2. Pipe delimited with field names as first record

E. Data set or orders entered into reopening auctions during halts or Trading Pauses.

1. Arrivals, Changes, Cancels, # shares, limit/market, side, Limit State side
2. Pipe delimited with field name as first record

F. Data set of order events received during Limit States.

G. Summary data on order flow of arrivals and cancellations for each 15-second period for discrete time periods and sample stocks to be determined by the SEC in subsequent data requests. Must indicate side(s) of Limit State.

1. Market/marketable sell orders arrivals and executions
   a. Count
   b. Shares
   c. Shares executed
2. Market/marketable buy orders arrivals and executions
   a. Count
   b. Shares
   c. Shares executed
3. Count arriving, volume arriving and shares executing in limit sell orders above NBBO mid-point
4. Count arriving, volume arriving and shares executing in limit sell orders at or below NBBO mid-point (non-marketable)
5. Count arriving, volume arriving and shares executing in limit buy orders at or above NBBO mid-point (non-marketable)
6. Count arriving, volume arriving and shares executing in limit buy orders below NBBO mid-point
7. Count and volume arriving of limit sell orders priced at or above NBBO mid-point plus $0.05
8. Count and volume arriving of limit buy orders priced at or below NBBO mid-point minus $0.05
9. Count and volume of (3–8) for cancels
10. Include: ticker, date, time at start, time of Limit S*t*ate, all data item fields in 1, last sale prior to 15-second period (null if no trades today), range during 15-second period, last trade during 15-second period

**III. At Least Two Months Prior to the End of the Pilot Period, All Participants Shall Provide to the SEC Assessments Relating to the Impact of the Plan and Calibration of the Percentage Parameters as Follows**

A. Assess the statistical and economic impact on liquidity of approaching Price Bands.

B. Assess the statistical and economic impact of the Price Bands on erroneous trades.

C. Assess the statistical and economic impact of the appropriateness of the Percentage Parameters used for the Price Bands.

D. Assess whether the Limit State is the appropriate length to allow for liquidity replenishment when a Limit State is reached because of a temporary liquidity gap.

E. Evaluate concerns from the options markets regarding the statistical and economic impact of Limit States on liquidity and market quality in the options markets. (Participants that operate options exchange should also prepare such assessment reports.)

F. Assess whether the process for entering a Limit State should be adjusted and whether Straddle States are problematic.

G. Assess whether the process for exiting a Limit State should be adjusted.

H. Assess whether the Trading Pauses are too long or short and whether the reopening procedures should be adjusted.

[FR Doc. 2014–00346 Filed 1–10–14; 8:45 am]

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**SECURITIES AND EXCHANGE COMMISSION**

**Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending NYSE Arca Options Rule 6.40 To Expand the Scope of the Existing Risk Limitation Mechanism To Address Multiple, Successive Triggers of the Risk Limitation Mechanism**

January 7, 2014.

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 December 26, 2013, NYSE Arca, Inc. (the "Exchange" or "NYSE Arca") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I, 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.

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[1] 15 U.S.C. 78s(b)(1).

[2] 15 U.S.C. 78a.

[3] 17 CFR 240.19b–4.

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The Exchange proposes to amend NYSE Arca Options Rule 6.40 to expand the scope of the existing Risk Limitation Mechanism to address multiple, successive triggers of the Risk Limitation Mechanism. The text of the proposed rule change is available on the Exchange's Web site 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 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 NYSE Arca Options Rule 6.40 to expand the scope of the existing Risk Limitation Mechanism to address multiple, successive triggers of the Risk Limitation Mechanism.

Overview

The Exchange has in place a risk-limitation system that is designed to help Market Makers and non-Market Maker OTP Firms and OTP Holders (collectively, referred to herein as "dealers") better manage risk during periods of increased and significant trading activity. The three existing Risk Limitation Mechanisms (described below) are designed to mitigate the potential risks of multiple executions against a dealer's trading interest that, in today's highly automated and electronic trading environment, can occur simultaneously across multiple series and multiple option classes. In operation, under current Rule 6.40, when a dealer has triggered a Risk Limitation Mechanism in a given option class (by breaching preset thresholds), the Exchange will cancel all resting quotes and/or certain orders and will reject all subsequent quotes and/or

certain orders in the affected option class (underlying symbol) until the dealer submits a message to the Exchange requesting to re-enable the entry of quotes or certain orders. This temporary suspension from the market in the affected option classes (specifically as relates to quoting or certain orders) is meant to operate as a safety valve that forces dealers to re-evaluate their positions before requesting to re-enter the market. As discussed below, the Exchange believes that the majority of dealers that avail themselves of the Risk Limitation Mechanism utilize automated, system-generated messages to request that the Exchange re-enable the entry of their quotes or certain orders after triggering the Risk Limitation Mechanism. Provided the dealer does not experience multiple triggers of the Risk Limitation Mechanism in rapid succession, the Exchange believes the automated re-enable message is sufficient.

The goal of the current proposal is to address circumstances where a dealer experiences multiple, successive triggers of the Risk Limitation Mechanism, which the Exchange believes would be indicative of the dealer experiencing a bona fide problem (i.e., a potential system error). Thus, when a dealer experiences multiple, successive triggers of the Risk Limitation Mechanism, the Exchange proposes a two-pronged remedial response. First, the Exchange would cancel all of the dealer's quotes or Applicable Orders (defined below)—as opposed to cancelling only those quotes or certain orders in the option class (underlying symbol) in which the dealer triggered the Risk Limitation Mechanisms. Second, the Exchange would require that the dealer make non-automated contact with the Exchange to re-enable the submission of the dealer's quotes or Applicable Orders.[4]

The Exchange believes that the proposed enhancement to current Rule 6.40 would help maintain a fair and orderly market because it would suspend all of the dealers' quoting or trading in certain orders following multiple, successive triggers of the Risk Limitation Mechanism and would require non-automated contact with the Exchange before this suspension is lifted. The proposed modifications would therefore encourage increased attention by dealers to their risk tolerance and related controls. The Exchange is also proposing these

modifications in response to requests from its clients and believes the changes will assist these clients in better managing their risks.

Existing Risk Limitation Mechanism

The Exchange first adopted a risk-limitation system, as embodied in Rule 6.40, to manage risk during periods of increased and significant trading activity.[5] The prior version of the Rule provided only a Transaction-Based Risk Limitation Mechanism that applied solely to Market Maker quotes.

In 2012, in response to an increasingly automated and electronic trading environment, the Exchange adopted the risk protections afforded under current Rule 6.40 (Risk Limitation Mechanism).[6] Current Rule 6.40 expanded upon the earlier version by extending the transaction-based limitation mechanism to orders from Market Makers as well as to orders from non-Market Maker OTP Firms and OTP Holders (together, "non-Market Makers")[7] and providing for two additional risk limitation mechanisms—a volume-based mechanism and a percentage-based mechanism (collectively, the "Risk Limitation Mechanisms"). In addition to applying to all Market Maker quotes, the existing Risk Limitation Mechanisms apply to dealers' orders submitted via ArcaDirect and those designated as one of three "post no preference" order types—specifically, PNP, PNP-Blind and PNP-Light, or as Liquidity Adding Orders ("ALO"), which account for upwards of ninety-five percent of order flow to the Exchange (collectively, the "Applicable Orders").[8] Each Risk Limitation Mechanism is designed to measure a dealer's risk exposure within a time

period specified by the Exchange, based on either the number of trades executed by the dealer (the "Transaction-Based Risk Limitation Mechanism"); the number of contacts entered by the dealer (the "Volume-Based Transaction-Based Risk Limitation Mechanism"); or the percentage of a dealer's quoted size that gets traded (the "Percentage-Based Risk Limitation Mechanism").

Per current Rule 6.40(a), the Exchange utilizes Trade Counters, based on trading permit identification (or "TPID"), to determine when a Risk Limitation Mechanism has been triggered. The dealer selects from within a range specified by the Exchange individual risk parameters that, if breached, will trigger the selected Risk Limitation Mechanism.[9]

Per Commentary .08 to the Rule, while the existing Risk Limitation Mechanisms apply to quotes and Applicable Orders from Market Makers and non-Market Makers, use of this risk-limitation feature is mandated only for Market Makers' quotes.[10] Thus, Market Makers are required to activate one of the three Risk Limitation Mechanisms at all times for their quotes for each class in their appointment. However, the existing Risk Limitation Mechanisms are entirely voluntary for Applicable Orders submitted by Market Makers and non-Market Makers. With respect to the Applicable Orders, Market Makers and non-Market Makers have the option of availing themselves of one of the three Risk Limitation Mechanisms for some or all of the option classes in which they trade/provide quotes.[11] A Market Maker

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[4] The Exchange will include as part of a Trader Update appropriate contact information to be used by dealers when requesting to re-enable the entry of quotes and orders.

[5] See Securities Exchange Act Release No. 54238 (July 28, 2006), 71 FR 44758 (August 7, 2006) (SR–NYSEArca–2006–13).

[6] See Securities Exchange Act Release No. 34–67714 (August 22, 2012), 77 FR 167 (August 28, 2012) (SR–NYSEArca–2012–87). The Risk Limitation Mechanisms as set forth in current Rule 6.40 (and the proposal described herein) are only applicable to electronic trading on the Exchange.

[7] The Exchange specified within Rule 6.40(a) that non-Market Maker OTP Firms and OTP Holders would be referred to as "non-Market Makers" for purposes of Rule 6.40.

[8] See paragraphs (p), (u), (v) and (t) of NYSE Arca Options Rule 6.62 (Certain Types of Orders Defined), respectively. The Exchange notes that the rule is currently silent as to the source and order types that are subject to the Risk Limitation Mechanisms. The Exchange therefore proposes to modify Commentary .07 to Rule 6.40 to identify the source and the order types to which the existing (and modified) Risk Limitation Mechanisms apply and would announce via Trader Update any changes to these source(s) or order types. Similarly, for the sake of clarity, the Exchange proposes to replace "order" with "Applicable Order" in existing paragraphs (b), (c), (d) and (e) to Rule 6.40, and elsewhere in the rule as necessary.

[9] Per current Commentary .03 to Rule 6.40, the Exchange will not (i) specify a minimum setting of less than one or a maximum setting of more than 100 for the Transaction-Based Risk Limitation Mechanism; (ii) specify a minimum setting of less than 20 or a maximum setting of more than 5,000 for the Volume-Based Risk Limitation Mechanism; or (iii) specify a minimum setting of less than 100 or a maximum setting of more than 2,000 for the Percentage-Based Risk Limitation Mechanism. The Exchange proposes to amend Commentary .03 to Rule 6.40 to reflect that any changes to these settings would be announced to dealers via Trader Update, rather than Regulatory Bulletin.

[10] When first implemented, Rule 6.40 was entitled "Market Maker Risk Limitation Mechanism— OX", and applied solely to—and was mandated for—Market Maker quotes. However, when the rule was revised in 2012, and the risk-limitation functionality was expanded to cover Applicable Orders as well as quotes, the changes to the title of the rule and the accompanying rule text did not make entirely clear that the Risk Limitation Mechanism is required for all Market Maker quotes. Thus, as proposed, new Commentary .04 will state that use of the Risk Limitation Mechanism is mandated only for Market Maker quotes and is otherwise optional.

[11] With respect to Applicable Orders submitted by dealers, the Exchange has included in current Rule 6.40 the concept of a "specified class" to indicate the option class for which a Risk Limitation Mechanism is activated; if a dealer does not identify

may activate one Risk Limitation Mechanism for its quotes and a different Risk Limitation Mechanism for its Applicable Orders, even if both are activated for the same class.

Per current Rule 6.40(e), and Commentary .01 to the Rule, once a dealer's specified risk exposure is exceeded within the time period specified by the Exchange (as tracked by the Trade Counter), the Risk Limitation Mechanism is triggered and the NYSE Arca System ("System") automatically cancels electronic Applicable Orders or quotes by generating a "bulk cancel" message.[12] Per Commentary .01, the bulk cancel message is processed in time priority with any other quote, order or other message received by the System.[13] Thus, any quotes or orders that match with a Market Maker's quote or with a dealers' [sic] Applicable Orders that were received by the System prior to the receipt of the bulk cancel message would be automatically executed. Similarly, quotes or orders received by the System after receipt of the bulk cancel message would not be executed against the cancelled quotes or Applicable Orders. In this regard, Rule 6.40—in its current form and as proposed—would not relieve dealers of their "firm quote" obligations under Rule 602 of Regulation NMS[14] or NYSE Arca Options Rule 6.86. Furthermore, the proposed rule change would not relieve Market Makers of their quoting obligations under the Exchange's Rules.[15]

A dealer that has been suspended from quoting or submitting Applicable Orders in the affected class, pursuant to current Rule 6.40(e), may only re-enter the market by submitting a message to the Exchange requesting re-entry and, until such message is submitted, any subsequent quotes or Applicable Orders will be rejected by the Exchange.[16] The intended purpose of this forced suspension from quoting and from certain trading in the affected class is to afford the dealer an opportunity to evaluate its positions before opting to re-enter the market. In practice, the Exchange has received responses to bulk cancel messages from dealers requesting to re-enter the market within as few as

two milliseconds. This rapid response time leads the Exchange to conclude that the messages being submitted in response to the bulk cancel messages are automated, system-generated messages. The effect of this apparent automation is that dealers that are effectively kicked out of the market (for their quotes or Applicable Orders) in the affected class for triggering the Risk Limitation Mechanism can re-enter the market within milliseconds. The Exchange believes that an automated response is sufficient, provided the dealer does not experience multiple triggers of the Risk Limitation Mechanism in rapid succession.

Under current Rule 6.40 there is no mechanism for addressing multiple, successive triggers of the Risk Limitation Mechanisms within a time period specified by the Exchange, which could be particularly problematic for dealers if the markets turns in an unexpected direction.

### Proposed Changes to Risk Limitation Mechanism

The Exchange proposes to modify Rule 6.40 to address circumstances where a dealer experiences multiple, successive triggers of the Risk Limitation Mechanism. The Exchange proposes a two-pronged remedial response. First, the Exchange would cancel all of the dealer's quotes or Applicable Orders (defined below)—as opposed to cancelling only those quotes or certain orders in the option class (underlying symbol) in which the dealer triggered the Risk Limitation Mechanism. Second, the Exchange would require that the dealer make non-automated contact with the Exchange to re-enable the submission of the dealer's quotes or certain orders.

Proposed Rule 6.40(a)(2) would provide for a "trigger counter" that (similar to the Trade Counter, which serves as the basis for determining whether a Risk Limitation Mechanism has been triggered) would track the number of times that a dealer has triggered any of the Risk Limitation Mechanisms pursuant to current Rule 6.40(b), (c), or (d).[17]

Proposed Rule 6.40(f) outlines the actions that the System would take if the trigger counter indicates that any of the Risk Limitation Mechanisms have

been triggered in excess of the number of times specified by the dealer (within a parameter set by the Exchange, as noted below) within the time period specified by the Exchange. In short, once a dealer has exceeded the number of triggers of the Risk Limitation Mechanisms, pursuant to paragraph (f) of Rule 6.40, all Applicable Orders or quotes by a Market Maker or all Applicable Orders by a non-Maker Maker would be cancelled.

Specifically, per proposed Rule 6.40(f)(1), if the Risk Limitation Mechanism is triggered pursuant to paragraph (b)(1), (c)(1) or (d)(1) to this Rule, the System would automatically cancel all of the non-Market Maker's Applicable Orders, regardless of which specified class caused the underlying trigger of the Risk Limitation Mechanism. Per proposed Rule 6.40(f)(2), if the Risk Limitation Mechanism is triggered pursuant to paragraph (b)(2), (c)(2) or (d)(2) to this Rule, the System would automatically cancel all of the Market Maker's Applicable Orders, regardless of which specified class caused the underlying trigger of the Risk Limitation Mechanism. And, per proposed Rule 6.40(f)(3), if the Risk Limitation Mechanism is triggered pursuant to paragraph (b)(3), (c)(3) or (d)(3) to this Rule, the System would automatically cancel all of the Market Maker's quotes, regardless of which appointed class caused the underlying trigger of the Risk Limitation Mechanism.

The difference between the existing Risk Limitation Mechanism versus the proposed enhancement is the cancellation of all of a dealer's Applicable Orders or quotes upon breach of proposed paragraph (f) to Rule 6.40. Thus, if a dealer triggers a Risk Limitation Mechanism, pursuant to paragraph (e) of current Rule 6.40, only the dealer's quotes or Applicable Orders in the option class that triggered the Risk Limitation Mechanism would be cancelled by the Exchange; whereas if a dealer breaches proposed paragraph (f) of Rule 6.40, by engaging in multiple triggers of the Risk Limitation Mechanism in a time period specified by the Exchange, all of that dealer's Applicable Orders or quotes in any option class(es) submitted that day would be cancelled—not just the Applicable Orders or quotes in the option class(es) that led to the most recent trigger of the Risk Limitation Mechanism.[18] The Exchange believes

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any "specified class," none of the Risk Limitation Mechanisms will be activated.

[12] *See* NYSE Arca Options Rule 6.40(b)(1)–(3); (c)(1)–(3); and (d)(1)–(3).

[13] As previously noted, for the sake of clarity, the Exchange proposes to revise the rule text to utilize "Applicable Order" rather than "order" where necessary.

[14] 17 CFR 242.602.

[15] *See, e.g.,* NYSE Arca Options Rule 6.37B.

[16] *See* NYSE Arca Options Rule 6.40(e), and Commentary .01.

[17] This proposed addition would require that current Rule 6.40(a) be renamed from "Trade Counter" to "Counters," and renumbered such that "Trade Counter" would be numbered as proposed Rule 6.40(a)(1). The Exchange also proposes to amend paragraph (a) to refer to "Applicable Orders," as referenced in Commentary .07 to the Rule (instead of "orders") to make clear which orders are subject to the Risk Limitation Mechanisms.

[18] The cancellation will only apply to those quotes or Applicable Orders submitted by the dealer that trading day. With respect to the

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that this modification—to temporarily suspend quoting or Applicable Orders in all classes actively traded by the dealer—would strengthen the efficacy of the existing Risk Limitation Mechanisms by providing dealers with increased sensitivity in setting risk tolerance and controls.

Pursuant to proposed Commentary .01 to Rule 6.40, upon breaching proposed paragraph (f) of Rule 6.40, the System would automatically cancel electronic Applicable Orders or quotes by generating a ''bulk cancel'' message— just as the system currently does in the event of a breach of the Risk Limitation Mechanism (i.e., current paragraph (e) of Rule 6.40).[19] In addition to the bulk cancel message, the System would generate an alert message providing notice that the dealer has exceeded the number of triggers of the Risk Limitation Mechanisms, pursuant to paragraph (f) of Rule 6.40.

The Exchange also proposes to amend current Commentary .02 to Rule 6.40 to reflect that the Exchange would (and does) accept automated messages from dealers requesting the re-enabling of quotes or Applicable Orders, following a breach of paragraph (e). The Exchange believes that this proposed change would add transparency to the functioning of the Exchange and the types of messages it would accept when a Risk Limitation Mechanism is triggered pursuant to paragraph (e) of the Rule.

The Exchange proposes to further amend current Commentary .02 to Rule 6.40 to require that, upon a dealer's breach of proposed paragraph (f) to current Rule 6.40, the dealer would have to make non-automated contact with the Exchange to enable the entry of all new Applicable Orders or quotes, which had been cancelled pursuant to proposed paragraph (f).[20] The Exchange

believes that requiring this additional, non-automated contact will strengthen the efficacy of the existing Risk Limitation Mechanisms by providing dealers with increased sensitivity in setting risk tolerance and controls.

Pursuant to proposed Commentary .03 to Rule 6.40, the Exchange would specify via Trader Update the applicable range within which dealers could select the number of times the Risk Limitation Mechanism could be triggered before breaching proposed paragraph (f) to Rule 6.40, but this setting would not be less than a minimum of one and a maximum of 100. The Exchange believes that setting the parameters within this broad range would provide dealers with ample flexibility in setting their tolerance for risk. Those dealers with a lower risk tolerance or those that may be prone to multiple, successive triggers of the Risk Limitation Mechanisms in shorter periods of time, may opt to select a number of triggers on the lower end of the range, thereby optimizing the protection afforded by this proposed rule change, while those dealers with a higher risk tolerance or that are less likely to experience multiple, successive triggers of the Risk Limitation Mechanism, may select the maximum allowable triggers to decrease the protections afforded by the proposed rule change. Moreover, while the Exchange retains discretion with respect to the levels at which it could adjust these settings, the Exchange would not be permitted to adjust the settings below the minimum or maximum proposed, which, the Exchange believes would reasonably ensure that the settings are at all times within a reasonable range.

Consistent with current Commentary .03 to Rule 6.40, the applicable time period within which dealers would select the number of triggers before breaching proposed paragraph (f) to Rule 6.40 would not be less 100 milliseconds, unless otherwise announced by the Exchange. The Exchange believes that specifying the applicable minimum, maximum and/or default settings via Trader Update, including any changes thereto in the future designed to ensure that the mechanisms work as intended, would be consistent with the manner in which the Exchange has communicated any changes to the existing Risk Limitation Mechanism settings and is consistent with the manner in which the Commission currently permits option exchanges to communicate settings or

parameters for various exchange mechanisms to their members other than through the rule filing process, i.e., via notices, bulletins or circulars.[21]

The Exchange also proposes at this time to make a procedural change for making announcements regarding functionality associated with the Risk Limitation Mechanism. Presently the Exchange issues Regulatory Bulletins when making such announcements. Going forward, the Exchange proposes to issue a Trader Update in lieu of a Regulatory Bulletin. Regulatory Bulletins generally contain information regarding legal and regulatory matters while Trader Updates deal with issues such as trading, systems changes and real-time market announcements. The Exchange believes that it is more appropriate to make announcements regarding the Risk Limitation Mechanism via Trader Update. Trader Updates, like Regulatory Bulletins, are electronically distributed to all OTP Holders and OTP Firms and are posted on the Exchange's Web site. Accordingly, the Exchange proposes amended current Commentaries .03 and .07 to Rule 6.40 by replacing references to ''Regulatory Bulletin'' with ''Trader Update.'' Should the Exchange make a change to the Risk Limitation Mechanism settings, for example to accommodate changes in market conditions or the technology needs and considerations of dealers, the Exchange would issue a Trader Update at least one trading day in advance of the settings becoming effective, which would give dealers notice and

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cancellation of all Applicable Orders, pursuant to proposed paragraph (f) to Rule 6.40, this would include a cancellation of Applicable Orders in option classes for which the dealer may not have opted to utilize a Risk Limitation Mechanism. Thus, even though dealers are not required to subject all option classes traded to this risk-limitation feature, a breach of proposed paragraph 6.40(f) would affect all Applicable Orders in all option classes traded that day.

[19] Relatedly, the Exchange also proposes to amend Commentary .08 to Rule 6.40 regarding the cancellation of Applicable Orders to make it pertinent to paragraph (f), in addition to its current application to paragraph (e) to Rule 6.40.

[20] Specifically, proposed Commentary .03 to Rule 6.40 provides that ''[i]f any of the Risk Limitation Mechanisms are triggered pursuant to paragraphs (f)(1) or (f)(2) of Rule 6.40, any Applicable Orders sent by the non-Market Maker or Market Maker, respectively, in any class, shall be rejected until the non-Market Maker or Market Maker makes non-automated contact with the Exchange to enable the entry of new Applicable Orders. If any of the Risk

Limitation Mechanisms are triggered pursuant to Rule 6.40(f)(3), any quotes sent by the Market Maker, in any class, shall be rejected until the Market Maker makes non-automated contact with the Exchange to enable the entry of new quotes.''

[21] *See, e.g.,* Securities Exchange Act Release No. 34–70038 (July 25, 2013), 78 FR 147 (July 31, 2013) (SR–NYSEArca–2013–72) (NYSE Arca Rule 6.60, which applies a trade collar mechanism to prevent the immediate execution of certain incoming orders outside of a specified parameter (referred to as a ''Trading Collar'') and provides that changes to the Trading Collar may be announced by Trader Update. *See also* BOX Options Exchange LLC (''BOX'') Rule 8140, which provides that, related to BOX's Quote Removal Mechanism Upon Technical Disconnect, BOX Market Makers will be notified of the value that ''n'' seconds represents via Regulatory Circular. *See also* Securities Exchange Act Release No. 58140 (July 10, 2008), 73 FR 41384 (July 18, 2008) (SR–BSE–2008–40), in which the Commission noted that ''n'' seconds would be configurable by BOX and any subsequent re-configurations will be announced to Market Makers via Regulatory Circular. *See also* Interpretation and Policy .05 to Chicago Board Options Exchange (''CBOE'') Rule 6.74A, which provides that any determinations made by CBOE regarding CBOE's Automated Improvement Mechanism, such as eligible classes, order size parameters and the minimum price increment for certain responses, shall be communicated in a Regulatory Circular. *See also* CBOE Rule 6.13(b)(i)(C)(2)(a), which provides that CBOE may establish certain maximum order size eligibility requirements with respect to automatic executions and announce such determinations via Regulatory Circular.

opportunity to make any necessary adjustments to their risk settings.

Pursuant to proposed Commentary .04 to Rule 6.40, those dealers that utilize any of the Risk Limitation Mechanisms would be automatically subject to proposed paragraph (f) to Rule 6.40. Thus, while the Risk Limitation Mechanism is optional for each dealer's Applicable Orders, once a dealer avails itself of the Risk Limitation Mechanism for some of the option classes in which it trades, all of the option classes in which that dealer trades would be subject to the proposed rule change.[22]

Pursuant to proposed Commentary .06 to Rule 6.40, absent a breach pursuant to Rule 6.40(f), the trigger counter (which would serve as the basis for determining a breach of proposed paragraph (f)) would be automatically reset and would commence a new count for dealers (1) when a time period specified by the Exchange elapses; or (2) following any intraday update to configurable thresholds, as provided in Commentary .03 to this Rule 6.40. Per proposed Commentary .06 to Rule 6.40, in the event of a breach pursuant to proposed Rule 6.40(f), the trigger counter would be reset and would commence a new count when the affected dealer makes non-automated contact with the Exchange to enable the entry of new Applicable Orders or quotes, as provided in proposed Commentary .02 to Rule 6.40.

The Exchange believes that the proposed change to current Rule 6.40 will enhance the existing Risk Limitation Mechanisms and enable the Exchange to aid in mitigating the potential risks of multiple executions against a dealer's trading interest that, in today's highly automated and electronic trading environment, can occur simultaneously across multiple series and multiple option classes.

Implementation

The Exchange will announce the implementation date of the proposed rule change by Trader Update to be published no later than 60 days following the effective date of this filing. The implementation date will be no later than 60 days following the issuance of the Trader Update.

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)[23] which requires the rules of an exchange 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.

The Exchange believes that the proposed rule change removes impediments to and perfects the mechanism of a free and open market by providing dealers with greater control and flexibility over setting their risk tolerance and more protection over risk exposure, if the market moves in an unexpected direction.

Specifically, the Exchange believes that cancelling all quotes or Applicable Orders and requiring dealers to make non-automated contact with the Exchange following multiple, successive triggers of the Risk Limitation Mechanism allows dealers to be sensitive to the rapid trading that occurs in today's highly automated and electronic trading environment. This increased sensitivity will enable dealers to avoid transacting against their interests and will help to ensure that executions will not occur at erroneous prices, thereby removing impediments to and promoting a fair and orderly market.

Moreover, the Exchange believes that the proposal is consistent with the protection of investors and the public interests because it will permit dealers to better manage the potential risks of multiple executions against a dealer's proprietary interest that, in today's highly automated and electronic trading environment, can occur simultaneously across multiple series and multiple option classes. Consistent with the ability to better manage risk, the Exchange anticipates that the proposed enhancement to the existing Risk Limitation Mechanism could likewise enhance the Exchange's overall market quality as a result of narrowed quote widths and increased liquidity for series traded on the Exchange, which would benefit investors and the public interest. As with the intent of the existing Risk Limitation Mechanism, the Exchange believes that the proposed modifications to Rule 6.40 would further assist dealers in providing aggressive quotes and increased liquidity, thus improving overall market quality on the Exchange for the benefit of all investors and the public.

*B. Self-Regulatory Organization's Statement on Burden on Competition*

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange is proposing a market enhancement that would provide dealers with greater control and flexibility over setting their risk tolerance and more protection over risk exposure, if the market moves in an unexpected direction. The Exchange believes the proposal would provide market participants with additional protection from erroneous executions. The proposal is structured to offer the same enhancement to all dealers, regardless of size, and would not impose a competitive burden on any participant. The Exchange does not believe that the proposed enhancement to the existing risk limitation mechanism would impose a burden on competing options exchanges. Rather, the availability of this mechanism may foster more competition. Specifically, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues. When an exchange offers enhanced functionality that distinguishes it from the competition and participants find it useful, it has been the Exchange's experience that competing exchanges will move to adopt similar functionality. Thus, the Exchange believes that this type of competition amongst exchanges is beneficial to the market place as a whole as it can result in enhanced processes, functionality, and technologies.

*C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others*

No written comments were solicited or received with respect to the proposed rule change.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act[24] and Rule 19b–4(f)(6) thereunder.[25] Because the proposed rule change does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative prior to 30 days from the date on which it was filed, or such shorter time as the

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[22] Market Makers are required to utilize the Risk Limitation Mechanism for all of their quotes and therefore all quotes would be subject to the proposed change.

[23] 15 U.S.C. 78f(b)(5).

[24] 15 U.S.C. 78s(b)(3)(A)(iii).
[25] 17 CFR 240.19b–4(f)(6).

Commission may designate, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b–4(f)(6)(iii) thereunder.

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) [26] 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.* Please include File Number SR–NYSEArca–2013–148 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–NYSEArca–2013–148. 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–NYSEArca–2013–148 and should be submitted on or before February 3, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[27]

**Kevin M. O'Neill,**

*Deputy Secretary.*

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**BILLING CODE 8011–01–P**

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## SECURITIES AND EXCHANGE COMMISSION

**[Release No. 34–71252; File No. SR–NYSEMKT–2013–106]**

**Self-Regulatory Organizations; NYSE MKT LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending NYSE Rule 928NY To Expand the Scope of the Existing Risk Limitation Mechanism To Address Multiple, Successive Triggers of the Risk Limitation Mechanism**

January 7, 2014.

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 December 26, 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 NYSE Rule 928NY to expand the scope

of the existing Risk Limitation Mechanism to address multiple, successive triggers of the Risk Limitation Mechanism. The text of the proposed rule change is available on the Exchange's Web site 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 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 NYSE Rule 928NY to expand the scope of the existing Risk Limitation Mechanism to address multiple, successive triggers of the Risk Limitation Mechanism.

Overview

The Exchange has in place a risk-limitation system that is designed to help Market Makers and non-Market Maker ATP Holders (collectively, referred to herein as "dealers") better manage risk during periods of increased and significant trading activity. The three existing Risk Limitation Mechanisms (described below) are designed to mitigate the potential risks of multiple executions against a dealer's trading interest that, in today's highly automated and electronic trading environment, can occur simultaneously across multiple series and multiple option classes. In operation, under current Rule 928NY, when a dealer has triggered a Risk Limitation Mechanism in a given option class (by breaching preset thresholds), the Exchange will cancel all resting quotes and/or certain orders and will reject all subsequent quotes and/or certain orders in the affected option class (underlying symbol) until the dealer submits a message to the Exchange requesting to re-enable the entry of quotes or certain orders. This temporary suspension from

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[26] 15 U.S.C. 78s(b)(2)(B).

[27] 17 CFR 200.30–3(a)(12).

[1] 15 U.S.C.78s(b)(1).

[2] 15 U.S.C. 78a.

[3] 17 CFR 240.19b–4.