The Exchange has prepared summaries
on the proposed rule change. The text
and discussed any comments it received
and basis for, the proposed rule change
statements concerning the purpose of,
I. Self-Regulatory Organization's
Public Reference Room.
the Exchange, and at the Commission's
www.nyse.com,
The proposed rule change is available
from interested persons.
The Commission is
been prepared by the self-regulatory
organization. The Commission is
publishing this notice to solicit
comments on the proposed rule change
from interested persons.
I. Self-Regulatory Organization’s
Statement of the Terms of Substance of
the Proposed Rule Change
The Exchange proposes to amend
Rule 6.60–O (Price Protection—Orders)
December 18, 2019.
Pursuant to Section 19(b)(1) of the
Securities Exchange Act of 1934
(“Act”), and Rule 19b–4 thereunder,
notice is hereby given that, on December
5, 2019, NYSE Arca, Inc. (“Exchange”) 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 Purpose of, and
Statutory Basis for, the Proposed Rule
Change
The Exchange proposes to amend
Rule 6.60–O (Price Protection—Orders)
to modify and enhance certain of its
existing price protection mechanisms.
The proposed rule change is available
on the Exchange’s website 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 amend paragraph (c) of Rule 6.60–O to modify
and enhance its Price Reasonability Checks for options orders to sell puts or
calls (the “Sell Check”). As proposed, the Exchange would enhance the Sell Checks applied when the National Best Bid (“NBB”) is below a specified price and would exclude from the Sell Check any Intermarket Sweep Orders, both of which changes would allow for a more finely calibrated Sell Check.
Price Reasonability Checks
The Exchange has in place various price check mechanisms that are designed to prevent incoming orders from automatically executing at potentially erroneous prices. In particular, the Exchange has Price Reasonability Checks (“Price Checks”) for Limit Orders based on the principle that an option order is in error and should be rejected (or canceled) when the same result can be achieved on the market for the underlying equity security at a lesser cost. The Price Checks are based on the consolidated last sale price of the security underlying the option, once the security opens for trading (or reopens following a Trading Halt). The Exchange offers Price Checks for buy and sell options orders. The proposed change relates only to the Price Checks for sell options orders (i.e., the Sell Check).

Proposed Low Price Intrinsic Value Percentage Threshold
The Exchange proposes to modify the Sell Check to introduce a separate
percentage threshold to better account for sell orders in options series that are trading at relatively low prices so as to avoid such orders potentially being (incorrectly) rejected or canceled.

SECURITIES AND EXCHANGE COMMISSION
[Release No. 34–87796; File No. SR–
NYSEArca–2019–89]

Self-Regulatory Organizations; NYSE
Arca, Inc.; Notice of Filing and
Immediate Effectiveness of Proposed
Rule Change To Amend Rule 6.60–O
(Price Protection—Orders)

1 See, e.g., Rules 6.60–O(a)(trading collars) and
(b) (limit order price filter), 6.61–O(a) (price
protection for Market Maker quotes).
2 See Rule 6.60–O(c).
3 The Price Checks—or arbitrage checks—for buy
orders operate as follows: Unless otherwise
provided in Commentary .01 of the Rule, the
Exchange rejects or cancels any limit order to buy
a put option if the price of the order is equal to or
greater than the strike price of the option; and the
Exchange rejects or cancels any limit order to buy
a call option if the price of the order is equal to or
greater than the consolidated last sale price of
the underlying security, plus a dollar amount to be
determined by the Exchange and announced by
Trader Update. See Rule 6.60–O(c)(1)(A), (B).
4 For example, if the market participant is
looking to close out a position, it may be financially
beneficial to pay a small premium and close out the
position rather than carry such position to
expiration and take delivery. See, e.g., Securities
FR 25593, 25594, fn10 (May 30, 2019) (SR–
NYSEArca–2019–35) (immediately effective filing
implementing Price Checks, including the Sell
Check).
Specifically, the Exchange would apply this modified check to limit orders to sell when the NBBO for the option series is equal to or below a specified minimum price, as determined and announced by the Exchange (the “Minimum Price”). As proposed, if the Exchange receives an order to sell a put or a call in an option series where the NBBO “is equal to or below the Minimum Price,” such order would be canceled or rejected “if the price of the order is equal to or lower than its Intrinsic Value, minus a threshold percentage” to be determined by the Exchange and announced by Trader Update (the “Low Price Intrinsic Value percentage threshold”). The rule text would also make clear that this Low Price Intrinsic Value percentage threshold would be calculated as a percentage of the Intrinsic Value. The Exchange believes this proposed modification would enable the Exchange to apply a more finely calibrated Sell Check (i.e., to options orders trading at or below a certain price), which is distinct from the Regular Intrinsic Value percentage threshold, and should reduce the possibility of such orders on lower-priced options being improperly canceled or rejected.

As noted above, market participants may opt to willingly execute trading strategies regardless of whether the result is an execution for a price less than the Intrinsic Value of the options series. The Low Price Intrinsic Value percentage threshold is designed to allow greater flexibility to market participants submitting sell orders in option series trading at lower prices. This would allow participants additional opportunities to execute certain orders (rather than reject or cancel), while still maintaining a tolerance range. Thus, the proposal would protect investors by adding flexibility and sensitivity to the Sell Check for orders in lower-priced options and allow the balance of the Price Checks to continue to operate as intended.

The following examples illustrate this proposed functionality.

**Assumptions:**
- Minimum Price is $1.00
- (Regular) Intrinsic Value percentage threshold is 25%
- Low Price Intrinsic Value percentage threshold is 100%
- Series A: XYZ DEC 136 Call
- XYZ Stock is trading at $136.36

**Example 1:** NBBO for Series A: (100)$2.00 × $3.00 (100)
- The NBB of $2.00 is above the Minimum Price (i.e., $1.00), thus, the (Regular) Intrinsic Value percentage threshold, per Rule 6.60–O(c)(2)(A), applies.
- The Intrinsic Value of Series A is $0.36 ($136.36–$136.00); and
- The lowest acceptable price for a sell in Series A is $0.27 (after applying the 25% percentage threshold ($0.09)).

**Example 2:** NBBO for Series A: (100)$0.50 × $3.00 (100)
- The NBB of $0.50 is below the Minimum Price (i.e., $1.00), thus, the Low Price Intrinsic Value percentage threshold, per proposed Rule 6.60–O(c)(2)(A)(i), applies.
- The Intrinsic Value of Series A is $0.36 ($136.36–$136.00); and
- The lowest acceptable price for a sell in Series A is $0.00 (after applying the 100% percentage threshold ($0.36)) (i.e., there is no intrinsic check in this case).

**ISOs Excluded From Sell Checks**

The Exchange also proposes to modify the Sell Check to exclude any Intermarket Sweep Order or ISO. An ISO is a Limit Order for an options series that instructs the Exchange to execute the order up to the price of its limit, regardless of the NBBO. An OTP Holder may submit an ISO to sell only if it has simultaneously routed one or more additional ISOs, as necessary, to execute against the full displayed size of any better-priced protected quotations for the options series (i.e., the Protected Bid), with a price that is superior to the limit of the ISO. Because an ISO is generally used when trying to sweep a price level across multiple exchanges in an effort to post the balance of an order without locking an away market, the Exchange believes it is appropriate to exclude such orders from the Sell Check so as not to interfere with the intended functioning of such order type.

**Implementation**

The Exchange will announce by Trader Update the implementation date of the proposed rule change.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act, in general, and furthers the objectives of Section 6(b)(5) of the Act, in particular, in that 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 regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest.

In particular, the Exchange believes the proposed Sell Check as modified to account for lower-priced options and to exclude ISOs would protect investors and the public interest and maintain fair and orderly markets by ensuring that properly entered orders are not inadvertently rejected or canceled by the Exchange. In particular, the Low Price Intrinsic Value percentage threshold would allow for better calibration of the Sell Check (i.e., to options orders trading at or below a certain price), which should reduce the possibility of such orders on lower-priced options being improperly canceled or rejected. Under certain circumstances, market participants may choose to execute trading strategies regardless of whether the result is an execution for a price less than the Intrinsic Value of the options series. The Low Price Intrinsic Value percentage threshold (which is distinct from the Regular Intrinsic Value percentage threshold) is designed to allow greater flexibility to market participants submitting sell orders in option series trading at lower prices. This would allow participants additional

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12 See proposed Rule 6.60–O(c)(2)(A)(i) (providing that the current Sell Check will apply to orders “providing the NBBO for the option series is greater than” the Minimum Price; otherwise the Low Price Intrinsic Value percentage threshold would apply). See also proposed Rule 6.60–O(c)(2)(A)(i) [sic].
13 See proposed Rule 6.60–O(c)(2)(A)(i).
14 See id.
15 See id. The Exchange anticipates setting the Minimum Price to $1.00 and the Low Price Intrinsic Value percentage threshold to one hundred percent (100%) and whether and when these amounts change would depend upon the interest and/or behavior of market participants.
16 See proposed Rule 6.60–O(c)(2).
17 See Rule 6.62–O(a)(1) (providing, in relevant part, that an ISOs “may only be entered with a time-in-force of IOC, and the entering OTP Holder must comply with the provisions of Rule 6.92–O(a)(8)”).
18 See Rule 6.92–O(a)(8) (providing that an ISO is “a limit order for an options series that, simultaneously with the routing of the ISO, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or any Protected Offer, in the case of a limit order to buy, for the options series with a price that is superior to the limit price of the ISO.” See id. The rule further provides that an OTP Holder may submit an ISO to the Exchange only if it has simultaneously routed one or more additional ISOs to buy (sell), as necessary, to execute against the full displayed size of any Protected Bid (Protected Offer) for the options series with a price that is superior to the limit price of the ISO). See id.
opportunities to execute certain orders (rather than reject or cancel), while still maintaining a tolerance range. Thus, the proposal would promote just and equitable principles of trade and would protect investors by adding flexibility and sensitivity to the Sell Check for orders in lower-priced options and allow the balance of the Price Checks to continue to operate as intended.

In addition, with regard to ISOs, the Exchange believes it is appropriate to exclude such orders from the Sell Check to ensure that the order type (as well as the Sell Check) operates as intended. Moreover, modifying the rule to specify that ISOs would be excluded from the Sell Check would add clarity and transparency to Exchange rules.

The Exchange is proposing the modifications to the Sell Check for the benefit of, and in consultation with, OTP Holders and OTP Firms and believes the proposed rule change would help to maintain a fair and orderly market, and provide a valuable service to investors. In particular, the proposed changes to the Sell Check are responsive to member input regarding certain orders being erroneously rejected or canceled by the Sell Check (either an ISO or a sell order on an option series trading at a relatively low price). This proposal would thus facilitate transactions in securities and perfect the mechanism of a free and open market by providing OTP Holders and OTP Firms with enhanced functionality that will assist them with managing their portfolio and risk profile.

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 enhances the existing Sell Check for option orders of all OTP Holders submitted to the Exchange and is designed to ensure that properly entered orders are not inadvertently rejected or canceled by the Exchange—insofar as the Sell Check would exclude (and not interfere with the operation of) ISO orders and, would apply a modified/more finely calibrated percentage threshold to sell orders in option series trading at a relatively low price.

The Exchange further believes that because the proposed rule change would be applicable to all OTP Holders it would not impose any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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 foregoing 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 Act and Rule 19b–4(f)(6) thereunder.22 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–2019–89 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–2019–89. 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 website (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 website viewing and printing in the Commission’s Public Reference Room, 100 F Street NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. 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–2019–89 and should be submitted on or before January 16, 2020.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.23

J. Matthew DeLesDernier, Assistant Secretary.

[FR Doc. 2019–27724 Filed 12–23–19; 8:45 am]
BILLING CODE 8011–01–P

SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; NYSE American LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rule 967NY (Price Protection—Orders)

December 18, 2019.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934