

the Fee Schedule is intended to make the reference to the Exchange in the heading of the Fee Schedule consistent with the manner in which its affiliated exchanges are referenced in their respective fee schedules, thereby removing impediments to and perfecting the mechanism of a free and open market and a national market system, and, in general, protecting investors and the public interest.

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

The Exchange believes its proposed amendments to its Fee Schedule would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange does not believe that the proposed change represents a significant departure from previous pricing offered by the Exchange or pricing offered by the Exchange's competitors.

Additionally, Members may opt to disfavor the Exchange's pricing if they believe that alternatives offer them better value. Accordingly, the Exchange does not believe that the proposed change will impair the ability of Members or competing venues to maintain their competitive standing in the financial markets.

*Fee Code BY*

The Exchange believes that its proposal to pass through the amended rebate for orders that yield Flags BY would increase intermarket competition because it offers customers an alternative means to route to BYX for the same rebate that they would be provided if they entered orders on that trading center directly. The Exchange believes that its proposal would not burden intramarket competition because the proposed rebate would apply uniformly to all Members.

*MidPoint Discretionary Order Add Volume Tier*

The Exchange believes that its proposal to ease the criteria for the MidPoint Discretionary Order Add Volume Tier would increase intermarket competition because it would further incentivize Members to send an increased amount MidPoint Discretionary orders to the Exchange in order to qualify for the tier's decreased fee. The Exchange believes that its proposal would neither increase nor decrease intramarket competition because the MidPoint Discretionary Order Add Volume Tier would apply uniformly to all Members and the ability of some Members to meet the tier would only benefit other Members by contributing to increased liquidity at the

midpoint of the NBBO and better market quality at the Exchange.

*Non-Substantive Changes*

The Exchange believes that the non-substantive change to the Fee Schedule will not affect intermarket nor intramarket competition because the change is not designed to amend any fee or alter the manner in which the Exchange assesses fees or calculates rebates.

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

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any unsolicited written comments from Members or other interested parties.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>13</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>14</sup> At any time within 60 days of the filing of the 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.

**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-EDGA-2015-18 on the subject line.

*Paper Comments*

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090. All submissions should refer to File Number SR-EDGA-2015-18. 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 will also 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-EDGA-2015-18 and should be submitted on or before June 9, 2015.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>15</sup>

**Robert W. Errett,**  
*Deputy Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

**[Release No. 34-74951; File No. SR-NYSEARCA-2015-38]**

**Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change Adopting New Equity Trading Rules Relating to Trading Sessions, Order Ranking and Display, and Order Execution To Reflect the Implementation of Pillar, the Exchange's New Trading Technology Platform**

May 13, 2015.

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>

<sup>15</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> 15 CFR 240.19b-4.

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

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

notice is hereby given that, on April 30, 2015, 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.

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

The Exchange proposes to adopt new equity trading rules relating to Trading Sessions, Order Ranking and Display, and Order Execution to reflect the implementation of Pillar, the Exchange’s new trading technology platform. 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**

On January 29, 2015, the Exchange announced the implementation of Pillar, which is an integrated trading technology platform designed to use a single specification for connecting to the equities and options markets operated by NYSE Arca and its affiliates, New York Stock Exchange LLC (“NYSE”) and NYSE MKT LLC (“NYSE MKT”). NYSE Arca Equities will be the first trading system to migrate to Pillar.<sup>4</sup> NYSE Arca Equities trading on Pillar would be an all-electronic price-time priority equities trading platform.

The Exchange will be submitting proposed rule changes to correspond to the anticipated migration to Pillar, which would be done in phases. During the first phase, ETP Holders would continue to connect to existing NYSE Arca gateways to access the Pillar trading platform. In the second phase, the Exchange will introduce new customer gateways and connectivity as well as additional order type processing. To implement the first phase of Pillar migration, the Exchange will be submitting more than one rule filing. The Exchange will later submit rule filings to implement the second phase of Pillar migration.

During the first phase of Pillar implementation, the Exchange would roll out the new technology platform over a period of time based on a range of symbols. Because orders entered in symbols not yet migrated to Pillar would continue to operate under current rules, the Exchange will keep its current rules, pending complete migration of symbols to Pillar and retirement of the current trading system, and add new rules that would be applicable to symbols that trade on the Pillar trading platform. As proposed, the new rules governing trading on Pillar would have the same numbering as current rules, but with the modifier “P” appended to the rule number. For example, Rule 7.34, governing Trading Sessions, would remain unchanged and continue to apply to any trading in symbols on the current trading platform. Proposed Rule 7.34P would govern Trading Sessions for trading in symbols migrated to the Pillar platform. Once all symbols have migrated to the Pillar platform, the Exchange will file a rule proposal to delete rules that are no longer operative.

In this filing, the Exchange proposes to adopt new Pillar rules relating to Trading Sessions (NYSE Arca Equities Rule 7.34 (“Rule 7.34P”)), Order Ranking and Display (NYSE Arca Equities Rule 7.36 (“Rule 7.36P”)), and Order Execution (NYSE Arca Equities Rule 7.37 (“Rule 7.37P”)). As proposed, the new rules would be NYSE Arca Equities Rules 7.34P (Trading Sessions) (“Rule 7.34P”), 7.36P (Order Ranking and Display) (“Rule 7.36P”), and 7.37P (Order Execution) (“Rule 7.37P”). These three rules would set forth the foundation of the Exchange’s equity trading model in Pillar, including the hours of operation, how orders would be ranked and displayed, and how orders would be executed.

As discussed in greater detail below, the Exchange is not proposing that the core functionality of rules applicable to trading on Pillar would be different

from rules applicable to trading on the current NYSE Arca equities trading system. However, with Pillar, the Exchange would introduce new terminology. Further, because the Exchange would operate both its current trading system for some symbols and the Pillar trading platform for other symbols, until rollout of Pillar across all symbols is complete, the Exchange is proposing to add all new rule text for proposed Rules 7.34P, 7.36P, and 7.37P. Because these rules and related proposed terminology changes would be the foundation for all other rule changes that will be proposed in connection with Pillar, the Exchange believes that filing for these rule changes before other rule changes will provide the public notice of how Pillar would operate generally.

#### **Proposed Use of “P” Modifier**

To reflect how the “P” modifier would operate, the Exchange proposes to add rule text immediately following the reference to “Rule 7 Equities Trading,” and before “Section 1. General Provisions” that would provide that rules with a “P” modifier would be operative for symbols that are trading on the Pillar trading platform. As further proposed, if a symbol is trading on the Pillar trading platform, a rule with the same number as a rule with a “P” modifier would no longer be operative for that symbol and the Exchange would announce by Trader Update when symbols are trading on the Pillar trading platform.

Similarly, the Exchange proposes to add rule text following the title “Rule 1 Definitions” that provides that definitions with a paragraph designation that includes a “P” modifier would be operative for symbols trading on the Pillar trading platform. A definition with the same paragraph designation as a definition with a “P” modifier would not be operative for symbols trading on Pillar. Finally, to provide clarity that definitions that do not have a version with a “P” modifier would apply across all symbols, regardless of the trading platform, the Exchange proposes to state explicitly that definitions that do not have a companion version with a “P” modifier would continue to be operative for all symbols.

The Exchange believes that adding these explanations regarding the “P” modifier in Exchange rules would provide transparency regarding which rules and definitions would be operative depending on the trading platform on which a symbol is trading.

<sup>4</sup> See Trader Update dated January 29, 2015, available here: [http://www1.nyse.com/pdfs/Pillar\\_Trader\\_Update\\_Jan\\_2015.pdf](http://www1.nyse.com/pdfs/Pillar_Trader_Update_Jan_2015.pdf).

## Trading Sessions

Rule 7.34 governs trading sessions. As set forth in Rule 7.34(a), the Exchange has three trading sessions:

(1) the Opening Session, which begins at 1:00:00 a.m. Pacific Time and concludes at the commencement of the Core Trading Session. The Opening Auction and Market Order Auction occur during the Opening Session;

(2) the Core Trading Session, which begins at 6:30:00 a.m. Pacific Time or at the conclusion of the Market Order Auction, whichever comes later, and concludes at 1:00:00 p.m. Pacific Time; and

(3) the Late Trading Session, which begins following the conclusion of the Core Trading Session and concludes at 5:00:00 p.m. Pacific Time.

Proposed Rule 7.34P(a)(1)–(3) would similarly provide for three trading sessions, but with several proposed differences from Rule 7.34(a):

- First, the Exchange proposes non-substantive differences in the names of the trading sessions on the Pillar trading platform. Specifically, for Pillar, the Exchange proposes to call its three trading sessions the “Early Trading Session,” the “Core Trading Session,” and the “Late Trading Session.” The Exchange believes that the use of the term “Early Trading Session,” rather than the “Opening Session,” better describes when the session occurs, which is before the Core Trading Session, and therefore would be clearer to market participants. In addition, the Exchange proposes the auction that opens the “Early Trading Session” would be called the “Early Open Auction,” instead of the “Opening Auction” and that the auction that opens the “Core Trading Session” would be called the “Core Open Auction” instead of the “Market Order Auction.” The Exchange believes that the auctions that open the respective sessions should be named to reflect both the name of the session and that it is an opening auction for the respective session.

- Second, the Exchange proposes that all time references for the trading sessions would be to Eastern Time, and would not include references to seconds.<sup>5</sup> The Exchange’s current rules for trading sessions use references to Pacific Time. In today’s national trading environment, the Exchange believes that use of Eastern Time would reduce investor confusion by conforming references to time to how all other

<sup>5</sup> The Exchange also proposes to change the time in the definition of Core Trading Hours, which is defined in Rule 1.1(j), from Pacific to Eastern Time references.

exchanges denote time in their rules. The Exchange similarly believes that references to seconds in proposed Rule 7.34P are unnecessary, as none of the other Exchange rules for the beginning and end of trading sessions use seconds.

- Third, the Exchange proposes that Rule 7.34P(a)(1) regarding Early Trading Sessions would be more detailed than Rule 7.34 by adding text that is currently in Rule 7.35(a)(1), without any substantive differences.<sup>6</sup> Specifically, the Exchange proposes to include in Rule 7.34P(a)(1) that the Corporation<sup>7</sup> would begin accepting orders 30 minutes before the Early Trading Session begins. Because this rule text concerns when orders may be entered, the Exchange believes that it should be included in the rule governing trading sessions for Pillar. Proposed Rule 7.34P(a)(1) would further provide that the Early Open Auction would begin the Early Trading Session.

- Fourth, the Exchange proposes to provide that the Core Open Auction would occur during the Core Trading Session. Rule 7.34(a) currently provides that the Market Order Auction occurs during the Opening Session. Because this auction is intended to open trading for the Core Trading Session,<sup>8</sup> the Exchange believes it should be considered part of the Core Trading Session, rather than the Early Trading Session. The Exchange therefore proposes to specify in proposed Rule 7.34P(a)(2) that the Core Open Auction would begin the Core Trading Session. The Exchange further proposes to specify that the Core Trading Session would end at the conclusion of Core Trading Hours or the Core Closing Auction, whichever comes later. The proposed cross reference to Core Trading Hours, which is defined in Rule 1.1(j), takes into consideration that the Core Trading Session may end earlier than 4:00 p.m. when the Exchange has an early scheduled close, e.g., the day before Christmas.

- Fifth, the Exchange proposes not to include in proposed Rule 7.34P the text currently in Rule 7.34 relating to extended Core Trading Session hours. Rules 7.34(a)(3)(A) and (B) provide that the Core Trading Session for specified securities concludes at 1:15:00 p.m. Pacific Time unless otherwise

<sup>6</sup> In a separate rule filing, the Exchange will propose Rule 7.35P, which would govern auctions in Pillar.

<sup>7</sup> The term “Corporation” is defined in Rule 1.1(k) as NYSE Arca Equities, Inc., as described in the NYSE Arca Equities, Inc.’s Certification of Incorporation and Bylaws.

<sup>8</sup> Rule 7.35 currently specifies that the Market Order Auction occurs at 9:30 a.m., which is the same time that the Core Trading Session begins for securities that do not have an auction.

determined by the Corporation and that the Exchange would maintain on its Web site which securities for which the Core Trading Session would extend to 1:15:00 p.m. Because the Exchange does not have any securities for which the Core Trading Session extends to 1:15:00 p.m. Pacific Time, nor does it plan to provide for such an extended Core Trading Session for any securities, the Exchange proposes not to include this provision in proposed Rule 7.34P.

- Finally, the Exchange proposes that text currently found in Rules 7.34(a)(4), 7.34(a)(5), and 7.34(b) not be included in proposed Rule 7.34P. Rules 7.34(a)(4) and (5) currently describe how the Exchange handles trading halts in specified securities that occur during different trading sessions. The Exchange believes that rule text relating to halts should be centralized in a single rule and will be proposing in a separate rule filing to add the text of current Rule 7.34(a)(4) and (5) to proposed Rule 7.18P. Rule 7.34(b) sets forth Market Maker obligations to enter Q Orders for securities in which they are registered. The Exchange believes that this topic is not related to trading sessions directly and that this rule text should be included with the definition of Q Orders and therefore will be proposing in a separate rule filing to add the text of current Rule 7.34(b) to proposed Rule 7.31P.<sup>9</sup> Because Rule 7.34(a)(4) defines the term “Derivative Securities Product” and because that definition would not be included in proposed Rule 7.34P, the Exchange proposes to add a new definition to Rule 1.1 to define the terms Derivative Securities Product and UTP Derivative Securities Product. As proposed, the term “Derivative Securities Product” would mean a security that meets the definition of “derivative securities product” in Rule 19b–4(e) under the Securities Exchange Act of 1934<sup>10</sup> and a “UTP Derivative Securities Product” would mean a Derivative Securities Product that trades on the Exchange pursuant to unlisted trading privileges.

The Exchange proposes to include the text of Rule 7.34(c) in proposed Rule 7.34P(b) with non-substantive differences and to provide more detail. Rule 7.34(c) provides that any Day Order entered into the NYSE Arca Marketplace<sup>11</sup> may remain in effect for

<sup>9</sup> The Exchange will be submitting a separate rule filing to propose Rule 7.31P, which would govern orders and modifiers in Pillar.

<sup>10</sup> 17 CFR 240.19b–4(e)

<sup>11</sup> The term “NYSE Arca Marketplace” is defined in Rule 1.1(e) as the electronic securities communication and trading facility designated by

one or more consecutive trading sessions on a particular day and that for each Day Order entered, the User<sup>12</sup> must designate for which trading session(s) the order will remain in effect. Proposed Rule 7.34P(b) would instead provide that any order entered into the NYSE Arca Marketplace must include a designation for which trading session(s) the order would remain in effect.

Proposed new Rule 7.34P(b) would also provide that an order would be eligible to participate only in the designated trading session(s) and may remain in effect for one or more consecutive trading sessions on a particular day. The Exchange further proposes to add that unless otherwise specified, an order designated for a later trading session would be accepted but not eligible to trade until the designated trading session begins. For example, if an order is entered at 8:00 a.m. Eastern Time and is designated for the Core Trading Session only, it would be accepted but would not participate in the Early Trading Session. As discussed in more detail below, proposed Rule 7.34P(c) would specify orders that may not be entered either during or in advance of a designated trading session. In addition, the Exchange proposes to add that an order designated solely for a trading session that has already ended would be rejected. For example, an order entered at 10:00 a.m. Eastern Time that is designated only for the Early Trading Session would be rejected. The Exchange believes that the proposed changes would provide transparency in Exchange rules of when orders may be entered and when orders would be rejected.

The Exchange also proposes to add in Rule 7.34P(b)(2) and (3) that an order with a day time-in-force instruction entered before or during the Early Trading Session would be deemed designated for the Early Trading Session and the Core Trading Session and that an order with a day time-in-force instruction entered during the Core Trading session would be deemed designated for the Core Trading Session. The Exchange believes that the proposed rule text provides transparency regarding which sessions during which an order may be eligible to participate.

The Exchange proposes to describe the processes currently set forth in Rule 7.34(d) in proposed Rule 7.34P(c). Rule

7.34(d) describes which orders are permitted in each session. The Exchange proposes to revise how this topic is described in proposed Rule 7.34P(c) to provide generally that orders are eligible to participate in a session, unless otherwise provided in the rule. Accordingly, rule text in Rule 7.34(d) that specifies order types that are eligible to participate in a particular session would not be included in new Rule 7.34P because the proposed new text would make it unnecessary to specify the order types eligible to participate in a particular session. Those order types that would not be eligible to participate in each of the Exchange's three trading sessions are described below.

With respect to the Early Trading Session, the Exchange proposes in new Rule 7.34P(c)(1) to provide that, unless otherwise specified in proposed paragraphs (c)(1)(A)–(E) of the new rule, orders and modifiers defined in Rule 7.31P that have been designated for the Early Trading Session would be eligible to participate in the Early Trading Session. The Exchange believes that the proposed rule text makes clear that unless specified in paragraphs (c)(1)(A)–(E) of new Rule 7.34P, all orders and modifiers in Rule 7.31P, if designated for the Early Trading Session, would be eligible to participate in the Early Trading Session.

Unlike under current rules, the Exchange proposes that Tracking Orders would be eligible to participate in the Early Trading Session on the Pillar trading platform. Because the Exchange routes orders during the Early Trading Session and because Tracking Orders are intended to be passive liquidity on the Exchange to interact with an order before it is routed, the Exchange believes that Tracking Orders should be available in the Early Trading Session. Accordingly, rule text from Rule 7.34(d)(1)(C) would not be included in new Rule 7.34P(c)(1).

The Exchange proposes that the following orders and modifiers in Rule 7.31P would not be eligible to participate in the Early Trading Session:

- Proposed Rule 7.34P(c)(1)(A) would provide that Market Orders, Q Orders, and Pegged Orders would not be eligible to participate in the Early Trading Session, which is current functionality. The Exchange further proposes to specify that any Market Orders, Q Orders, and Pegged Orders that include a designation for the Early Trading Session would be rejected. Such orders would be rejected if they also include a designation for another trading session; the designation for the Early Trading Session whether alone or with another

designation would result in a rejection of the order. The Exchange further proposes to add that Market Pegged Orders entered before or during the Early Trading Session would be rejected regardless of the session designated for the order.<sup>13</sup> For example, a Market Order, Q Order, or Primary Pegged Order designated for the Core Trading Session only that is entered at 8:00 a.m. Eastern Time would be accepted, but a Market Pegged Order designated for the Core Trading Session only entered at the same time would be rejected.

- Proposed Rule 7.34P(c)(1)(B) would specify that Limit Orders designated IOC and Cross Orders would not be eligible to participate in the Early Open Auction and would be rejected if entered before the Early Open Auction concludes. The reference to Limit Orders designated IOC includes any order with an IOC instruction, including MPL Orders. Limit Orders designated IOC and Cross Orders are not currently eligible to participate in auctions, accordingly, this proposed rule change does not represent new functionality. However, the Exchange believes that the proposed change promotes transparency in Exchange rules regarding when an order would be accepted or rejected.

- Proposed Rule 7.34P(c)(1)(C) would specify that Limit Orders designated IOC and Cross Orders entered before or during the Early Trading Session and designated for the Core Trading Session only would be rejected if entered before the Core Open Auction concludes. The Exchange believes that this proposed rule would provide transparency because orders designated IOC must be eligible for an immediate execution and are not eligible for auctions, and an IOC order designated with a later trading session is by its terms inconsistent.

- Proposed Rule 7.34P(c)(1)(D) would provide that for securities that are not eligible for an auction on the Exchange, Market Orders designated for Core Trading Session and Auction-Only Orders would be routed directly to the primary listing market on arrival. This proposed treatment of Market Orders and Auction-Only Orders in securities that are not eligible for an auction on the Exchange would be different from current functionality.<sup>14</sup> Currently,

<sup>13</sup> As set forth in proposed Rule 7.34P(b), orders that are entered during the Early Trading Session and designated for a later session only would be accepted and become eligible to trade once the designated trading session begins.

<sup>14</sup> Proposed Rule 7.34P(c)(1)(D) would also represent a change to current Exchange functionality regarding MOC Orders and LOC Orders. Currently, the Exchange does not accept such orders before 9:30 a.m. Eastern Time. On the Pillar trading platform, the Exchange would accept such orders during the Early Trading Session, and

the Board of Directors through which orders of Users are consolidated for execution and/or display.

<sup>12</sup> The term "User" is defined in Rule 1.1(yy) as any ETP Holder or Sponsored Participant who is authorized to obtain access to the NYSE Arca Marketplace pursuant to Rule 7.29.

Market Orders or Auction-Only Orders are routed to the primary listing market on arrival only if they include a "Primary Only" order designation. The Exchange proposes that on the Pillar trading platform, during the Early Trading Session, a Market Order or Auction-Only Order in a security that is not eligible for an auction on the Exchange would be routed to the primary listing market regardless of whether it includes a Primary Only designation. The Exchange believes that this proposed functionality would be consistent with the expectations of a User with respect to such orders, which would not be eligible for an execution on the Exchange. The Exchange proposes to further provide that any order routed directly to the primary listing market on arrival, which includes the above-described orders and Primary Only Orders, would be cancelled if that market is not accepting orders.

- Proposed Rule 7.34P(c)(1)(E) would provide that MOO Orders, MOC Orders, LOC Orders, and Primary Only Orders designated for the Early Trading Session would be rejected. This represents current functionality. LOO Orders may be designated for the Early Trading System in order to participate in a reopening auction following a trading halt. LOO Orders in securities not eligible for an auction on the Exchange that are designated for an Early Trading Session would be routed to the primary listing market, consistent with proposed Rule 7.34P(c)(1)(D). The Exchange proposes to include this text in proposed Rule 7.34P in order to provide transparency of when an order would be rejected.

With respect to the Core Trading Session, the Exchange proposes in new Rule 7.34P(c)(2) to provide that, unless otherwise specified in proposed paragraphs (c)(2)(A)–(B) of the new rule, orders and modifiers defined in Rule 7.31P and 7.44P that have been designated for the Core Trading Session would be eligible to participate in the Core Trading Session.<sup>15</sup> The Exchange believes that the proposed rule text makes clear that, unless specified in paragraphs (c)(2)(A)–(B) of new Rule 7.34P, all orders and modifiers in Rule 7.31P and 7.44P, if designated for the Core Trading Session, would be eligible

to participate in the Core Trading Session. The proposed exceptions to the general rule would be:

- Proposed Rule 7.34P(c)(2)(A) would provide that Market Orders in securities that are not eligible for the Core Open Auction would be routed to the primary listing market until the first opening print of any size on the primary listing market or 10:00 a.m. Eastern Time, whichever is earlier. This proposed rule text is based on current Rule 7.35(c), which states that for all exchange-listed securities for which the Exchange does not conduct a Market Order Auction, "the Corporation will route all Market Orders to the primary market until the first opening print on the primary market." This current rule makes clear that the Exchange refrains from processing Market Orders until the primary listing market has printed a transaction, and not just opened for trading based on an opening quote. Because this rule relates to how orders are treated during a trading session, the Exchange believes that it is more appropriately included in proposed Rule 7.34P(c) than in a rule governing auctions.

In moving the rule text, the Exchange is proposing two substantive differences. First, to specify that the first opening print may include an odd-lot transaction, the Exchange proposes to provide in Rule 7.34P(c)(2)(A) that Market Orders in securities that are not eligible for the Core Open Auction would be routed to the primary listing market until the first print of any size on the primary listing market. The Exchange believes it is appropriate to include an odd-lot transaction print because such a transaction indicates that trading has begun on the primary listing market. Second, the Exchange proposes to provide for an outside time frame for when the Exchange would stop routing Market Orders to the primary listing market and begin processing those orders on the Exchange. As proposed, the Exchange would continue routing Market Orders to the primary listing market until the first print of any size on such market or 10:00 a.m. Eastern Time, whichever is earlier. The Exchange believes that if the primary listing market has not opened for trading by 10:00 a.m. Eastern Time and has not halted the security, the Exchange should begin processing Market Orders in all securities. The proposed time of 10:00 a.m. Eastern Time is based on NYSE Rule 123D and NYSE MKT Rule 123D—Equities, which provide for delayed opening procedures for NYSE- and NYSE MKT-listed securities. Specifically, under those rules, a security is considered in a

delayed opening if it is not open by 10:00 a.m. Eastern Time.

- Proposed Rule 7.34P(c)(2)(B) would provide that Auction-Only Orders in securities that are not eligible for an auction on the Exchange would be accepted and routed directly to the primary listing market. This proposed rule text is a continuation of the treatment of such orders as described in proposed Rule 7.34P(c)(1)(D) in that during the Core Trading Session, the Exchange would continue to accept and route such orders directly to the primary listing market. This proposal represents a change from current practice, as Rule 7.31(t) currently provides that the Exchange does not route Auction-Only orders to other exchanges. Instead, the Exchange currently rejects Auction-Only Orders in securities that are not eligible for an auction on the Exchange, unless they include a Primary Only Order designation. In Pillar, the Exchange would accept such orders and route them to the primary listing market.<sup>16</sup>

With respect to the Late Trading Session, the Exchange proposes in new Rule 7.34P(c)(3) to provide that unless otherwise specified in proposed paragraphs (c)(3)(A)–(C) of the new rule, orders and modifiers defined in Rule 7.31P that have been designated for the Late Trading Session would be eligible to participate in the Late Trading Session. The Exchange believes that this proposed rule text makes clear that unless specified in paragraphs (c)(3)(A)–(C) of new Rule 7.34P, all orders and modifiers in Rule 7.31P, if designated for the Late Trading Session, would be eligible to participate in the Late Trading Session.

Unlike under current rules, the Exchange proposes that Tracking Orders would be eligible to participate in the Late Trading Session, as they would be in the Early Trading Session, on the Pillar trading platform. Because the Exchange routes orders during the Late Trading Session and because Tracking Orders are intended to be passive liquidity on the Exchange to interact with an order before it is routed, the Exchange believes that Tracking Orders should be available in the Late Trading Sessions. Accordingly, rule text from current Rule 7.34(d)(3)(C) would not be included in new Rule 7.34P(c)(3).

The Exchange proposes that the following orders and modifiers in Rule 7.31P would not be eligible to participate in the Late Trading Session:

<sup>16</sup> Because the treatment of Auction-Only Orders in securities that are not eligible for any auction on the Exchange would be covered in proposed Rule 7.34P, the Exchange would propose that new Rule 7.31P not include this same topic.

if for a security that is not eligible for an auction on the Exchange, route such orders to the primary listing market if such market is accepting orders.

<sup>15</sup> The Exchange notes that orders and modifiers described in Rule 7.44 governing the Retail Liquidity Program ("RLP") are eligible to participate in the Core Trading Session only. The Exchange will submit a separate rule filing to adopt Rule 7.44P to govern RLP in Pillar.

- Proposed Rule 7.34P(c)(3)(A) would provide that Market Orders, Q Orders, and Pegged Orders would not be eligible to participate in the Late Trading Session, which is current functionality. The rule would further provide that Market Orders, Q Orders, and Pegged Orders that include a designation for the Late Trading Session would be rejected. For example, if a Market Order, Q Order, or Pegged Order were entered during the Core Trading Session and designated for both the Core and Late Trading Session, because it includes a designation for the Late Trading Session, such order would be rejected. The Exchange believes that this proposed rule text provides transparency in Exchange rules of when an order would be accepted or rejected.

- Proposed Rule 7.34P(c)(3)(B) would provide that orders that route directly to the primary listing market on arrival would be cancelled if that market is not accepting orders, which is current functionality.

- Proposed Rule 7.34P(c)(3)(C) would provide that MOO Orders, MOC Orders, LOC Orders, and Primary Only Orders designated for the Late Trading Session would be rejected. This represents current functionality. LOO Orders may be designated for the Late Trading System in order to participate in a reopening auction following a trading halt. LOO Orders in securities not eligible for an auction on the Exchange that are designated for an Early Trading Session would be routed to the primary listing market. The Exchange proposes to include this text in proposed Rule 7.34P in order to provide transparency of when an order would be rejected.

Proposed Rule 7.34P(d) regarding customer disclosures is based on Rule 7.34(e) with non-substantive differences to conform terminology with the proposed changes to new Rule 7.34P, including use of the term “Early Trading Session” instead of “Opening Session,” “Core Open Auction” instead of “Market Order Auction,” and “Limit Order” instead of “Limited Price Order.”

Finally, proposed Rule 7.34P(e) is based on Rule 7.34(f) without any substantive differences and would provide that trades on the NYSE Arca Marketplace executed and reported outside of the Core Trading Session would be designated as .T trades.

#### Order Ranking and Display

Rule 7.36 governs order ranking and display for the current Arca trading system. The rule provides that the NYSE Arca Marketplace shall display to Users and other market participants all non-marketable limit orders in the Display

Order Process. The rule further provides that the NYSE Arca Marketplace will also disseminate current consolidated quotation/last sale information, and such other market information as may be available from time to time pursuant to agreement between the Corporation and other market centers.

Rule 7.36(a) sets forth that orders of Users are ranked and maintained in the Display Order Process and/or the Working Order Process of the NYSE Arca Book<sup>17</sup> according to price-time priority, such that within each price level, orders are organized by the time of entry in the manner described in the rule.

Rule 7.36(a)(1) describes the Display Order Process and Rule 7.36(a)(2) describes the Working Order Process. Rule 7.36(a)(3) sets forth that if an order has been modified in size, the order retains priority if the modification involves a decrease in the size of the order, but if the modification increases the size of the order or changes the price, the order will be treated as a new order and receive a new time priority. Rule 7.36(b) provides that, except as provided in Rule 7.7, all orders displayed in the Display Order Process are displayed on an anonymous basis. Finally, Rule 7.36(c) provides that the best-ranked displayed orders to buy (sell) in the NYSE Arca Book and the aggregate size of such orders are collected and made available to quotation vendors for dissemination pursuant to Rule 11Ac1-1 under the Exchange Act. The rule further provides that if non-marketable odd-lot sized orders can be aggregated to equal at least a round lot, such odd-lot sized orders will be displayed as the best ranked displayed orders to sell (buy) at the least aggressive price at which such odd-lot sized orders can be aggregated to equal at least a round lot.

Proposed Rule 7.36P would describe for the Pillar trading platform order ranking and display of orders, without any substantive differences from Rule 7.36. As discussed in detail below, the Exchange believes that the proposed new rule text provides transparency with respect to how the Exchange’s price-time priority model would operate through the use of new terminology applicable to all orders on the Pillar trading platform.

Rule 7.36P(a) would set forth definitions for purposes of all of Rule 7 Equities Trading on the Pillar trading platform, including Rule 7.37P (Order

<sup>17</sup> The term “NYSE Arca Book” is defined in Rule 1.1(a) as the NYSE Arca Marketplace’s electronic file of orders, which contain all of the User’s orders in each of the Display Order, Working Order, and Tracking Order Processes.

Execution and Routing), described below. The Exchange believes that these proposed definitions would provide transparency regarding how the Exchange operates, and would serve as the foundation for amendments to orders and modifiers that will be in proposed Rule 7.31P.

- Proposed Rule 7.36P(a)(1) would define the term “display price” to mean the price at which a Limit Order is displayed, which may be different from the limit price or working price of the order. For example, Rule 7.31 provides for order types that may be displayed at prices that are different from the limit price, such as a PNP Blind Order.<sup>18</sup> The Exchange proposes to define the term “display price” in Pillar to explain these existing concepts uniformly in Exchange rules applicable to trading on the Pillar trading platform.

- Proposed Rule 7.36P(a)(2) would define the term “limit price” to mean the highest (lowest) specified price at which a Limit Order to buy (sell) is eligible to trade. The limit price is designated by the User. As noted in the proposed definitions of display price and working price, the limit price designated by the User may differ from the price at which the order would be displayed or eligible to trade.

- Proposed Rule 7.36P(a)(3) would define the term “working price” to mean the price at which an order is eligible to trade at any given time, which may be different from the limit price or display price of an order. The new term “working price” identifies for all orders the price at which an order is eligible to trade at any given time. Some exchanges refer to this concept as the price at which an order is “ranked.”<sup>19</sup> The Exchange believes that the term “working price” would provide clarity regarding the price at which an order may be executed at any given time. Specifically, the Exchange believes that use of the term “working” denotes that this is a price that is subject to change, depending on circumstances. The Exchange will be using this term in connection with orders and modifiers when it files a separate rule filing to adopt Rule 7.31P.

- Proposed Rule 7.36P(a)(4) would define the term “working time” to mean the effective time sequence assigned to

<sup>18</sup> See Rule 7.31(e)(4). The Exchange notes that in connection with Pillar, the Exchange will be renaming the PNP Blind Order as an “Arca Only Order,” which will be proposed in a separate rule filing to adopt new Rule 7.31P. See Trader Update dated March 2, 2015, available here: [https://www.nyse.com/publicdocs/nyse/markets/nyse/Pillar\\_Trader\\_Update\\_Mar\\_2015.pdf](https://www.nyse.com/publicdocs/nyse/markets/nyse/Pillar_Trader_Update_Mar_2015.pdf).

<sup>19</sup> See, e.g., BATS Exchange, Inc. Rule 11.9(g)(1)(A) (referring to where an order is “ranked” as the price of an order).

an order for purposes of determining its priority ranking. The Exchange proposes to use the term “working time” in its rules for trading on the Pillar trading platform instead of terms such as “time sequence” or “time priority,” which are used in rules governing trading on the Exchange’s current system. The Exchange believes that use of the term “working” denotes that this is a time assigned to an order for purpose of ranking and is subject to change, depending on circumstances.

Proposed Rule 7.36P(b) would govern the display of non-marketable Limit Orders on the Pillar trading system and is intended to be comparable to the preamble to Rule 7.36, without any substantive differences. As proposed, the Exchange would display all non-marketable Limit Orders, unless the order or modifier instruction specifies that all or a portion of the order is not to be displayed.

The Exchange proposes to define in proposed Rule 7.36P(b)(1) what it means for an order to be displayed for ranking purposes. As proposed, an order would be considered displayed for ranking purposes if the price, side, and size of the order are disseminated via a market data feed, which includes a proprietary market data feed of the Exchange. As further proposed, odd-lot sized Limit Orders and the displayed portion of Reserve Orders would be considered displayed for ranking purposes. This proposed rule text is intended to provide transparency in Exchange rules regarding which orders are considered displayed for ranking purposes, and therefore eligible to be considered Priority 2—Display Orders (described below). Specifically, odd-lot sized orders are displayed on the Exchange’s proprietary data feed and would be displayed on the public feed if aggregated to equal a round lot or more would thus be considered “displayed” orders for purposes of priority ranking.

Proposed Rule 7.36P(b)(2) would be comparable to Rule 7.36(b) without any substantive differences and would provide that except as otherwise permitted by Rule 7.7,<sup>20</sup> all non-marketable displayed Limit Orders would be displayed on an anonymous basis. The Exchange proposes not to include reference to the Display Order Process in Rule 7.36P(b)(2) because, as discussed above, the Exchange is not proposing to use that terminology in Pillar.

Finally, proposed Rule 7.36P(b)(3) would be comparable to Rule 7.36(c) regarding dissemination, without any substantive differences. The Exchange proposes to use the term “will” in Proposed Rule 7.36P(b)(3) instead of “shall.” In addition, the Exchange would not include in proposed Rule 7.36P rule text from the second sentence of the preamble to Rule 7.36. The Exchange is a participant in the CQ Plan and CTA Plan for Tape A- and B-listed securities and a participant in the Nasdaq UTP Plan for Tape C-listed securities. The respective governing documents of those plans set forth the Exchange’s obligations regarding dissemination of quotes and last-sale information and thus, the Exchange does not believe it is necessary to duplicate a subset of those requirements in its rules. Finally, the Exchange proposes to cite to the governing federal rule by referencing Rule 602 of Regulation NMS<sup>21</sup> instead of Rule 11Ac1-1 under the Exchange Act, which was superseded by Regulation NMS.

Proposed Rule 7.36P(c) would describe the Exchange’s general process for ranking orders and would be comparable to the text immediately following Rule 7.36(a), without any substantive differences. As proposed, Rule 7.36P(c) would provide that all non-marketable orders would be ranked and maintained in the NYSE Arca Book according to price-time priority in the following manner: (1) Price; (2) priority category; (3) time; and (4) ranking restrictions applicable to an order or modifier condition. Accordingly, orders would be first ranked by price. Next, at each price level, orders would be assigned a priority category. Orders in each priority category would be required to be exhausted before moving to the next priority category. Within each priority category, orders would be ranked by time. These general requirements for order ranking are applicable to all orders, unless an order or modifier has a specified exception to this ranking methodology, as described in more detail below. The Exchange is proposing this ranking description instead of using the concepts of a Display Order Process, Working Order Process, and Tracking Order Process in Rule 7.36. However, substantively there would be no difference in how the Exchange ranks orders on the Pillar trading platform from how it ranks orders in the current trading system. For example, a non-displayed order would always be ranked after a displayed order at the same price, even

if the non-displayed order has an earlier working time.

To provide transparency regarding the Exchange’s ranking process, the Exchange proposes to set forth in Rule 7.36P additional detail regarding each step. Proposed Rule 7.36P(d) would describe how orders are ranked based on price. Specifically, as proposed, all orders would be ranked based on the working price of an order. Orders to buy would be ranked from highest working price to lowest working price and orders to sell would be ranked from lowest working price to highest working price. The rule would further provide that if the working price of an order changes, the price priority of an order would change. This price priority is current functionality, but the new rule would use the proposed term “working price.” The Exchange believes the proposed rule text provides transparency regarding the price-ranking process at the Exchange.

Proposed Rule 7.36P(e) would describe the proposed priority categories for ranking purposes. As proposed, at each price point, all orders would be assigned a priority category. If at a price point there are no orders in a priority category, the next category would have first priority. The proposed rules applicable to the Pillar trading platform would not use the terms “Display Order Process,” “Working Order Process” and “Tracking Order Process” for describing priority categories. The Exchange does not believe that Rule 7.36P, which sets forth the general rule regarding ranking, should provide specifics for one or more order types and therefore the Exchange will address separately in new Rule 7.31P governing orders and modifiers which priority category correlates to order types and modifiers. Accordingly, details regarding which proposed priority categories would be assigned to the display and reserve portions of Reserve Orders, which is in Rule 7.36, will be addressed in new Rule 7.31P and therefore not be included in proposed Rule 7.36P, except as described below.

The proposed priority categories would be:

- Proposed Rule 7.36P(e)(1) would specify “Priority 1—Market Orders,” which provides that unexecuted Market Orders would have priority over all other same-side orders with the same working price. This proposed priority is the same as current Exchange priority rules under which resting Market Orders have priority over other orders at

<sup>20</sup> Rule 7.7 provides that bids and offers disseminated by the Exchange will not include an ETP Holder’s identify unless the ETP Holder affirmatively elects to disclosed its identify.

<sup>21</sup> 17 CFR 242.602.

the same price.<sup>22</sup> Circumstances when an unexecuted Market Order would be eligible to execute against an incoming contra-side order include when a Market Order has exhausted all interest at the NBBO and is waiting for an NBBO update before executing again, pursuant to Rule 7.31(a), or when a Market Order is held unexecuted because it has reached a trading collar, pursuant to Rule 7.31(a)(3)(A). In such circumstances, the unexecuted Market Order(s) would have priority over all other resting orders at that price.

- Proposed Rule 7.36P(e)(2) would specify “Priority 2—Display Orders.” This proposed priority category would replace the “Display Order Process.” As proposed, non-marketable Limit Orders with a displayed working price would have second priority. For an order that has a display price that differs from the working price of the order, if the working price is not displayed, the order would not be ranked Priority 2 at the working price.

- Proposed Rule 7.36P(e)(3) would specify “Priority 3—Non-Display Orders.” This priority category would be used in Pillar rules, rather than the “Working Order Process.” As proposed, non-marketable Limit Orders for which the working price is not displayed, including the reserve interest of Reserve Orders, would have third priority.

- Proposed Rule 7.36P(e)(4) would specify “Priority 4—Tracking Orders.” This priority category would replace the “Tracking Order Process,” as discussed in further detail below in connection with proposed Rule 7.37P. As proposed, Tracking Orders would have fourth priority.

Proposed Rule 7.36P(f) would set forth that within each priority category, orders would be ranked based on time priority.

- Proposed Rule 7.36P(f)(1) would provide that an order is assigned a working time based on its original entry time, which is the time an order is first placed on the NYSE Arca Book. This proposed process of assigning a working time to orders is current functionality and is substantively the same as current references to the “time of original order entry” found in several places in Rule 7.36. To provide transparency in Exchange rules, the Exchange further proposes to include in proposed Rule 7.36P(f) how the working time would be determined for orders that are routed. As proposed:

- Proposed Rule 7.36P(f)(1)(A) would specify that an order that is fully routed

to an Away Market<sup>23</sup> on arrival would not be assigned a working time unless and until any unexecuted portion of the order returns to the NYSE Arca Book. The Exchange notes that this is the current process for assigning a working time to an order and proposes to include it in Exchange rules to provide transparency regarding what is considered the working time of an order that was fully routed on arrival.

- Proposed Rule 7.36P(f)(1)(B) would specify that for an order that is partially routed to an Away Market on arrival, the portion that is not routed would be assigned a working time. If any unexecuted portion of the order returns to the NYSE Arca Book and joins any remaining resting portion of the original order, the returned portion of the order would be assigned the same working time as the resting portion of the order. If the resting portion of the original order has already executed and any unexecuted portion of the order returns to the NYSE Arca Book, the returned portion of the order would be assigned a new working time. This process for assigning a working time to partially routed orders is the same as currently used by the Exchange. The Exchange proposes to include this detail in Exchange rules to provide transparency regarding what is considered the working time of an order.

- Proposed Rule 7.36P(f)(2) would provide that an order would be assigned a new working time any time the working price of an order changes. This proposed rule text would be based on the rule text in Rule 7.36(a)(3), without any substantive differences. A change to the working price could be because of a User’s instruction or because the order or modifier has a price that can change based on a reference price, such as an MPL Order, which is priced based on the PBBO.

- Proposed Rule 7.36P(f)(3) would provide that an order would be assigned a new working time if the size of the order increases and that an order would retain its working time if the size of the order is decreased. This proposed rule text would be based on rule text in the first and second sentences of Rule 7.36(a)(3), without any substantive differences.

- Proposed Rule 7.36P(f)(4) would provide that an order retains its working time if the order marking is changed

from: (A) Sell to sell short; (B) sell to sell short exempt; (C) sell short to sell; (D) sell short to sell short exempt; (E) sell short exempt to sell; and (F) sell short exempt to sell short. This rule text would use for the Pillar trading platform rules the same rule text as in Rule 7.16(f)(viii), without any substantive differences. The Exchange proposes to include the text from Rule 7.16(f)(viii) regarding order priority when changing order marking to Rule 7.36P to consolidate ranking in a single rule.

Proposed Rule 7.36P(g) would specify that the Exchange would enforce ranking restrictions applicable to specified order or modifier instructions. These order and modifier instructions would be identified in proposed new Rules 7.31P and 7.44P, which the Exchange will submit in a rule filing prior to implementing the Pillar trading platform.

In addition, the Exchange proposes a definition in Rule 1.1(aP) of NYSE Arca Book that would be applicable to the Pillar rules. The proposed definition would differ from the current definition of NYSE Arca Book in Rule 1.1(a) in that it would not include references to the terms “Display Order Process,” “Working Order Process,” and “Tracking Order Process,” which as discussed above, are terms that will not be used in Pillar. As proposed, new Rule 1.1(aP) would provide that the term “NYSE Arca Book” refers to the NYSE Arca Marketplace’s electronic file of orders, which contains all orders entered on the NYSE Arca Marketplace.

#### Order Execution and Routing

Current Rule 7.37, titled “Order Execution,” governs order execution and routing at the Exchange. The preamble to the rule provides that like-priced orders, bids and offers shall be matched for execution following steps 1 through 4 of the rule, provided, however, for an execution to occur in any Order Process, the price must be equal to or better than (1) the PBBO, in the case of a Limit Order or Q Order or (2) the NBBO in the case of an Inside Limit Order, a Pegged Limit Order, or a Market order. If such an order is not executable within those parameters, the rule provides that it may be routed to away markets as provided in Rule 7.37(d).

The rule then sets forth steps 1 through 4. Step 1 is the Display Order Process, which provides that incoming orders are first matched for execution against other orders in the Display Order process. The rule provides further specificity regarding how certain orders are ranked. The rule also sets forth that the size of an incoming Reserve Order

<sup>23</sup> The Exchange proposes Rule 1.1(ffP), which would define the term “Away Market.” The proposed definition is based on the existing definition of “NOW Recipient,” which is a term that the Exchange would not be using in Pillar. For Pillar, the proposed definition of “Away Market” would reference the term “alternative trading system” instead of ECN.

<sup>22</sup> This priority is currently specified in Rule 7.16(f)(viii).

includes both the displayed and reserve size and the size of the portion of the Reserve Order resident in the Display Order Process is equal to its displayed size. If an incoming marketable order is not executed in its entirety, the remaining part of the order is routed to the “Working Order” process. The rule further provides that an incoming order that is not marketable enters the Working Order Process to execute against any Discretionary Orders at or better than the NBBO.

Step 2 is the Working Order Process, which provides that incoming marketable orders are matched against orders in the Working Order process by the order of ranking of the orders in the Working Order Process. The rule sets forth how specified orders, such as Discretionary Orders, interact within the Working Order Process. The rule further provides that if the incoming marketable order has not been executed in its entirety, the remaining portion of the order shall be routed to the Tracking Order Process.

Step 3 is the Tracking Order Process, which is currently available during Core Trading Hours only. In the Tracking Order Process, if an order that is eligible to route to an away market has not been executed in its entirety under Steps 1 through 2, the NYSE Arca Marketplace shall match and execute any remaining part of such order in the Tracking Order Process in time/price priority.

Step 4 sets forth the Exchange’s process for routing away and specifies certain orders that are not eligible to be routed. For orders that are eligible to be routed, the rule specifies that if the order is designated as a Market, Inside Limit, or Pegged Order, the Exchange shall utilize all available quotes in the routing determination, or if the order is designated as a Limit Order, the Exchange shall utilize available Protected Quotations in the routing determination. The rule sets forth additional detail that orders will be routed as Intermarket Sweep Orders (“ISO”) and any remaining portion of the order will be ranked and displayed in the NYSE Arca Book pursuant to Rule 7.36.

The rule further provides that an order that is routed away shall remain outside the NYSE Arca Marketplace for a prescribed period of time and may be executed in whole or in part subject to the applicable trading rules of the relevant market center or market participant and that when an order remains outside the NYSE Arca Marketplace, it will have no time standing relative to other orders received from Users at the same price that may be executed against the NYSE

Arca Book. The rule also provides that when an order is outside the NYSE Arca Marketplace, it will not have time standing in the NYSE Arca Book.

Finally, with respect to routing, the rule provides that for an order that is eligible to route away, Users may instruct NYSE Arca to bypass any market centers that are not posting Protected Quotations within the meaning of Regulation NMS.

Rule 7.37(e), (f), and (g) set forth how the Exchange operates consistent with Regulation NMS for locking and crossing quotations and specified exceptions to Regulation NMS, including the self-help exception; ISO Exception; single price openings, reopenings, and closing transactions; benchmark trades; stopped orders; and the contingent order exemption.

Commentary .01 to Rule 7.37 sets forth the Exchange’s use of data feeds for the handling, execution, and routing of orders, as well as for regulatory compliance.

The Exchange proposes Rule 7.37P to describe the order execution and routing rules for the Pillar trading platform. Proposed Rule 7.37P would not be substantively different from Rule 7.37. The Exchange proposes that the title for new Rule 7.37P would be “Order Execution and Routing.” The title of Rule 7.37 is “Order Execution.” The Exchange believes that because Rule 7.37P, like Rule 7.37, would include the Exchange’s routing procedures, referencing to “Routing” in the rule’s title would provide additional transparency in Exchange rules regarding what topics would be covered in new Rule 7.37P.

Proposed Rule 7.37P(a) and its subsections would set forth the Exchange’s order execution process and would cover the same subject as the preamble to Rule 7.37, without any substantive differences. As proposed, an incoming marketable order would be matched for execution against contra-side orders in the NYSE Arca Book according to the price-time priority ranking of the resting orders, subject to specified parameters. Proposed Rule 7.37P(a)(1) would provide that orders that are routed to an Away Market on arrival would not be assigned a working time or be matched for execution on the NYSE Arca Book. This provision would apply to orders that the Exchange routes based on the time an order is entered, *e.g.*, a Market Order in a security that is not eligible for an auction on the Exchange that is entered during the Early Trading Session, or an order with an instruction to route directly to the primary market on arrival, *e.g.*, a Primary Only Order. The Exchange believes that the proposed rule provides

transparency that an order that is intended to route on arrival would not be subject to order execution at the Exchange.

Proposed Rule 7.37P(a)(2) would provide that, unless an order qualifies for an exception to the Order Protection Rule in Rule 611 of Regulation NMS,<sup>24</sup> orders will not trade at prices that would trade through a protected quotation.<sup>25</sup> Proposed Rule 7.37P(a)(3) would provide that Limit Orders would be executed at prices equal to or better than the PBBO and proposed Rule 7.37P(a)(4) would provide that Market Orders and Inside Limit Orders would be executed at prices equal to or better than the NBBO. The proposed rule for the Pillar trading platform is based on existing requirements as set forth in the preamble to Rule 7.37 and is consistent with the order processing of Market Orders, Limit Orders, and Inside Limit Orders as set forth in Rule 7.31.

As discussed above, the Exchange proposes to eliminate the terminology associated with the Display Order Process, Working Order Process, and Tracking Order Process. Therefore, similar to proposed Rule 7.36P, the Exchange would not include these terms in new Rule 7.37P. Moreover, the Exchange does not believe that it is necessary to restate in new Rule 7.37P the Exchange’s ranking process, which would be set forth in proposed Rule 7.36P. In addition, consistent with the Exchange’s proposed approach to new Rule 7.34P and 7.37P, the Exchange proposes to eliminate, where feasible, reference to specific order types and instead state the Exchange’s general order execution methodology. Any exceptions to such general requirements would be set forth in connection with specific order or modifier definitions in proposed Rule 7.31P. Accordingly, the Exchange will not include in new Rule 7.37P the process currently referred to as “Step 3” and instead, details regarding how Tracking Orders would operate would be included in proposed Rule 7.36P(e)(3), as discussed above regarding ranking priority assigned to Tracking Orders, and new Rule 7.31P.

Proposed Rule 7.37P(b) would set forth the Exchange’s order routing process and is intended to cover the same subject as Rule 7.37(d), which is

<sup>24</sup> 17 CFR 242.611.

<sup>25</sup> The term “trade through” is defined in Rule 1.1(fff) as the purchase or sale of an NMS stock during regular trading hours, either as principal or agent, at a price that is lower than a Protected Bid or higher than a Protected Offer. The term “protected quotation” is defined in Rule 1.1(eee) as a quotation that is a Protected Bid or a Protected Offer, and those terms are defined in the rule as well.

currently referred to as “Step 4” in order processing, without any substantive differences. Proposed Rule 7.37P(b) would provide that unless an order has an instruction not to route, after being matched for execution with any contra-side orders in the NYSE Arca Book pursuant to proposed Rule 7.37P(a), marketable orders would be routed to Away Markets.

The proposed rule would then set forth additional details regarding routing:

- Proposed Rule 7.37P(b)(1) would provide that an order that cannot meet the pricing parameters of proposed Rule 7.37P(a) may be routed to Away Market(s) before being matched for execution against contra-side orders in the NYSE Arca Book. The Exchange believes that this proposed rule text provides transparency that an order may be routed before being matched for execution, for example, to prevent locking or crossing or trading through a protected quotation.

- Proposed Rule 7.37P(b)(2) would provide that if an order with an instruction not to route would trade through or lock or cross a protected quotation and is not eligible for an exception to either Rule 610 or 611 of Regulation NMS,<sup>26</sup> it would cancel, re-price, or be held undisplayed on the NYSE Arca Book, as provided for in Rules 7.31P and 7.44P.

- Proposed Rule 7.37P(b)(3) would provide that orders eligible to route would be routed to all available Away Markets unless the order includes an instruction to bypass market centers that are not displaying protected quotations. This rule text covers the subject matter of current Rule 7.37(d)(2)(A), 7.37(d)(2)(B), and 7.37(d)(4), with no substantive differences. As with current functionality, proposed Rule 7.37P(b)(1) specifies that all Away Markets, as defined in proposed Rule 1.1(ffp), would be considered as part of the routing determination unless the User has opted out of routing to Away Markets that do not display protected quotations.

- Proposed Rule 7.37P(b)(4) would provide that Limit Orders that are routed to Away Market(s) may be routed to more than one price level, up (down) to the limit price of an order to buy (sell). This represents current routing functionality and means that a Limit Order may be routed to more than just the top of book bid or offer of an Away Market, provided that the order would not be routed to prices that are outside of the limit price of the order and consistent with Rule 611 of Regulation

NMS,<sup>27</sup> as provided for in proposed Rule 7.37P(a)(2). The Exchange believes that including this level of detail in the rule provides transparency regarding the potential for an order to be routed to more than one price level on an Away Market. The Exchange believes that routing to depth of Away Markets provides a greater opportunity for an order to be executed in full.

- Proposed Rule 7.37P(b)(5) would provide that, except for orders routed to the primary listing market on arrival pursuant to Rule 7.34P or designated to route to the primary listing market pursuant to Rule 7.31P, orders routed to Away Markets would be sent as IOC ISOs. This routing is based on current Rule 7.37(d)(2)(B)(i) with no substantive differences.

- Proposed Rule 7.37P(b)(6) would provide that after any order or portion thereof that has been routed would not be eligible to trade on the NYSE Arca Book, unless all or a portion of the order returns unexecuted. This routing methodology is current functionality and covers that same subject as current Rule 7.37(d)(2)(C) and (D), with no substantive differences. In contrast to Rule 7.37(d)(2)(C) and (D), however, the Exchange proposes that Rule 7.37P(b)(6) would focus on the fact that once routed, an order would not be eligible to trade on the Exchange, rather than stating the obvious that it would be subject to the routing destination’s trading rules once routed. In addition, because, as discussed above, the working time assigned to orders that are routed is being proposed to be address in new Rule 7.36P(f)(1)(A) and (B), the Exchange believes it would be duplicative to restate this information in new Rule 7.37P.

- Proposed Rule 7.37P(b)(7) would set forth how the Exchange would process requests to cancel orders that have been routed. Rule 7.37(d)(2)(E) currently provides that requests from Users to cancel their orders while the order is routed away to another market center or market participant and remains outside the NYSE Arca Marketplace shall be processed, subject to the applicable trading rules of the relevant market center or market participant.

The Exchange proposes to specify in new Rule 7.37P(b)(7)(A) that requests to cancel orders that are eligible to be matched for execution against orders in the NYSE Arca Book would not be processed unless and until all or a portion of the order returns unexecuted. New Rule 7.37P(b)(7)(B) would specify that for orders routed to the primary

listing market on arrival pursuant to Rule 7.34P or designated to route to the primary listing market pursuant to Rule 7.31P, requests to cancel would be routed to the primary listing market, which is current functionality.

New Rule 7.37P(b)(7)(C) would provide, as currently set forth in Rule 7.31(x) regarding Primary Only Orders, for MOC Orders or LOC Orders in NYSE- or NYSE MKT-listed securities, requests to cancel or reduce in size that are electronically entered after the times specified in NYSE Rules 123C(3)(b) and NYSE MKT Rule 123C(3)(b)—Equities and Supplementary Material .40 to those rules would be rejected.<sup>28</sup> The Exchange proposes to include this text in proposed Rule 7.37P(b)(7) because it concerns how the Exchange would process requests to cancel orders with instructions to route on arrival. By including this rule text in proposed Rule 7.37P, the proposed processing of electronically entered requests to cancel MOC or LOC Orders in NYSE- or NYSE MKT-listed securities would also apply to such orders that do not include a Primary Only Order designation, but which, pursuant to Rule 7.34P, would be routed to the primary listing market on arrival. The Exchange believes that the proposed changes would provide transparency regarding how requests to cancel orders that have been routed would be processed in Pillar, which would not be substantively different from how the Exchange’s current trading system operates.

- Proposed Rule 7.37P(b)(8) would provide that an order marked “short” when a short sale price test restriction is in effect would not be routed. Instead of routing, the Exchange would reprice or cancel the order consistent with Rule 7.16, which will be proposed as Rule 7.16P in a separate rule filing for Pillar.

The Exchange believes the specific routing methodologies for an order type or modifier should be included with how the order type is defined, which will be in Rule 7.31P. Accordingly, the Exchange does not believe it needs to specify in new Rule 7.37P whether an order is eligible to route, and if so, whether there are any specific routing

<sup>28</sup> NYSE Rule 123C(3)(b) and NYSE MKT Rule 123C(3)(b)—Equities provide that between 3:45 p.m. and 3:58 p.m., MOC and LOC Orders may be cancelled or reduced in size only to correct a legitimate error, and NYSE Rule 123C(3)(c) and NYSE MKT Rule 123C(3)(c) provide that MOC and LOC Orders may not be cancelled or reduced in size at all after 3:58 p.m. Supplementary Material .40 to those rules provides, among other things, that the times specified in those rules will be adjusted based on the early scheduled closing time and references to 4:00 p.m. mean the early scheduled close, 3:45 p.m. means 15 minutes before the early scheduled close, and 3:58 p.m. means two minutes before the early scheduled close.

<sup>26</sup> 17 CFR 242.610 and 17 CFR 242.611.

<sup>27</sup> 17 CFR 242.611.

instructions applicable to the order and therefore will not be carrying over such specifics that are included in Rule 7.37.

The remaining proposed rule text of Rule 7.37P is based on Rule 7.37, with limited non-substantive differences:

- Proposed Rule 7.37P(c) would provide that after executing with eligible contra-side interest on the NYSE Arca Book and/or returning unexecuted after routing to Away Market(s), any unexecuted non-marketable portion of an order would be ranked consistent with new Rule 7.36P. This rule represents current functionality and is based on Rule 7.37(d)(3) without any substantive differences.

- Proposed Rule 7.37P(d) would set forth the Exchange's use of data feeds, and includes the rule text that is currently set forth in Commentary .01 to Rule 7.37, without any substantive differences. Proposed Rule 7.37P(d)(1) would not include the clause "away market quotes disseminated by" as unnecessary language, with the proposed rule text using the proposed defined term "Away Markets" as follows, "[t]he Exchange receives data feeds directly from broker dealers for purposes of routing interest to Away Markets that are not displaying protected quotations."

- Proposed Rule 7.37P(e) would set forth the same rule text from Rule 7.37(e) regarding locking or crossing quotations in NMS stocks with a non-substantive difference to update a cross-reference in the rule to rule numbering in Rule 7.37P. The Exchange proposes an additional non-substantive difference to specify in Rule 7.37P(e)(3) that the prohibition against Locking and Crossing Quotations in paragraph Rule 7.37P(e)(2) would not apply in the circumstances specified in Rules 7.37P(e)(3)(A)–(C). Proposed Rules 7.37P(e)(3)(A)–(C) is rule text that is identical to Rule 7.37(e)(3)(A)–(C).

- Proposed Rule 7.37P(f) would set forth the exceptions to the Order Protection Rule<sup>29</sup> and would enumerate the self-help exception in Rule 7.37P(f)(1), which is based on Rule 7.37(f) regarding Self-Help Exceptions, with two proposed modifications. The Exchange would not include the second sentence of Rule 7.37(f)(1), which provides that the Exchange will disregard another Trading Center's bid and offer if the other Trading Center has repeatedly failed to respond within one second to an incoming IOC order after adjusting for order transmission time, in new Rule 7.37P(f)(1). The self-help exception set forth in Rule 611(b)(1) of

Regulation NMS<sup>30</sup> and related Securities and Exchange Commission staff guidance regarding this exception<sup>31</sup> does not require trading centers to use the self-help exception if a destination trading trading center fails to respond within one second to an incoming IOC order, but state that such a failure would justify use of the exception. Rather, a trading center is free to adopt reasonable policies and procedures consistent with the flexible purposes of the self-help exception. Because the Exchange does not use the method described in the second sentence of current Rule 7.37(f)(1) to determine whether to declare self-help, the Exchange proposes not to include it in new Rule 7.37P(f)(1). Second, Rule 7.37(f)(1)(B) provides that the Exchange follows "published NYSE Arca policies and procedures for electing the self-help exception." Because the Exchange publishes those policies and procedures internally only, to reduce investor confusion, the Exchange proposes to modify the text in proposed Rule 7.37P(f)(1)(B) to provide instead that the Exchange would follow "established NYSE Arca policies and procedures for electing the self-help exception."

Proposed Rules 7.37P(f)(2)–(4) are based on the rule text from Rule 7.37(g) regarding Additional Exceptions to the Order Protection Rule, with non-substantive differences to reflect different rule numbering and update the rule text to reflect current operations. First, the Exchange proposes not to include the first and third sentences of Rule 7.37(g)(1) in proposed Rule 7.37P(f)(2)(A) relating to the Intermarket Sweep Order Exception because when executing or displaying ISOs that it receives from ETP Holders, it is the responsibility of the entering broker dealer and not the Exchange to simultaneously route ISOs. Therefore, the current rule text does not represent how the Exchange operates, nor does it reflect the requirements of Regulation NMS. The Exchange proposes additional non-substantive differences to the rule text relating to this exception to update references, for example, to refer to NYSE Arca's best bid or best offer rather than its own protected quotation and remove reference to the "NYSE Arca System."

<sup>30</sup> 17 CFR 611(b)(1).

<sup>31</sup> See Question 4.07, "Responses to Frequently Asked Questions Concerning Rule 611 and Rule 610 of Regulation NMS," available at <https://www.sec.gov/divisions/marketreg/nmsfaq610-11.htm> ("Beyond this basic parameter of repeated failure to turn around an IOC order within one second, trading centers are free to adopt reasonable policies and procedures that are consistent with the flexible purposes of the self-help exception.")

Second, the Exchange proposes not to include the second sentence of Rule 7.37(g)(3) relating to how the Exchange would conduct a single-price reopening in proposed Rule 7.37P(f)(3). To reduce investor confusion and promote transparency in its rules, the Exchange believes that its rule governing auctions should set forth how the Exchange conducts a single-price auction to reopen a stock following a trading halt. Third, the Exchange proposes not to include current Rule 7.37(g)(5) text regarding Stopped Orders because the Exchange does not currently, and will not in Pillar, support Stopped Orders on the Exchange. Finally, the Exchange proposes not to include current Rule 7.37(g)(6) text regarding transactions other than "regular-way" contracts because in Pillar, the Exchange would not execute any orders on terms other than standardized terms and conditions, *i.e.*, "regular way" contracts.

Proposed Rule 7.37P(f)(5) regarding the Contingent Order Exemption from the Order Protection Rule is based on rule text from Rule 7.37(h) regarding Exemptions with different rule numbering and one substantive difference. Rule 7.37(g)(2) specifies the requirements to meet the qualified contingent trade exemption to Rule 611(a) of Regulation NMS<sup>32</sup> and are based on the requirements specified in the Commission's Order granting an exemption for qualified contingent trades.<sup>33</sup> Rule 7.37(f)(2)(G) currently specifies the original requirement that the exempted transaction must be part of a contingent trade that involves at least 10,000 shares or has a market value of at least \$200,000. The Commission later modified the exemption for qualified contingent trades to remove that size condition.<sup>34</sup> The Exchange therefore proposes not to include in its proposed Rule 7.37P(f)(2)(D) the size requirement.

\* \* \* \* \*

As discussed above, because of the technology changes associated with the migration to the Pillar trading platform, the Exchange will announce by Trader Update when rules with a "P" modifier will become operative and for which symbols. The Exchange believes that keeping existing rules on the book

<sup>32</sup> 17 CFR 242.611(a).

<sup>33</sup> See Securities Exchange Act Release No. 54389 (August 31, 2006), 71 FR 52829 (September 7, 2006) (Order Granting an Exemption for Qualified Contingent Trades from Rule 611(a) of Regulation NMS under the Securities Exchange Act of 1934).

<sup>34</sup> See Securities Exchange Act Release No. 57620 (April 4, 2008), 73 FR 19271 (April 9, 2008) (Order Modifying the Exemption for Qualified Contingent Trades from Rule 611(a) of Regulation NMS under the Securities Exchange Act of 1934).

<sup>29</sup> 17 CFR 242.611(b).

pending the full migration of Pillar will reduce confusion because it will ensure that the rules governing trading on a trading platform will continue to be available pending the full migration.

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act"),<sup>35</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>36</sup> in particular, because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in 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. The Exchange believes that the proposed rules to support Pillar would remove impediments to and perfect the mechanism of a free and open market because the proposed rule set would promote transparency in Exchange rules by using consistent terminology governing equities trading, thereby ensuring that members, regulators, and the public can more easily navigate the Exchange's rulebook and better understand how equity trading is conducted on the Exchange. Adding new rules with the modifier "P" to denote those rules that would be operative for the Pillar trading platform would remove impediments to and perfect the mechanism of a free and open market by providing transparency of which rules govern trading once a symbol has been migrated to the Pillar platform.

The Exchange believes that the proposed restructuring in new Rules 7.34P, 7.36P, and 7.37P would remove impediments to and perfect the mechanism of a free and open market by assuring consistency of terms used in the Exchange's rulebook. The proposed revisions to the Exchange's equity trading rules to reflect terminology associated with Pillar would remove impediments to and perfect a free and open market because the proposed changes are designed to simplify the structure of the Exchanges rules and permit the use of consistent terminology throughout numerous rules, without changing the underlying functionality. For example, the Exchange believes the proposed definitions set forth in Rule 7.36P, *i.e.*, display price, limit price, working price, and working time,

promote transparency in Exchange rules and make them easier to understand because these proposed definitions will serve as the foundation for additional rule changes to support Pillar.

The Exchange further believes that moving specified rule text that relates to specific order types that is set forth in Rules 7.34, 7.36 and 7.37 to proposed Rule 7.31P (which will be the subject of a separate filing), and therefore not include such detail in proposed Rules 7.34P, 7.36P and 7.37P, would make Exchange rules easier to navigate because information regarding how a specific order type would operate would be in a single location in the Exchange's rule book.

With respect to proposed Rule 7.34P, the Exchange believes that the proposed changes to functionality would remove impediments to and perfect the mechanism of a fair and orderly market. First, the Exchange believes that because an auction that opens a trading session should occur within that trading session, it would remove impediments to and perfect the mechanism of a fair and orderly market for the Core Open Auction to occur during the Core Trading Session instead of the Early Trading Session. Second, the Exchange believes that the proposed change to route to the primary listing market Market Orders and Auction-Only Orders in symbols that are not eligible for an execution on the Exchange would remove impediments to and perfect the mechanism of a free and open market by ensuring that such orders reach a destination where they may be eligible to obtain an execution or participate in an auction. This is current functionality, but it is only available for orders that have been designated as "Primary Only." Expanding this functionality to orders that do not include that designation would also protect investors and the public interest by enabling such interest to reach a destination where it is more likely to obtain an execution opportunity or participate in an auction. Finally, the Exchange believes that making Tracking Orders available during the Early and Late Trading Sessions would remove impediments to and perfect the mechanism of a free and open market by providing additional execution opportunities on the Exchange through the availability of additional passive liquidity.

With respect to proposed Rules 7.36P and 7.37P, as discussed above, the Exchange is not proposing any functional changes to how it ranks, displays, executes, or routes orders. The Exchange believes, however, that the proposed rule text promotes transparency through the use of

consistent terminology that will serve as the foundation for additional Pillar-related rule proposals. The Exchange also believes that adding more detail regarding current functionality in new Rules 7.34P, 7.36P, and &.37P, as described above, would promote transparency by providing notice of when orders would be accepted, routed, rejected, cancelled, or be assigned a working time by the Exchange.

### *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 proposed change is not designed to address any competitive issue but rather to adopt new rules to support the Exchange's new Pillar trading platform. As discussed in detail above, with this rule filing, the Exchange is not proposing to change its core functionality regarding its price-time priority model, and in particular, how it would rank, display, execute or route orders in Pillar. Rather, the Exchange believes that the proposed rule change would promote consistent use of terminology to support the Pillar trading platform making the Exchange's rules easier to navigate.

### *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 *up to 90 days* (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve or disapprove the proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

## **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act.

<sup>35</sup> 15 U.S.C. 78f(b).

<sup>36</sup> 15 U.S.C. 78f(b)(5).

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-NYSEARCA-2015-38 on the subject line.

*Paper Comments*

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

All submissions should refer to File Number SR-NYSEARCA-2015-38. 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 will also be available for inspection and copying at the NYSE's principal office and on its Internet Web site at [www.nyse.com](http://www.nyse.com). 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-2015-38, and should be submitted on or before June 9, 2015.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>37</sup>

**Robert W. Errett,**

*Deputy Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-74955; File No. SR-ICEEU-2015-007]

**Self-Regulatory Organizations; ICE Clear Europe Limited; Order Approving Proposed Rule Change Relating to Collateral and Haircut Policy**

May 13, 2015.

**I. Introduction**

On March 13, 2015, ICE Clear Europe Limited ("ICE Clear Europe" or "Clearing House") filed with the Securities and Exchange Commission ("Commission") a proposed rule change pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> to implement a new collateral and haircut policy (the "Haircut Policy") applicable to Permitted Cover posted by Clearing Members to meet the Clearing House's Margin and Guaranty Fund requirements. The proposed rule change was published for comment in the **Federal Register** on March 31, 2015.<sup>3</sup> The Commission did not receive comment letters regarding the proposed change. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

**II. Description of the Proposed Rule Change**

ICE Clear Europe proposes to implement a Haircut Policy, which would codify and consolidate certain existing practices of the Clearing House with respect to Permitted Cover. The proposed Haircut Policy is designed (i) to set out overall principles with respect to the assets accepted by the Clearing House as Permitted Cover; (ii) to establish a framework for determining absolute and relative limits, as applicable, on the value of the collateral that may be posted by a Clearing Member as Permitted Cover; (iii) to establish a value-at-risk ("VaR") based methodology for determining haircuts for all Permitted Cover; (iv) to mitigate wrong-way risk from Permitted Cover; (v) to address sources for pricing Permitted Cover; and (vi) to set out certain related monitoring, reviewing and reporting procedures. The Haircut Policy would apply to Permitted Cover provided for all product classes (F&O, CDS and FX).<sup>4</sup> Following

implementation, the Clearing House will from time to time adjust the haircuts applicable to Permitted Cover under the methodology set forth in the policy.

The general aims of the proposed Haircut Policy are to ensure that the Clearing House can efficiently liquidate all forms of Permitted Cover, that appropriate prices are used for valuation of Permitted Cover and that appropriate haircuts (including, as applicable, cross-currency haircuts) are used. The proposed Haircut Policy would codify certain general principles considered by the Clearing House in accepting assets as Permitted Cover, including availability of pricing information, the existence of liquid and active markets for buyers and sellers of those assets, the existence of sufficient price history, the ability to liquidate Permitted Cover without causing a market disruption, compliance with legal and regulatory requirements and sufficient operational and technological framework to handle deposit, liquidation and return of such assets as Permitted Cover.

Under the proposed Haircut Policy, cash collateral must be in one of several specified currencies underlying contracts cleared by the Clearing House. Additional general requirements would apply to financial instruments, including prohibitions on acceptance of instruments that have non-"vanilla" features such as embedded options, instruments issued by a Clearing Member or its affiliate, instruments issued by a CCP or by entities that provide critical services to the Clearing House (other than central banks) and certain credit-based limits. Such limits would require that the issuer is rated at least "BBB-" by S&P (or its equivalent), the average yield on the asset over the previous three months is not greater than 8%, and the 5-year CDS spread of the issuer has not exceeded 500 basis points over the previous three months. The proposed Haircut Policy provides that where market conditions warrant, or where the Clearing House's sovereign risk model indicates deteriorating credit below a certain threshold (*i.e.*, "BBB-" by S&P), the Clearing House may remove securities from the list of Permitted Cover and/or vary applicable haircuts. ICE Clear Europe will notify Clearing Members and other market participants of such actions by Circular. ICE Clear Europe maintains the current List of Permitted

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Securities Exchange Act Release No. 34-74579 (Mar. 25, 2015), 80 FR 17132 (Mar. 31, 2015) (SR-ICEEU-2015-007).

<sup>4</sup> ICE Clear Europe notes that although the Haircut Policy generally also applies to Permitted Cover

posted with respect to Guaranty Fund requirements, certain additional requirements apply to Guaranty Fund contributions under the Rules and Finance Procedures. Those additional requirements are not proposed to be changed in connection with the Haircut Policy.

<sup>37</sup> 17 CFR 200.30-3(a)(12).