

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-82004; File No. SR-NYSEArca-2017-126]

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend NYSE Arca Rules 7.31-E and 7.35-E

November 2, 2017.

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (“Act”)² and Rule 19b-4 thereunder,³ notice is hereby given that, on October 20, 2017, NYSE Arca, Inc. (“Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend NYSE Arca Rules 7.31-E (Orders and Modifiers) and 7.35-E (Auctions) to establish a minimum dollar threshold into the price protection mechanisms provided for in the respective rules; (2) clarify the order processing specified in Rule 7.35-E(e)(8)(C); and (3) make technical non-substantive changes to Rules 7.31-E and 7.35-E. The proposed rule change is available on the Exchange’s Web site at www.nyse.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

1. Purpose

The Exchange proposes to: (1) Amend NYSE Arca Rules 7.31-E (Orders and Modifiers) and NYSE Arca Rule 7.35-E (Auctions) to establish a minimum dollar threshold into the price protection mechanisms provided for in the respective rules; (2) clarify the order processing specified in Rule 7.35-E(e)(8)(C); and (3) make technical non-substantive changes to Rules 7.31-E and 7.35-E.

Proposed Changes To Establish a Minimum Dollar Threshold for Price Protection Mechanisms

Rule 7.31-E(a)(1)(B) describes the price protection mechanism for Market Orders, *i.e.*, Trading Collars. Currently, Rule 7.31-E(a)(1)(B)(i) provides that the Trading Collar will be based on a price that is a specified percentage away from the consolidated last sale price. Rule 7.31-E(a)(1)(B)(i) further provides that the upper (lower) boundary of the Trading Collar is the consolidated last sale price increased (decreased) by the specified percentage truncated to the minimum price variation (“MPV”) for the security.

Additionally, Rule 7.31-E(a)(2)(B) describes the price protection mechanism for Limit Orders, *i.e.* Limit Order Price Protection. Currently, Rule 7.31-E(a)(2)(B) provides that a Limit Order to buy (sell) will be rejected if it is priced at or above (below) a specified percentage away from the National Best Offer (National Best Bid) (“NBO” and “NBB”, respectively).

Rule 7.35-E(a)(10) describes the price protection mechanism for Auctions, *i.e.*, Auction Collar. Currently, Rule 7.35-E(a)(10)(A) provides that the Auction Collar for the Core Open Auction and Closing Auction is based on a price that is a specified percentage away from the Auction Reference Price for the applicable auction. The upper (lower) boundary of the Auction Collar is the Auction Reference Price increased (decreased) by the specified percentage, truncated to the MPV.

The Exchange proposes to amend these price protection mechanisms to introduce a minimum dollar threshold for lower-price securities, as follows:

- *Trading Collar:* The Exchange proposes to amend Rule 7.31-E(a)(1)(B)(i) to introduce a minimum dollar threshold, of \$0.15, into the calculation of the Trading Collar. As such, the proposed rule would provide that the Trading Collar would be based

on a price that is the greater of \$0.15, or a specified percentage away from the consolidated last sale. Accordingly, the upper boundary and lower boundary of the Trading Collar would be the consolidated last sale price increased and decreased, respectively, by the greater of \$0.15 or the specified percentage.

- *Limit Order Price Protection:* The Exchange proposes to amend Rule 7.31-E(a)(2)(B) to introduce the same proposed minimum dollar threshold that is specified above for the Trading Collar, of \$0.15, into the Limit Order Price Protection calculation. Accordingly, the proposed rule would provide that a Limit Order to buy (sell) would be rejected if it was priced at or above (below) the greater of \$0.15 or a specified percentage away from the NBO (NBB). The Exchange believes that the introduction of a minimum dollar threshold enhances the Limit Order Price Protection and encourages price continuity specifically in lower priced illiquid securities.

- *Auction Collar:* Similarly, the Exchange also proposes to amend Rule 7.35-E(a)(10)(A) to provide that the Auction Collar for the Core Open Auction and Closing Auction would be based on a price that is the greater of \$0.15 or a specified percentage away from the Auction Reference Price. Accordingly, the proposed rule would provide that the upper (lower) boundary of the Auction Collar would be the Auction Reference Price increased (decreased) by the greater of \$0.15 or the specified percentage.

The Exchange believes that adding a minimum dollar threshold to the Trading Collar, Limit Order Price Protection, and Auction Collar calculations would enhance the respective price protection mechanisms for securities with a reference price below \$1.50 because using a percentage multiplier for such securities would result in too narrow of a price protection mechanism. This proposed rule change is consistent with how other exchanges specify static price collar thresholds for lower-price securities. Also, the Auction Collar applicable for Trading Halt Auctions, described in Rule 7.35-E(e)(7), provides that for securities with an Auction reference price under \$3.00, the price collar threshold for auction collars would be a static \$0.15 instead of 5 percent.⁴

⁴ See also Nasdaq Stock Market LLC (“Nasdaq”) Rule 4703(d) (providing that “any portion of a Primary Pegging Order or Market Pegging Order that would execute . . . at a price more than \$0.25 or 5 percent worse than the NBBO . . . will be cancelled”) and Bats BZX Exchange, Inc. (“BZX”) Rule 27.2, Interpretations and Policies .01 and Bats

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

Proposed Change To Clarify Order Processing as Specified in Rule 7.35–E

Rule 7.35–E(e)(8) describes the Trading Halt Auction Imbalance Freeze and provides that if a pause or halt is extended, the Trading Halt Auction Imbalance Freeze for the prior period will end, new orders and order instructions received during the prior period's Trading Halt Auction Freeze will be processed, and the Exchange will accept order entry and cancellation as provided for in Rule 7.18–E(c) until the next Trading Halt Auction Imbalance Freeze. The Exchange proposes to amend Rule 7.35–E(e)(8)(C) to clarify that requests to cancel and requests to cancel and replace Market Orders, LOO Orders, Limit Orders, and IO Orders will be accepted but not processed until either after the Trading Halt Auction concludes (current rule text) or, if a pause or halt is extended, when the Trading Halt Auction Imbalance Freeze for the prior period ends (proposed rule text). Accordingly Rule 7.35–E(e)(8)(C) would read as follows (proposed additions *italicized*):

Requests to cancel and requests to cancel and replace Market Orders, LOO Orders, Limit Orders, and IO Orders will be accepted but not processed until *either* after the Trading Halt Auction concludes, as provided for in paragraph (h) of this Rule, *or, if a pause or halt is extended, when the Trading Halt Auction Imbalance Freeze for the prior period ends.*

The Exchange believes that the proposed changes clarify when requests to cancel and requests to cancel and replace Market Orders, LOO Orders, Limit Orders, and IO Orders would be processed if a pause or halt is extended, and that in such circumstances, the Exchange would not wait until the end of the Trading Halt Auction to process these messages.

Proposed Changes To Make Technical and Conforming Updates to Rules 7.31–E and 7.35–E

The Exchange proposes to replace the word “truncated” with the words “rounded down”⁵ in Rules 7.31–E(a)(1)(B)(i) and 7.35–E(a)(10)(A). The Exchange believes that conforming the terminology used within Rules 7.31–E⁶

Rule 11.13 (stating that BZX “will not execute any portion of a bid at a price more than the greater of 5 cents or 0.5 percent higher than the lowest Protected Offer”).

⁵ See Rule 7.46–E(f)(2)(A), which provides that references to truncating to the MPV in Exchange rules instead mean rounding down to the applicable quoting MPV for tick pilot securities.

⁶ See Rule 7.31–E(a)(2)(B) which provides that “Limit Order Price Protection . . . will be rounded down to the nearest price at the applicable MPV.”

and 7.35–E and elsewhere in Exchange's rules promotes clarity and transparency.

Finally, the Exchange proposes a non-substantive, technical amendment to Rule 7.31–E(c)(5)(C) to correct a typographical error by adding the word “be” and replacing the word “that” with “than.”

Implementation

The Exchange anticipates implementing the proposed changes to establish a minimum dollar threshold into the Trading Collar, Limit Order Price Protection, and Auction Collar in the fourth quarter of 2017 and will announce by Trader Update the implementation date of those proposed rule changes. All other proposed changes would be implemented upon effectiveness of this filing.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Exchange Act,⁷ in general, and with Section 6(b)(5),⁸ 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 the proposed changes relating to adding a minimum price threshold to Rules 7.31–E(a)(1)(B)(i), 7.31–E(a)(2)(B), and 7.35–E(a)(10)(A) would 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, because they would enhance the Exchange's price protection mechanisms, which protect from aberrant prices and reduce the likelihood of halts, thus improving continuous trading and price discovery. Further, the proposal to enhance the price protection mechanisms by adding a minimum dollar threshold would assist with the maintenance of fair and orderly markets because such mechanisms protect investors from potentially receiving executions away from the prevailing market prices at any given time. The proposed changes to introduce the \$0.15 minimum dollar threshold is not novel and is similar in nature to that of other national

securities exchanges which incorporate dollar thresholds into the calculation of the respective price protection mechanisms.⁹

The Exchange believes that the proposed amendment to Rules 7.35–E(e)(8) to clarify order processing would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed rule changes are designed to promote clarity, consistency, and transparency in Exchange rules.

The Exchange also believes that replacing the term “truncated” with the term “rounded down” in Rules 7.31–E(a)(1)(B)(i) and, 7.35–E(a)(10)(A) would remove impediments to and perfect the mechanism of a free and open market and a national market system because they are designed to promote clarity, consistency, and transparency in Exchange rules.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is not intended to address competitive issues but rather would (1) provide for a more effective price protection mechanism, specifically for lower-priced securities; (2) clarify the order processing in Rule 7.35–E(e)(8)(C) to promote clarity, consistency, and transparency; and (3) make technical non-substantive changes to Rules 7.31–E and 7.35–E.

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

Because the proposed rule change does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁰ and Rule 19b–4(f)(6) thereunder.¹¹

⁹ See *supra* note 4.

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 17 CFR 240.19b–4(f)(6). In addition, Rule 19b–4(f)(6)(iii) requires a self-regulatory organization to

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

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. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include File Number SR-NYSEArca-2017-126 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-2017-126. 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.,

give the Commission written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSEArca-2017-126 and should be submitted on or before November 29, 2017.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹²

Eduardo A. Aleman,
Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-82006; File Nos. SR-DTC-2017-016; SR-NSCC-2017-016; SR-FICC-2017-020]

Self-Regulatory Organizations; The Depository Trust Company; National Securities Clearing Corporation; Fixed Income Clearing Corporation; Order Approving Proposed Rule Changes To Adopt the Clearing Agency Securities Valuation Framework

November 2, 2017.

I. Introduction

On September 8, 2017, The Depository Trust Company ("DTC"), National Securities Clearing Corporation ("NSCC"), and Fixed Income Clearing Corporation ("FICC," each a "Clearing Agency," and together with DTC and NSCC, the "Clearing Agencies"), filed with the Securities and Exchange Commission ("Commission") proposed rule changes SR-DTC-2017-016, SR-NSCC-2017-016, and SR-FICC-2017-020, respectively, pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder.² The proposed rule changes were published for comment in the **Federal Register** on September 27, 2017.³ The Commission did not receive any comment letters on the proposed

rule changes. For the reasons discussed below, the Commission approves the proposed rule changes.

II. Description of the Proposed Rule Changes

The Clearing Agencies propose to adopt the Clearing Agency Securities Valuation Framework ("Framework") of the Clearing Agencies, as described below.

A. Overview of the Framework

The Framework would address the manner in which the Clearing Agencies select and review "Pricing Vendors" and value securities that the Clearing Agencies process or otherwise hold. The proposed rule changes would set forth the securities valuation practices adopted by the Clearing Agencies for securities eligible for clearance and settlement processing by the applicable Clearing Agency; and in the case of FICC and NSCC, as central counterparties ("CCPs"), securities eligible to be held in their respective clearing funds.⁴

B. Selection of Pricing Vendors

Each Clearing Agency would price securities for both end-of-day and intraday value primarily through pricing data supplied by third-party pricing vendors ("Pricing Vendors").⁵ For most securities, Pricing Vendors would supply the Clearing Agencies with intraday pricing data on at least an hourly basis.⁶ Pricing Vendors would be selected by each Clearing Agency based on a review of their service, including, at a minimum, a review of Pricing Vendors' securities coverage and a price quality check.⁷

The Framework would provide that each security be assigned a primary source Pricing Vendor ("Primary Pricing Vendor") and a secondary source Pricing Vendor ("Secondary Pricing Vendor").⁸ In the event that the Primary Pricing Vendor becomes unavailable, unreliable, or otherwise unusable with respect to a security, the Secondary Pricing Vendor would be designated as the replacement for the Primary Pricing Vendor with respect to such security.⁹

Each Clearing Agency would perform due diligence on each Pricing Vendor prior to engagement, and at least annually thereafter, to assess the

⁴ *Id.*

⁵ *Id.* at 45107.

⁶ Certain securities may not be priced daily, and others may only be priced once each business day.

⁷ *Id.*

⁸ *Id.*

⁹ *Id.*

¹² 17 CFR 200.30-3(a)(12).

¹⁵ U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 81667 (September 21, 2017), 82 FR 45106 (September 27, 2017) (SR-DTC-2017-016; SR-NSCC-2017-016; SR-FICC-2017-020) ("Notice").