

Token Exchange LLC. The proposed rule change was published for comment in the **Federal Register** on October 18, 2019.³

On November 29, 2019, pursuant to Section 19(b)(2) of the Act,⁴ the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to approve or disapprove the proposed rule change.⁵ On December 26, 2019, the Exchange filed Amendment No. 1 to the proposed rule change, which amended the proposed rule change as originally filed.⁶ On January 16, 2020, the Commission published Amendment No. 1 for notice and comment and instituted proceedings to determine whether to approve or disapprove the proposed rule change, as modified by Amendment No. 1.⁷ On February 19, 2020, the Exchange filed Amendment No. 2 to the proposed rule change, which replaced and superseded the proposed rule change as originally filed.⁸ The Commission published the proposed rule change, as modified by Amendment No. 2, for comment in the **Federal Register** on March 6, 2020.⁹ On April 14, 2020, the Commission designated a longer period for Commission action on

the proposed rule change, as modified by Amendment No. 2.¹⁰

On May 12, 2020, the Exchange withdrew the proposed rule change (SR-BOX-2019-19).

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹¹

J. Matthew DeLesDernier,

Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-89008; File No. SR-NYSEArca-2020-31]

Self-Regulatory Organizations; NYSE Arca, Inc.; Order Approving a Proposed Rule Change, as Modified by Amendment No. 2, To Modify Rule 6.60-O Regarding the Treatment of Orders Subject to Trade Collar Protection

June 4, 2020.

I. Introduction

On April 9, 2020, NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”), pursuant to Section 19(b)(1) ¹ of the Securities Exchange Act of 1934 (the “Act”) ² and Rule 19b-4 thereunder,³ a proposed rule change to modify Exchange Rule 6.60-O regarding the treatment of orders subject to Trade Collar Protection. The Exchange submitted Amendment No. 2, which superseded and replaced the proposed rule change, on April 23, 2020.⁴ The proposed rule change was published for comment in the **Federal Register** on April 30, 2020.⁵ The Commission received no comments on the proposal. This order approves the proposed rule change, as modified by Amendment No. 2.

¹⁰ See Securities Exchange Act Release No. 88634 (April 14, 2020), 85 FR 21906 (April 20, 2020). The Commission designated June 14, 2020 as the date by which the Commission shall either approve or disapprove the proposed rule change, as modified by Amendment No. 2.

¹¹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

⁴ Amendment No. 2 is available at <https://www.sec.gov/comments/sr-nysearca-2020-31/srnysearca202031-7238141-217098.pdf>. The Exchange submitted Amendment No. 1 on April 22, 2020, and withdrew it on April 23, 2020.

⁵ Securities Exchange Act Release No. 88737 (April 24, 2020), 85 FR 24069 (“Notice”).

II. Description of the Proposal, as Modified by Amendment No. 2

The Exchange states that it proposes changes to Rule 6.60-O(a) to modify functionality and to adopt enhancements to the operation of the Trading Collars.⁶ The Exchange applies Trade Collar Protection to incoming market orders and marketable limit orders (each a “collared order” and, collectively, “Marketable Orders”) if the width of the NBBO is greater than one Trading Collar. As described more fully in the Notice, the Exchange states that Trading Collars mitigate the risks associated with orders sweeping through multiple price points (including during extreme market volatility) and resulting in executions at prices that are potentially erroneous.⁷ According to the Exchange, by applying Trading Collars to incoming orders, the Exchange provides an opportunity to attract additional liquidity at tighter spreads and it “collars” affected orders at successive price points until the bid and offer are equal to the bid-ask differential guideline for that option (*i.e.*, equal to the Trading Collar).⁸ Similarly, by applying Trading Collars to partially executed orders, the Exchange states that it prevents the balance of such orders from executing away from the prevailing market after exhausting interest at or near the top of book on arrival.⁹

Accordingly, the Exchange proposes to modify the treatment of incoming market orders when the width of the NBBO is greater than one Trading Collar (*i.e.*, a “wide market”) and there is an existing contra-side collared order. Currently, an incoming market order would immediately execute against an existing contra-side collared order in a wide market.¹⁰ The Exchange proposes to reject a market order to buy (sell) received in a wide market if there is already a collared Marketable Order to sell (buy).¹¹ The Exchange states that the proposed rule change would prevent the execution of the market order at a potential erroneous price and provide the collared order greater opportunity to receive execution.¹²

The Exchange also proposes to amend the operation of the Trading Collar so

⁶ See Notice, *supra* note 5, 85 FR at 24070. “Trading Collars” are determined by the Exchange on a class-by-class basis and, unless announced otherwise via Trader Update, are the same value as the bid-ask differential guidelines established pursuant to Rule 6.37-O(b)(4). See Rule 6.60(a)(2).

⁷ See Notice, *supra* note 5, 85 FR at 24070.

⁸ See *id.*

⁹ See *id.*

¹⁰ See Rule 6.60-O(a)(1)(A).

¹¹ See proposed Rule 6.60-O(a)(1)(B).

¹² See Notice, *supra* note 5, 85 FR at 24070.

³ See Securities Exchange Act Release No. 87287 (October 11, 2019), 84 FR 56022 (October 18, 2019) (“Original Notice”).

⁴ 15 U.S.C. 78s(b)(2).

⁵ See Securities Exchange Act Release No. 87641 (November 29, 2019), 84 FR 66701 (December 5, 2019). The Commission designated January 16, 2020 as the date by which the Commission shall approve or disapprove, or institute proceedings to determine whether to approve or disapprove, the proposed rule change.

⁶ When the Exchange filed Amendment No. 1 to BOX-2019-19, it also submitted the text of the partial amendment as a comment letter to the filing, which the Commission made publicly available at <https://www.sec.gov/comments/sr-box-2019-19/srbox201919-6613675-202939.pdf> (“Amendment No. 1”).

⁷ See Securities Exchange Act Release No. 88002 (January 16, 2020), 85 FR 4040 (January 23, 2020) (“Order Instituting Proceedings” or “OIP”).

⁸ In filing Amendment No. 2, the Exchange responded to questions raised in comment letters and the OIP. See Letter from Lisa Fall, President, BOX Exchange LLC, to Vanessa Countryman, Secretary, Commission, dated February 19, 2020, available at <https://www.sec.gov/comments/sr-box-2019-19/srbox201919-6840937-208871.pdf>.

⁹ See Securities Exchange Act Release No. 88300 (February 28, 2020), 85 FR 13242 (March 6, 2020) (“Amendment No. 2”). Comments on the proposed rule change can be found at <https://www.sec.gov/comments/sr-box-2019-19/srbox201919.htm>. The Exchange submitted responses to comment letters and OIP, which the Commission made publicly available at <https://www.sec.gov/comments/sr-box-2019-19/srbox201919-7055631-215391.pdf>; <https://www.sec.gov/comments/sr-box-2019-19/srbox201919-7117370-216029.pdf>.

that the display price would be the last execution price of the collared order.¹³ Currently, the display price of a collared Marketable Order could be based on either the available contra-side trading interest within (or outside of) one Trading Collar or the Collar Range¹⁴ of the collared order.¹⁵ The Exchange states that the proposed rule change would simplify the method of selecting the display price (*i.e.*, the current collar execution price) thereby enabling investors to gauge market interest, and, by using a single standard to determine the display price, provide more certainty for order senders.¹⁶

Currently, a collared order to buy (sell) would be assigned a new collar execution price one Trading Collar above (below) the current displayed price of the collared order and processed at the updated price after the expiration of one second and absent an update to the NBBO.¹⁷ The Exchange states that the current rule is silent as to the impact of any portion of the collared order routing to an away market as well as which side of the NBBO needs to update during the one-second time period.¹⁸ Accordingly, the Exchange proposes to define an “Expiration” as when a collared order displays without executing, routing, or repricing and there is no update to the same-side NBBO price for a period of at least one second.¹⁹ The Exchange states that the proposed modification makes clear that any such routing or same-side NBBO updates would restart the one-second timer for repricing purposes, and that collared orders subject to conditions that qualify as a proposed Expiration would be repriced as set forth in Rule 6.60–O(a)(6)(C).²⁰ Relatedly, the Exchange proposes to add a new paragraph that provides that a market order that is collared will cancel after it is subject to a specified number of Expirations, to be determined by the Exchange and announced by Trader Update.²¹

Finally, the Exchange states that it will announce the implementation of the proposed rule change in a Trader Update to be published no later than 60 days following a Commission approval.²²

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change, as modified by Amendment No. 2, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.²³ In particular, the Commission finds that the proposed rule change, as modified by Amendment No. 2, is consistent with Section 6(b)(5) of the Act,²⁴ which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Commission notes that the Exchange believes that the proposal to reject incoming market orders when there is a contra-side collared order would allow the collared order to continue to seek liquidity while providing the latter-arriving, contra-side order protection from execution in a wide market, which could be indicative of unstable market conditions or market dislocation.²⁵ The Exchange also believes that rejecting the incoming market order rather than collaring it while there is a collared order on the contra-side would provide greater execution opportunities for the collared order.²⁶

In addition, the Exchange believes that the proposal to select the display price of a collared order based on the current collar execution price would provide order senders with more certainty and enable them to gauge indications of market interest.²⁷

The Commission notes that the Exchange believes that the proposed definition of “Expiration” and the proposal to limit the number of Expirations per collared market order would improve the operation of the Trading Collar functionality because canceling back market orders that have persisted for a certain number of Expirations, which could be indicative of unstable market conditions, should provide order senders more certainty of the handling of such orders and help

avoid such orders receiving bad executions in times of market dislocation.²⁸

In addition, the Commission notes that the Exchange states that the proposed rule modifications to the Trading Collar functionality are similar to functionality available on other options exchanges.²⁹

The Commission believes that the operation of the Trade Collar Protection mechanism set forth in the proposal is consistent with the Act. In addition, the Commission believes that the proposed changes should provide more certainty for investors with respect to how their orders will be handled on the Exchange. Accordingly, the Commission believes that the proposal is reasonably designed to help prevent fraudulent and manipulative acts and practices, promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,³⁰ that the proposed rule change (SR–NYSEArca–2020–31), as modified by Amendment No. 2, be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³¹

J. Matthew DeLesDernier,

Assistant Secretary.

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²⁸ See *id.*

²⁹ Specifically, the Exchange compares the Trading Collar functionality, as proposed, with NASDAQ Options Market and NASDAQ OMX BX, Options 3, Section 15 (Risk Protections) (b)(1), Acceptable Trade Range. The Exchange states that these exchanges provide a risk protection feature for quotes and orders, which prevents executions (partial or otherwise) of orders beyond an “acceptable trade range” (as calculated by the exchange) and that when an order (or quote) reaches the limits of the “acceptable trade range”, it posts for a period not to exceed one second and recalculated a new “acceptable trade range”. See *id.* 85 FR at 24072.

³⁰ 15 U.S.C. 78s(b)(2).

³¹ 17 CFR 200.30–3(a)(12).

¹³ See proposed Rule 6.60–O(a)(5).

¹⁴ A “Collar Range” is within one Trading Collar above (for buy orders) or below (for sell orders) the collar execution price. See Rule 6.60–O(a)(4)(D).

¹⁵ See Rule 6.60–O(a)(5)(A)–(B).

¹⁶ See Notice, *supra* note 5, 85 FR at 24071.

¹⁷ See Rule 6.60–O(a)(6)(C).

¹⁸ See *id.*

¹⁹ See proposed Rule 6.60–O(a)(6)(C).

²⁰ See Notice, *supra* note 5, 85 FR at 24071.

²¹ See proposed Rule 6.60–O(a)(6)(C)(i).

²² See Notice, *supra* note 5, 85 FR at 24071.

²³ In approving this proposal, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²⁴ 15 U.S.C. 78f(b)(5).

²⁵ See Notice, *supra* note 5, 85 FR at 24071.

²⁶ See *id.*

²⁷ See *id.*