.⁸ The proposed rule would further state that when such quantity of an incoming quote is cancelled (as opposed to being rejected outright), the Exchange would also cancel the Market Maker’s current quote on the opposite side of the market. According to the Exchange, this would allow the Market Maker to refresh both its bid and offer simultaneously, as both sides of the Market Maker’s quote residing on the Consolidated Book would be cancelled.⁹ Additionally, the Exchange would reject an incoming quotation if it locks or crosses interest on another Market Center and if it cannot trade with interest in the Consolidated Book at prices that do not trade through another Market Center.¹⁰ The Exchange also proposes to reject an incoming MMLO if it locks or crosses undisplayed interest and cannot trade with displayed interest in the

⁶ See Plan, dated April 14, 2009, available at, 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 establishes various obligations for participating exchanges, including that Market Makers should “reasonably avoid displaying, and shall not engage in a pattern or practice of displaying, any quotations that lock or cross” the best bid or offer on another Market Center. See Plan, *supra*, at Section 6(c).

⁷ See proposed Rule 925.1NY(a)(3)(A). See also Rule 900.2NY(36) (defining Market Center as “a national securities exchange that has qualified for participation in the Options Clearing Corporation pursuant to the provisions of the rules of the Options Clearing Corporation”).

⁸ See proposed Rule 925.1NY(a)(3)(B)(i).

⁹ See Notice, *supra* note 3, at 11953.

¹⁰ See proposed Rule 925.1NY(a)(3)(C)(i).

Consolidated Book at prices that do not trade through another Market Center.¹¹ The proposed rule would further state that when an incoming quote is rejected outright (as opposed to being cancelled after a partial fill), the Exchange would also cancel the Market Maker's current quote on the same side of the market.¹² According to the Exchange, this treatment recognizes that the Market Maker unsuccessfully attempted to update its bid or offer price, and the cancellation would allow the Market Maker to refresh that side of its quote.¹³ The Exchange also proposes to specify that, when a series is open for trading, a quote will trade only against interest in the Consolidated Book and will not route.¹⁴

According to the Exchange, the implementation of the proposed rule change will be no later than 30 days after its approval, and will be announced by Trader Update.¹⁵

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of Section 6 of the Act¹⁶ and the rules and regulations thereunder applicable to a national securities exchange.¹⁷ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,¹⁸ which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster

¹¹ See proposed Rule 925.1NY(a)(3)(C)(ii).

¹² See proposed Rule 925.1NY(a)(3)(C).

¹³ See Notice, supra note 3, at 11953.

¹⁴ See proposed Rule 925.1NY(a)(3)(D).

¹⁵ See Notice, supra note 3, at 11954.

¹⁶ 15 U.S.C. 78f.

¹⁷ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹⁸ 15 U.S.C. 78f(b)(5).

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 and that the rules not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange noted that its proposal to add the definition of Market Maker quotes will provide additional clarity and transparency to Exchange rules.¹⁹ The Exchange further stated that it is difficult for Market Makers to account for undisplayed liquidity in their quoting models. The Exchange believes that its proposal to adopt the MMLO functionality would therefore provide Market Makers with increased control over their exposure, and thus may encourage more aggressive liquidity provision, resulting in more trading opportunities and tighter spreads.²⁰ According to the Exchange, this would improve overall market quality and improve competition on the Exchange to the benefit of all market participants.²¹ Finally, the Exchange stated that its proposal to amend the treatment of Market Maker quotations would assist Market Makers in maintaining a fair and orderly market, would encourage increased liquidity provision on the Exchange, and is consistent with Exchange's obligations under the Plan in that it avoids trading through better prices on other exchanges and is designed to avoid locking and crossing markets.²² In particular, the Exchange noted that the proposed rules with respect to the treatment of Market Maker quotations would enable Market Makers to simultaneously update both sides of their resting quote when one side of the quote received a partial fill but was subsequently

¹⁹ See Notice, supra note 3, at 11954.

²⁰ See id.

²¹ See id.

²² See id.

cancelled, and to leave undisturbed valid opposite-side interest where one side of a quote is rejected and not booked.²³ This proposal does not relieve a Market Maker of its continuous quoting, or firm quote, obligations pursuant to Rules 925.1NY and 970NY, respectively. For these reasons, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act and the rules and regulations thereunder applicable to a national securities exchange.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,²⁴ that the proposed rule change (SR-NYSEMKT-2017-08) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁵

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Assistant Secretary

²³ See id.

²⁴ 15 U.S.C. 78s(b)(2).

²⁵ 17 CFR 200.30-3(a)(12).