

the Price List, including member organizations that qualify for the Tier 1 or Tier 2 Adding Credit.

Finally, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive. In such an environment, the Exchange must continually review, and consider adjusting, its fees and credits to remain competitive with other exchanges. For the reasons described above, the Exchange believes that the proposed rule change reflects this competitive environment.

#### *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**

The foregoing rule change is effective upon filing pursuant to Section 19(b)(3)(A)<sup>13</sup> of the Act and subparagraph (f)(2) of Rule 19b-4<sup>14</sup> thereunder, because it establishes a due, fee, or other charge imposed by the Exchange.

At any time within 60 days of the filing of such 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 under Section 19(b)(2)(B)<sup>15</sup> of the Act 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File

Number SR-NYSE-2013-46 on the subject line.

#### *Paper Comments*

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSE-2013-46. This file number should be included on the subject line if email 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 Web site (<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 Web site 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; 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-NYSE-2013-46 and should be submitted on or before July 30, 2013.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>16</sup>

**Elizabeth M. Murphy,**  
*Secretary.*

[FR Doc. 2013-16480 Filed 7-8-13; 8:45 am]

**BILLING CODE 8011-01-P**

## **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-69919; File No. SR-NYSEMKT-2013-59]

### **Self-Regulatory Organizations; NYSE MKT LLC; Notice of Filing of Proposed Rule Change Amending Rule 965NY, Which Governs NDX and RUT Combination Orders**

July 2, 2013.

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 June 21, 2013, 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 Substance of the Proposed Rule Change**

The Exchange proposes to amend Rule 965NY, which governs NDX and RUT combination orders. The text of the proposed rule change is available on the Exchange's Web site 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 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 965NY, which governs NDX and

<sup>13</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>14</sup> 17 CFR 240.19b-4(f)(2).

<sup>15</sup> 15 U.S.C. 78s(b)(2)(B).

<sup>16</sup> 17 CFR 200.30-3(a)(12).

<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.

RUT combination orders,<sup>4</sup> to adopt a one-year pilot program containing revised procedures that the Exchange believes would make the trading of certain combination orders in Nasdaq 100 Index options (NDX) and Russell 2000 Index options (RUT) more competitive with the trading of combinations in Nasdaq 100 Index futures contracts on the Chicago Mercantile Exchange (“CME”) and the trading of combinations in Russell 2000 Index futures contracts on the Intercontinental Exchange (“ICE”). As discussed further below, the Exchange is also proposing to revise the existing Combo Order text to make certain amendments.

## Background

### NDX

When NDX traders and customers trade NDX options, they hedge their underlying risk with either Nasdaq 100 Index futures traded at CME or with NDX call and put options traded as combinations at one of the option Exchanges where it is multiply listed (including the Exchange). In order for NDX traders and customers to hedge the risk of their options positions using Nasdaq 100 Index futures, they have to execute two separate trades in two separate markets.

*Example 1:* Assume a trader or customer wants to buy NDX April 2790 puts and hedge with the April futures contract trading at 2810. First, the NDX April 2790 put option position could be traded at the Exchange. After the options trade, the trader or customer then has to submit an order to CME to trade the appropriate number of Nasdaq 100 Index April futures contracts to hedge the options trade.

*Example 2:* Assume a trader or customer wants to trade a conversion involving the purchase of NDX April 2790 puts and the sale of the NDX April 2790 calls with the purchase of the April futures contract trading at 2810. First, the NDX April 2790 put-call option position could be traded at the

Exchange. After the options trade, the trader or customer then has to submit an order to CME to trade the appropriate number of Nasdaq 100 Index April futures contracts to hedge the options trade.

Hedging NDX options by using Nasdaq 100 Index futures in this manner is not preferred by traders and customers because of the execution risk that is involved in having to trade in two separate markets. In other words, the trader or customer is exposed to the risk of the Nasdaq 100 Index moving significantly before the hedging futures transaction can be executed (e.g., assume the trader or customer in *Example 1* above completes the purchase of the NDX April 2790 puts but the Nasdaq 100 Index declines sharply before the futures can be traded. Given the market decline, the trader or customer must sell the futures at a much lower price to complete the hedge.) As a result, NDX traders and customers prefer trading NDX combinations against their NDX options positions in order to hedge the risk associated with those positions.

*Example 3:* Assume the Nasdaq 100 Index April futures contract is trading at 2810 and a customer wants to trade the 35 delta NDX April 2790 puts tied to the April 2810 calls and April 2810 puts (instead of the April futures contract). Under this scenario, all three legs of the strategy could be traded on the Exchange.

*Example 4:* Assume a trader or customer wants to trade a conversion involving the purchase of the NDX April 2790 puts and the sale of the NDX April 2790 calls tied to the April 2810 calls and April 2810 puts (instead of the April futures contract). Under this scenario, all four legs of the strategy could be traded on the Exchange.

One reason that the use of combinations by NDX traders and customers is preferred is that all the required transactions can be effected as a package in one market, which avoids the execution risk and the increased costs involved in trading in the futures market. Another reason that the use of combinations is preferred is that an options order can be “tied” to a particular level of the Nasdaq 100 Index in order to establish the hedge price.<sup>5</sup>

<sup>5</sup> Using the example in note 3 [sic], *supra*, the customer will request a market for the calls that the customer wishes to purchase based on a specified level of the Nasdaq 100 Index. The customer specifies an underlying level of the Nasdaq 100 Index to allow market participants to determine the delta (in this case 35) and a theoretical value of the puts. A market participant will then give his or her market for the 35 delta puts and for the component call and put options that will make up the combination. The combination portion of the order

When NDX options are tied to NDX combinations, the underlying hedge level of the NDX 100 Index is established and traders and customers can determine the exact implied volatilities of their options trades.<sup>6</sup> Hedging options with combinations acts as an incentive for market-makers to reduce the price width of their markets because they know that their hedge price has been established and they will not have to trade in another market. Thus, customers who trade options tied to combinations enjoy tighter and more liquid markets.

### RUT

Similarly, when RUT traders and customers trade RUT options, they hedge their underlying risk with either Russell 2000 Index futures traded at ICE or with RUT call and put options traded as combinations at one of the option Exchanges where it is multiply listed (including the Exchange). In order for RUT traders and customers to hedge the risk of their options positions using Russell 2000 Index futures, they have to execute two separate trades in two separate markets.

*Example 1:* Assume a trader or customer wants to buy RUT April 915 puts and hedge with the April futures contract trading at 935. First, the RUT April 915 put option position could be traded at the Exchange. After the options trade, the trader or customer then has to submit an order to ICE to trade the appropriate number of Russell 2000 Index April futures contracts to hedge the options trade.

*Example 2:* Assume a trader or customer wants to trade a conversion involving the purchase of RUT April 915 puts and the sale of the RUT April 915 calls with the purchase of the April futures contract trading at 935. First, the RUT April 915 put-call option position could be traded at the Exchange. After the options trade, the trader or customer then has to submit an order to ICE to trade the appropriate number of Russell

is equivalent to an order to trade futures at the underlying value of the Nasdaq 100 Index that has been specified by the parties. The prices quoted for the call and put components of the combination establish the hedge price for the transaction. When the foregoing occurs, NDX traders and customers say that the calls have been “tied” to the combination or “tied to the combo.”

<sup>6</sup> Implied volatility is defined as the volatility percentage that justifies an option’s price. When the customer and the market-maker establish the underlying hedge level of the NDX 100 Index and a market price for the calls, the market-maker and the customer are able to use option pricing models to determine the implied volatility of the puts and calls. Knowing the implied volatility that is being quoted in the market is useful to customers and traders in that customers and traders frequently take positions in the market based on the implied volatility level.

<sup>4</sup> NDX is the trading symbol for Nasdaq 100 index options, and RUT is the trading symbol for Russell 2000 index options. An “NDX Combination” is a long (short) NDX call and a short (long) NDX put having the same expiration date and strike price. An “RUT Combination” is a long (short) RUT call and a short (long) RUT put having the same expiration date and strike price. The delta is the positive (negative) number of NDX or RUT combinations that must be sold (bought) to establish a market neutral hedge with the corresponding NDX or RUT option position. An “NDX combination order” is an order to purchase or sell NDX options and the offsetting number of NDX combinations defined by the delta, and a “RUT combination order” is an order to purchase or sell RUT options and the offsetting number of RUT combinations defined by the delta. See Rule 965NY(b)(1)–(3).

2000 Index April futures contracts to hedge the options trade.

Hedging RUT options by using Russell 2000 Index futures in this manner is not preferred by traders and customers because of the execution risk that is involved in having to trade in two separate markets. In other words, the trader or customer is exposed to the risk of the Russell 2000 Index moving significantly before the hedging futures transaction can be executed (e.g., assume the trader or customer in *Example 1* above completes the purchase of the RUT April 915 puts but the Russell 2000 Index declines sharply before the futures can be traded. Given the market decline, the trader or customer must sell the futures at a much lower price to complete the hedge.) As a result, RUT traders and customers prefer trading RUT combinations against their RUT options positions in order to hedge the risk associated with those positions.

*Example 3:* Assume the Russell 2000 Index April futures contract is trading at 935 and a customer wants to trade the 23 delta RUT April 915 puts tied to the April 935 calls and April 935 puts (instead of the April futures contract). Under this scenario, all three legs of the strategy could be traded on the Exchange.

*Example 4:* Assume a trader or customer wants to trade a conversion involving the purchase of the RUT April 915 puts and the sale of the RUT April 915 calls tied to the April 935 calls and April 935 puts (instead of the April futures contract). Under this scenario, all four legs of the strategy could be traded on the Exchange.

One reason that the use of combinations by RUT traders and customers is preferred is that all the required transactions can be effected as a package in one market, which avoids the execution risk and the increased costs involved in trading in the futures market. Another reason that the use of combinations is preferred is that an options order can be “tied” to a particular level of the Russell 2000 Index in order to establish the hedge price.<sup>7</sup> When RUT options are tied to

RUT combinations, the underlying hedge level of the RUT 2000 Index is established and traders and customers can determine the exact implied volatilities of their options trades.<sup>8</sup> Hedging options with combinations acts as an incentive for market-makers to reduce the price width of their markets because they know that their hedge price has been established and they will not have to trade in another market. Thus, customers who trade options tied to combinations enjoy tighter and more liquid markets.

Occasionally, certain market activity occurs that makes it difficult to effect these types of trades. If an order for options tied to a combination receives an initial quote but does not trade immediately, it remains a live order until the party that submitted the order cancels it. The order may not trade immediately for any reason, but some of the more common reasons are that the customer submitting the order may want to show the order to other market participants in order to improve the initial quote received or an ATP Holder may need time to locate a customer that it believes might like to participate in a trade. Specific market activity can occur hours after an order for options tied to a combination is submitted and initially quoted that would make the trade desirable to both the customer and the market-maker to consummate. However, in a volatile market, the underlying index can move substantially in one direction such that the originally quoted price [sic] for the options and the combinations are no longer within the current market quotes. In such market conditions, the parties would be unable to consummate the trade because Exchange Rules preclude trading the legs of the options and a combination strategy outside of the currently prevailing market quotes in the individual component series legs.<sup>9</sup> This is not nearly as accommodating as the rules for trading spreads and combinations on the futures markets. Thus, when it comes to the existence of rule constraints that may prevent

the call and put components of the combination establish the hedge price for the transaction. When the foregoing occurs, RUT traders and customers say that the calls have been “tied” to the combination or “tied to the combo.”

<sup>8</sup> Implied volatility is defined as the volatility percentage that justifies an option’s price. When the customer and the market-maker establish the underlying hedge level of the RUT 2000 Index and a market price for the calls, the market-maker and the customer are able to use option pricing models to determine the implied volatility of the calls. Knowing the implied volatility that is being quoted in the market is useful to customers and traders in that customers and traders frequently take positions in the market based on the implied volatility level.

<sup>9</sup> See, e.g. Exchange Rule 965NY(b).

complex, multi-part strategy trades from occurring out-of-range from the prevailing market quotes in the individual component series legs, another significant consideration for NDX and RUT traders and market participants is the ease with which an execution can take place on other markets such as CME and ICE, which offers a comparable alternative to NDX and RUT (respectively) but is not subject to the same constraints as a national securities exchange like NYSE Amex Options.

From the Exchange’s perspective, the combination order rule for options does not come close to leveling the field with the CME and ICE rules for spread and combination trading. The Exchange’s rule still requires a combination order in NDX or RUT to be executed at the prices originally quoted, with no window to find liquidity. By comparison, the CME and ICE rules allow spread and combination executions to take place without regard to market prices and only be bound by the daily limit. Under these competing frameworks, it can be more difficult for an NYSE Amex Options market participant attempting to achieve an execution of a complex NDX or RUT option trading strategy compared to a CME market participant attempting to achieve an execution of substantially the same strategy using futures contracts in Nasdaq 100 Index futures [sic] or Russell 2000 Index, respectively. While this distinction is particularly exacerbated during times of market volatility, it can also be an issue at other times as well. In addition, the Exchange believes market participants who are looking to frequently trade spreads or combinations, in general, or as a strategy for hedging risk, in particular, would tend to utilize a market venue where they can more consistently depend on achieving a net price execution at all times—regardless of the level of market volatility—which can put the Exchange at a competitive disadvantage. The additional burden placed on the Exchange market participants can have the effect of discouraging trading on the Exchange in favor of trading on the CME and ICE. The Exchange believes this competitive disadvantage is not consistent with just and equitable principles, serves as an impediment to a free and open market, and may ultimately not serve investors or the public interest. In order to compete and more effectively achieve certain strategy executions, as well as manage risk, the Exchange believes that market participants need more comparable procedures within Exchange Rules.

<sup>7</sup> Using the example in note 3 [sic], *supra*, the customer will request a market for the calls that the customer wishes to purchase based on a specified level of the Russell 2000 Index. The customer specifies an underlying level of the Russell 2000 Index to allow market participants to determine the delta (in this case 23) and a theoretical value of the puts. A market participant will then give his or her market for the 23 delta puts and for the component call and put options that will make up the combination. The combination portion of the order is equivalent to an order to trade futures at the underlying value of the Russell 2000 Index that has been specified by the parties. The prices quoted for

## Proposal

The Exchange is seeking to amend its combination order procedures for RUT and NDX on a pilot basis in an attempt to further level the field of competition between market participants trading on NYSE Amex Options and CME and ICE. In particular, the Exchange is proposing to adopt a two-hour window procedure (which would allow a trade to take place so long as it would have been in the permissible net price trading range within the preceding two hours) on a one-year pilot basis.

The two-hour window procedure would be reflected in proposed new Commentary .03<sup>10</sup> to Rule 965NY for a pilot period ending one-year after this rule change filing is approved. The new Commentary would provide that, notwithstanding any other rules of the Exchange, combination orders in NDX and RUT may be transacted in open outcry in the following manner: An ATP Holder holding a combination order in NDX or RUT may execute the order at the best net debit or credit price, which may be outside the current derived net market so long as (i) the best net debit or credit price would have been at or within the derived net market over the preceding two hours of trading that day, (ii) no leg of the order would trade at a price outside the displayed bids or offers in the trading crowd or Customer interest in the NDX or RUT Consolidated Book for that series at a point in time over the preceding two-hour period, and (iii) at least one leg of the order would trade at a price that is better than a corresponding Customer bid or offer in the in the NDX or RUT Consolidate Book at the same point in time over the preceding two-hour period.<sup>11</sup> The “derived net market” will be defined as the Exchange’s best bids and offers displayed in the individual option series legs for the strategy at any one point in time.

*Example 7:* Assume the Nasdaq 100 Index April futures contract is trading at 2810 and an ATP Holder wants to trade the 35 delta NDX April 2790 puts tied to the April 2810 calls and April 2810 puts. Assume the ATP Holder wants to buy 100 NDX April 2790 puts at \$15.10 tied to a purchase of 35 April 2810 calls at \$22 and sale of 35 April 2810 puts at \$21.00 at 10:35 a.m. At the time, assume the current displayed market for the

April 2790 puts is \$14.60–\$15.10, for the April 2810 calls is \$21.50–\$22.00 [sic], and for the April 2810 puts is \$21.50–\$22.50. As a result, the combination order in NDX is priced “out-of-range” from the current derived net market (\$21 is outside the \$21.50 bid, \$22.50 offered markets for the April 2810 calls and April 2810 puts). The ATP Holder can execute the combination order in NDX at the desired net price so long as it is the best net price and the net price would have been in range over the preceding 2 hours of trading that day. In particular, the net price must be at or within the derived net market price range over the preceding 2 hours of trading that day, each component series leg must trade at a price at or within the displayed bids or offers at a point in time over the preceding 2-hour period, and at least one leg must trade at a price that is better than the corresponding Customer bid or offer in the NDX Consolidate Book at the same point in time. (In this particular example, the derived net market range would be based on the markets that existed from 9:30 a.m.–10:35 a.m., since the market was open for less than 2 hours). Assume, for example, if the displayed market at 10:20 a.m. for the April 2790 puts was \$14.90–\$15.30, for the April 2810 calls was \$21.00–\$22.60, and for the April 2810 puts was \$21.00 [sic]–\$22.60 and there are not public customer orders displayed at the best price in all of the component series, then the combination order in NDX could be executed at the desired net price because it would have been net priced at or within the derived net market over the preceding two hours of trading, the individual component leg prices are at or within the displayed component series prices, and at least one leg would trade at price that improves corresponding customer orders in the NDX Consolidated Book.

It should be noted that the derived net market would be calculated based on the displayed price in each of the component series that exist [sic] at a single point in time over the preceding two-hour window, not separate points in time for each series (e.g. an ATP Holder cannot use the prices of the April 2790 puts at 10:20 a.m. and the prices of the April 2810 calls and puts at 10:30 a.m. to calculate a derived net market). The net execution price must have been “in range” over the prior two-hour window of trading. To be “in range,” as noted above, the net price must have been at or within the derived net market over the preceding two-hour period, and each leg of the order must “line up” and trade at a price that

would have been at or inside the best bids and offers displayed in the individual option series legs at a single point in time over the two-hour window and at least one leg must trade at a price that is better than corresponding Customer orders in the NDX or RUT Consolidated Book at the same point in time.

This procedure is generally modeled after CME Rule 542 and ICE Rule 27.11(a)(v) (e.g., a combination order in NDX may be executed out-of-range from the current market prices in the individual component option series legs), except that under NYSE Amex Options’ proposed pilot the reported net price and related component series prices must in range within the preceding 2 hours. By comparison, the CME and ICE rules only require the reported price of each component futures contract leg to be within the daily limit price (a number that is, by definition, generally much wider than the two-hour derived net market range proposed by the Exchange).

As is the case for the existing combination orders trading procedure today, combination orders in NDX and RUT executed under the proposed new pilot procedure would continue to be identified with a special indicator on each component leg that would be price reported to the trading floor and the Options Price Reporting Authority (“OPRA”). This indicator acts as notice to the public that the reported prices are part of a combination order trade. Therefore, the Exchange believes that price discovery should not be adversely affected by the operation of Exchange Rule 965NY, as proposed to be modified. In addition, as is the case, today, the proposed procedure under Rule 965NY would not lessen the obligations of ATP Holders to obtain best execution of options orders for their customers. Therefore, with the approval of the proposed rule change, the Exchange will issue a Regulatory Bulletin to its ATP Holders explaining the operation of Rule 965NY, as amended. In the Regulatory Bulletin, the Exchange will remind ATP Holders that Rule 965NY does not lessen the obligation of ATP Holders to obtain best execution of options orders for their customers.

If the Exchange were to propose an extension of the proposed pilot program, or should the Exchange propose to make the program permanent, the Exchange would submit, along with any filing proposing such amendments to the program, a pilot program report that would provide an analysis of the program covering the period during which the program was in

<sup>10</sup> The Commission notes that the Exchange is proposing to add a new subsection (b)(4)(iii) to Rule 965NY, not a new Commentary .03.

<sup>11</sup> Stated another way, this provision provides that, if there are resting public customer orders on all of the legs of the individual series of the strategy at the same point in time, at least one leg of the order must trade at a price that is better than the corresponding bid or offer of a customer.

effect. This report would include information on the number of combination trades in NDX and RUT and best bid or offer trade through/trade at analysis of such combination trades. The report will also include information on the options classes of NDX and RUT and other broad-based index option products, including information on average contract value, average daily volume, open interest, average order size, percentage of complex orders, percentage of volume from complex orders, and average daily notional value traded. The report would be submitted to the Commission at least two months prior to the expiration date of the pilot program and would be provided on a confidential basis.

The Exchange believes the proposed pilot procedure will facilitate the orderly execution of combination orders in NDX and RUT at all times, including during volatile markets, in a manner that is more competitive with the existing CME and ICE processes. In addition, the Exchange believes the proposed pilot procedure will continue to address customers' desire to show an order to other market participants to seek price improvement or additional liquidity. The Exchange also believes the proposed pilot procedure will continue to create an incentive for market makers to reduce the price width of their markets because they know that their hedge price has been established and they will not have to trade in another market. Thus, customers who trade options tied to combinations will continue to enjoy tighter and more liquid markets.

In proposing to introduce this pilot, the Exchange is cognizant of the need for market participants to have substantial options transaction capacity and flexibility to hedge their trading activity in NDX and RUT, on the one hand, and priority principles common to securities exchanges, on the other. The Exchange is also cognizant of the CME and ICE markets, in which similar restrictions do not apply. In light of these considerations, the Exchange believes the proposed pilot procedure is appropriate and reasonable and would provide market participants with additional flexibility in achieving desired combination order strategies in NDX and RUT and in determining whether to execute their options on the Exchange or comparable products on CME and ICE. In that regard, the Exchange notes that the proposed new procedure outlined above does not go as far as what exists today on CME and ICE and instead represents what the Exchange believes is a trading process that is very narrowly tailored. For the

foregoing reasons, the Exchange believes that the proposed pilot procedure for trading combination orders in NDX and RUT is reasonable and appropriate, would promote just and equitable principles of trade, and would facilitate transactions in securities while continuing to foster the public interest and investor protection.

## 2. Statutory Basis

The Exchange believes that the proposed rule change will allow for the orderly execution of combination orders in NDX and RUT and will be beneficial to both customers and traders. Accordingly, the Exchange believes the proposed rule change is consistent with and furthers the objectives of Section 6(b) of the Securities Exchange Act of 1934 (the "Act"),<sup>12</sup> in general, and Section 6(b)(5) of the Act,<sup>13</sup> in particular, in that it should promote just and equitable principles of trade, serve to remove impediments to and perfect the mechanism of a free and open market and a national market system, and protect investors and the public interest.

As noted above, the Exchange believes the proposed pilot procedure will facilitate the orderly execution of combination orders in NDX and RUT at all times, including during volatile markets, in a manner that is more competitive with the existing CME and ICE processes. In addition, the Exchange believes the proposed pilot procedure will continue to address customers' desire to show an order to other market participants to seek price improvement or additional liquidity. The Exchange also believes the proposed pilot procedure will continue to create an incentive for market-makers to reduce the price width of their markets because they know that their hedge price has been established and they will not have to trade in another market. Thus, customers who trade options tied to combinations will continue to enjoy tighter and more liquid markets.

In proposing the pilot, the Exchange is cognizant of the need for market participants to have substantial options transaction capacity and flexibility to hedge their trading activity in NDX and RUT, on the one hand, and priority principles common to securities exchanges, on the other. The Exchange is also cognizant of the CME and ICE markets, in which similar restrictions do not apply. In light of these considerations, the Exchange believes the proposed pilot procedure is appropriate and reasonable and would

provide market participants with additional flexibility in achieving desired combination order strategies in NDX and RUT and in determining whether to execute their options on the Exchange or a comparable product on CME or ICE, respectively. In that regard, the Exchange notes that the proposed pilot procedure outlined above does not go as far as that exists today on CME and ICE and instead represents what the Exchange believes is a trading process that is already very narrowly tailored. For the foregoing reasons, the Exchange believes that the proposed new procedure for trading combination orders in NDX and RUT is reasonable and appropriate, would promote just and equitable principles of trade, and would facilitate transactions in securities while continuing to foster the public interest and investor protection. Finally, the Exchange believes that the proposed revisions to the existing combination orders in NDX and RUT text will provide clarity on the existing application of the combination order provisions.

### *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 additional protection from receiving executions on one venue. Further, since NDX and RUT are multiply-listed products, other exchanges are free to adopt similar rules regarding combination orders if they so elect. 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:

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

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

- (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. The Commission requests comments, in particular, on the following aspects of the proposed rule change:

1. Under current rules, the NDX and RUT combination orders, as described above, could not be executed at a price that would result in any underlying option leg trading through a contemporaneous resting order for that option. Do commenters believe this restriction impedes trading of such combination orders? If not, why not?
2. If so, what is the nature of the impediment? Would the proposed provision of a two-hour look-back window mitigate this impediment? If so, why?
3. During any look-back window, prices of underlying option legs may change as a result of changing buy or sell pressure for any given option, competition among market participants, changes in views of implied volatility of any option, or changes in the NDX and RUT indices themselves. Does the efficacy of the proposed rule change depend on why the bid and offer prices for the underlying legs have moved during the look-back window?
4. What would be the impact of a contemporaneous trade-through on market participants who provide liquidity in the underlying leg options? Would knowing that they can be traded through as a result of the NDX and RUT combination orders cause them to change the way they quote for the underlying options? Are there any negative implications regarding the provision of liquidity in the underlying options? If so, would the proposed two-hour look-back window mitigate these effects?
5. Do commenters believe that there is currently insufficient information to fully inform the implications of this proposed rule, and that a decision should be made only after a pilot period?
6. If so, what type of data should be collected during the pilot period? What type of analyses would be performed on such data that could more fully inform market participants and regulators regarding the nature of the proposed rule? Are there specific criteria that would suggest the changes were either

net positive or net negative to the markets?

7. Do commenters believe that market participants consider NDX combination orders traded on NYSE MKT and spreads or combinations in Nasdaq 100 Index futures traded on CME to be substitutes for each other for purposes of hedging NDX positions? Do commenters believe that market participants consider RUT combination orders traded on NYSE MKT and spreads or combinations in Russell 2000 Index futures traded on ICE to be substitutes for each other for purposes of hedging RUT positions? If so, provide examples of the Nasdaq 100 and Russell 2000 Index futures strategies with which NDX and RUT combination orders may compete.

8. Do commenters believe that NYSE MKT's current rules for trading NDX and RUT combination orders make NDX and RUT options listed on NYSE MKT less attractive than Nasdaq 100 Index and Russell 2000 Index futures traded as spreads or combinations on CME and ICE, respectively, as a means for hedging Nasdaq 100 Index and Russell 2000 Index exposure? If so, why? If not, why not?

9. Please provide data, if available, about any preference you believe exists for market participants to use Nasdaq 100 Index and Russell 2000 Index futures combination orders traded on CME and ICE, respectively, over NDX and RUT combination orders traded on NYSE MKT.

10. Do commenters believe that the proposed pilot program will make the trading of NDX and RUT combination orders more competitive with the trading of delta-hedged options strategies using CME's Nasdaq 100 Index futures and ICE's Russell 2000 Index futures, respectively, and combinations of options on those futures and, if so, why?

11. Do commenters believe that the ability of an ATP Holder executing an NDX or RUT combination order to look back two hours to price some or all of the legs of the NDX or RUT combination order, as provided in the proposed pilot program, will affect the willingness of other market participants to trade with the NDX or RUT combination order? If so, how?

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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File

Number SR-NYSEMKT-2013-59 on the subject line.

#### Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSEMKT-2013-59. This file number should be included on the subject line if email 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 Web site (<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 Web site 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-2013-59, and should be submitted on or before July 30, 2013.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>14</sup>

**Elizabeth M. Murphy,**  
Secretary.

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<sup>14</sup> 17 CFR 200.30-3(a)(12).