



**Martha Redding**  
Associate General Counsel  
Corporate Secretary

January 19, 2022

**VIA E-MAIL**

Secretary  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549-1090

Re: Securities Exchange Act Rel. 34-92304 (SR-NYSEArca-2021-47)

Dear Secretary:

NYSE Arca, Inc. filed the attached Amendment No. 3 to the above-referenced filing on December 16, 2021.

Sincerely,

A handwritten signature in blue ink, appearing to be the initials "MR" followed by a stylized flourish.

Encl. (Amendment No. 3 to SR-NYSEArca-2021-47)

Required fields are shown with yellow backgrounds and asterisks.

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
Form 19b-4

F e No. \* SR 2021 \* 47

Amendment No. (req. for Amendments \*) 3

F ng by NYSE Arca, Inc.

Pursuant to Ru e 19b 4 under the Secur tes Exchange Act of 1934

<b>Int a *</b> <input type="checkbox"/>	<b>Amendment *</b> <input checked="" type="checkbox"/>	<b>W thdrawa</b> <input type="checkbox"/>	<b>Sect on 19(b)(2) *</b> <input checked="" type="checkbox"/>	<b>Sect on 19(b)(3)(A) *</b> <input type="checkbox"/>	<b>Sect on 19(b)(3)(B) *</b> <input type="checkbox"/>
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			<input type="checkbox"/> 19b 4(f)(1) <input type="checkbox"/> 19b 4(f)(4) <input type="checkbox"/> 19b 4(f)(2) <input type="checkbox"/> 19b 4(f)(5) <input type="checkbox"/> 19b 4(f)(3) <input type="checkbox"/> 19b 4(f)(6)

Not ce of proposed change pursuant to the Payment, C ear ng, and Sett ement Act of 2010

Sect on 806(e)(1) \*

Sect on 806(e)(2) \*

Secur ty Based Swap Subm ss on pursuant to the Secur tes Exchange Act of 1934

Sect on 3C(b)(2) \*

Exh b t 2 Sent As Paper Document

Exh b t 3 Sent As Paper Document

### Description

Prov de a br ef descr pt on of the act on ( m t 250 characters, requ red when Int a s checked \*).

Proposa new ru es 6.1P O, 6.37AP O, 6.40P O, 6.41P O, 6.62P O, 6.64P O, 6.76P O, and 6.76AP O and amendments to Ru es 1.1, 6.1 O, 6.1A O, 6.37 O, 6.65A O and 6.96 O

### Contact Information

Prov de the name, te ephone number, and e ma address of the person on the staff of the se f regu atory organ zat on prepared to respond to quest ons and comments on the act on.

F rst Name \* Kathleen Last Name \* Murphy

T te \* Sen or Course , NYSE Group Inc.

E ma \* [Redacted]

Te ephone \* [Redacted] Fax [Redacted]

### Signature

Pursuant to the requ rements of the Secur tes Exchange of 1934, NYSE Arca, Inc. has duty caused th s f ng to be s gned on ts beha f by the unders gned thereunto duty author zed.

Date 01/19/2022

( tle \*)

By Dav d De Gregor o

Assoc ate Genera Course

(Name \*)

NO E Clicking the signature block at right will initiate digitally signing the orm A digital signature is as legally binding as a physical signature and once signed this orm cannot be changed



Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EDFS website.

**Form 19b-4 Information \***

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SEC Sub SR NYSEArca 2021 47 Am

The self regulatory organization must provide a required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposals consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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Ex. 1 SEC Sub SR NYSEArca 2021 4

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR [SRO] xx xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3).

**Exhibit 1A - Notice of Proposed Rule Change, Security-Based Swap Submission, or Advanced Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR [SRO] xx xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3).

**Exhibit 2- Notices, Written Comments, Transcripts, Other Communications**

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit Sent As Paper Document

**Exhibit 3 - Form, Report, or Questionnaire**

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Copies of any form, report, or questionnaire that the self regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit Sent As Paper Document

**Exhibit 4 - Marked Copies**

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Ex. 4 SEC Sub SR NYSEArca 2021 4

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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Ex. 5 SEC Sub SR NYSEArca 2021 4

The self regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing them in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

- (a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”), proposes new Rules 6.1P-O (Applicability), 6.37AP-O (Market Maker Quotations), 6.40P-O (Pre-Trade and Activity-Based Risk Controls), 6.41P-O (Price Reasonability Checks - Orders and Quotes), 6.62P-O (Orders and Modifiers), 6.64P-O (Auction Process), 6.76P-O (Order Ranking and Display), and 6.76AP-O (Order Execution and Routing) and proposes amendments to Rules 1.1 (Definitions), 6.1-O (Applicability, Definitions and References), 6.1A-O (Definitions and References - OX), 6.37-O (Obligations of Market Makers), 6.65A-O (Limit-Up and Limit-Down During Extraordinary Market Volatility), and 6.96-O (Operation of Routing Broker) to reflect the implementation of the Exchange’s Pillar trading technology on its options market. This Amendment No. 3 supersedes and replaces Amendment No. 2 to the original filing in its entirety.<sup>3</sup>

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1, and the text of the proposed rule change is attached as Exhibit 5.

- (b) The Exchange does not believe that the proposed rule change will have any direct effect, or any significant indirect effect, on any other Exchange rule in effect at the time of this filing.
- (c) Not applicable.

2. Procedures of the Self-Regulatory Organization

Senior management has approved the proposed rule change pursuant to authority delegated to it by the Board of the Exchange. No further action by the Board of Directors or the membership of the Exchange is required. Therefore, the

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

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

<sup>3</sup> On September 28, 2021, the Exchange filed Amendment No. 1 to SR-NYSEArca-2021-47, which replaced and superseded the original filing in its entirety. See Securities Exchange Act Release No. 93193 (September 29, 2021), 86 FR 55926 (October 7, 2021) (SR-NYSEArca-2021-47) (Notice of Amendment No. 1, which replaced original filing in its entirety, and Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change, as Modified by Amendment No. 1). On December 16, 2021, the Exchange filed Amendment No. 2 to SR-NYSEArca-2021-47, which replaced and superseded in its entirety both Amendment No. 1 and the original filing.

Exchange's internal procedures with respect to the proposed change are complete.

The person on the Exchange staff prepared to respond to questions and comments on the proposed rule change is:

Kathleen Murphy  
Senior Counsel  
NYSE Group, Inc.  
[REDACTED]

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

(a) Purpose

**Background**

The Exchange plans to transition its options trading platform to its Pillar technology platform. The Exchange's and its national securities exchange affiliates'<sup>4</sup> (together with the Exchange, the "NYSE Exchanges") cash equity markets are currently operating on Pillar. For this transition, the Exchange proposes to use the same Pillar technology already in operation for its cash equity market. In doing so, the Exchange will be able to offer not only common specifications for connecting to both of its cash equity and equity options markets, but also common trading functions. This Amendment No. 3 supersedes and replaces Amendment No. 2 to the original filing in its entirety.<sup>5</sup>

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<sup>4</sup> The Exchange's national securities exchange affiliates are the New York Stock Exchange LLC ("NYSE"), NYSE American LLC ("NYSE American"), NYSE National, Inc. ("NYSE National"), and NYSE Chicago, Inc. ("NYSE Chicago").

<sup>5</sup> This Amendment No. 3 provides more background information regarding the proposed rule changes, makes clarifying changes to certain proposed rules without any substantive differences as compared to the original filing, and makes the following substantive changes from the original filing: (1) added definition of Away Market BBO (ABBO) to replace the term Away Market NBBO; (2) revises the description of a Market Maker quotation, as described in proposed Rule 6.37A-O(a)(1); (3) revises how the Specified Threshold would be calculated for Limit Order Price Protection in proposed Rule 6.62P-O(a)(3)(A) to include prices equal to the Reference Price; (4) revises how a Trading Collar would be assigned, as described in proposed Rule 6.62P-O(4)(A) and (B), to provide that a Trading Collar would be reassigned to an order after a trading halt, and makes related changes to proposed Rule 6.64P-O(f)(3)(A)(ii); (5) revises proposed Rule 6.62P-O(g) to reorganize and streamline the proposed rule to specify that a Cross Order is a Qualified Contingent Cross Order and to describe the order type in paragraph (g)(1)(A) and to add proposed Complex QCC Orders; (6) revises proposed Rule 6.62P-O(h)(1) to specify that a Clear-the-Book Order would be entered

The Exchange plans to roll out the new technology platform over a period of time based on a range of underlying symbols, anticipated for the first quarter of 2022. As was the case for the other NYSE Exchanges that have transitioned to Pillar, the Exchange anticipates a three-week roll-out period and will announce by Trader Update<sup>6</sup> when underlying symbols will be transitioning to the Pillar trading platform. With this transition, certain rules would continue to be applicable to options overlying symbols trading on the current trading platform - the OX system,<sup>7</sup> but would not be applicable to options overlying symbols that have transitioned to trading on Pillar.

Instead, the Exchange proposes new rules to reflect how options would trade on the Exchange once Pillar is implemented. These proposed rule changes will (1) use Pillar terminology that is based on Exchange Rule 7-E Pillar terminology

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contemporaneous with executing an order in open outcry; (7) revises proposed Rule 6.62P-O(i)(2) to specify which order with a Minimum Trade Size modifier would not be subject to self-trade prevention modifiers; (8) revises proposed Rule 6.62P-O to remove the proposed Non-Display Remove Modifier; (9) revises proposed Rule 6.64P-O(a) to add a definition for the term “Auction Price” and to modify the definition of “Legal Quote Width”; (10) revises proposed Rule 6.64P-O(g)(2) to provide that during a trading halt, any unexecuted quantity of an order for which the 500-millisecond Trading Collar timer has started would be cancelled; (11) revises proposed Rule 6.64P-O(d)(3) and (4) to reduce the length of the proposed Opening MMQ Timers (from one minute to 30 seconds) and reduce the time before commencing opening of a series when there is a Calculated NBBO that is wider than the Legal Width Quote in a series (from five minutes to 90 seconds), both of which measures would shorten the time the Exchange would wait before automatically opening a series in the specified circumstances; and (12) revises proposed Rule 6.76AP-O(a)(1)(A) to provide that only the first LMM quote in time priority would be eligible for the LMM Guarantee.

<sup>6</sup> Trader Updates are available here: <https://www.nyse.com/trader-update/history>. Anyone can subscribe to email updates of Trader Updates, available here: <https://www.nyse.com/subscriptions>.

<sup>7</sup> “OX” refers to the Exchange’s current electronic order delivery, execution, and reporting system for designated option issues through which orders and quotes of Users are consolidated for execution and/or display. See Rule 6.1A-O(a)(13). “OX Book” refers to the OX’s electronic file of orders and quotes, which contain all of the orders in each of the Display Order and Working Order processes and all of the Market Makers’ quotes in the Display Order Process. See Rule 6.1A-O(a)(14). With the transition to Pillar, the Exchange would no longer use the terms “OX” or “OX Book” and rules using those terms would not be applicable to trading on Pillar. Once the transition is complete, the Exchange will file a subsequent proposed rule change to delete references to OX and OX Book from the rulebook.

governing cash equity trading; (2) provide for common functionality on both its options and cash equity markets; and (3) introduce new functionality.

The Exchange notes that certain of the proposed new Pillar rules concern functionality not currently available on the OX system and that would be unique to how option contracts trade, and therefore would be new rules with no parallel version for the Exchange's cash equity market.

#### Proposed use of "P" modifier

As proposed, new rules governing options trading on Pillar would have the same numbering as current rules that address the same functionality, but with the modifier "P" appended to the rule number. For example, Rule 6.76-O, governing Order Ranking and Display - OX, would remain unchanged and continue to apply to any trading in symbols on the OX system. Proposed Rule 6.76P-O would govern Order Ranking and Display for trading in options symbols migrated to the Pillar platform. All other current rules that have not had a version added with a "P" modifier will be applicable to how trading functions on both the OX system and Pillar. Once options overlying all symbols have migrated to the Pillar platform, the Exchange will file a separate rule proposal to delete rules that are no longer operative because they apply only to trading on the OX system.

To reflect how the "P" modifier would operate, the Exchange proposes to add rule text immediately following the title "Rule 6-O Options Trading," and before "Rules Principally Applicable to Trading of Option Contracts" 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, and consistent with the handling of the transition to Pillar by the Exchange's cash equity platform, if a symbol (and the option overlying such 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.<sup>8</sup>

The Exchange believes that adding this explanation regarding the "P" modifier in Exchange rules would provide transparency regarding which rules and definitions would be operative during the symbol migration to Pillar.

#### Summary of Proposed Rule changes

In this filing, the Exchange proposes the following new Pillar rules: Rules 6.1P-O (Applicability), 6.37AP-O (Market Maker Quotations), 6.40P-O (Pre-Trade and

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<sup>8</sup> The Exchange used the same description when it transitioned its cash equity platform to Pillar. See Securities Exchange Act Release Nos. 75494 (July 20, 2015), 80 FR 44170 (July 24, 2015) (SR-NYSEArca-2015-38) (Approval Order) and 74951 (May 13, 2015), 80 FR 28721 (May 19, 2015) ("NYSE Arca Equities Pillar Notice").

Activity-Based Risk Controls), 6.41P-O (Price Reasonability Checks - Orders and Quotes), 6.62P-O (Orders and Modifiers), 6.64P-O (Auction Process), 6.76P-O (Order Ranking and Display), and 6.76AP-O (Order Execution and Routing). The Exchange also proposes to amend Rules 1.1 (Definitions), 6.1-O (Applicability, Definitions and References), and 6.1A-O (Definitions and References - OX) to reflect definitions that would be applicable for options trading on Pillar and make conforming amendments to Rules 6.37-O (Obligations of Market Makers), 6.65A-O (Limit-Up and Limit-Down During Extraordinary Market Volatility), and 6.96-O (Operation of Routing Broker). These proposed rules would set forth the foundation of the Exchange's options trading model on Pillar and, among other things, would use existing Pillar terminology currently in effect for the Exchange's cash equity platform.

Because certain proposed rules have definitions and functions that carry forward to other proposed rules, the Exchange proposes to describe the new rules in the following order (rather than by rule number order): definitions, applicability, ranking and display, execution and routing, orders and modifiers, market maker quotations, pre-trade and activity-based risk controls, price reasonability checks, and auctions.

To promote clarity and transparency, the Exchange further proposes to add a preamble to the following current rules specifying that they would not be applicable to trading on Pillar: Rule 6.1-O (Applicability, Definitions and References), 6.1A-O (Definitions and References - OX), Rule 6.37A-O (Market Maker Quotations), 6.40-O (Risk Limitation Mechanism), 6.60-O (Price Protection - Orders), 6.61-O (Price Protections - Quotes), 6.62-O (Certain Types of Orders Defined), 6.64-O (OX Opening Process), 6.76-O (Order Ranking and Display - OX), 6.76A-O (Order Execution - OX), 6.88-O (Directed Orders), and 6.90-O (Qualified Contingent Crosses).

As discussed in greater detail below, the Exchange is not proposing fundamentally different functionality applicable to options trading on Pillar than on the OX system. However, with Pillar, the Exchange would introduce new terminology, and as applicable, new or updated functionality that would be available for options trading on the Pillar platform.

The Exchange notes that new rules relating to electronic complex trading on Pillar are addressed in a separate proposed rule change.<sup>9</sup>

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<sup>9</sup> See Securities Exchange Act Release No. 92563 (August 4, 2021), 86 FR 43704 (August 10, 2021) (Notice of proposed Rule 6.91P-O, regarding complex order trading on Pillar) ("Complex Pillar Notice").



## **Proposed Rule Changes**

### **Rule 1.1 - Definitions**

Rule 1.1 sets forth definitions that are applicable to both the Exchange's cash equity and options markets. Rule 6.1-O(b) sets forth definitions that are applicable to the trading of option contracts on the Exchange. Rule 6.1A-O sets forth definitions that are applicable to trading on the Exchange's current OX system. In connection with the transition of options trading to Pillar, the Exchange proposes to copy the definitions currently set forth in Rules 6.1-O(b) and 6.1A-O into Rule 1.1, with changes as described below. This proposed rule change would streamline the Exchange's rules by consolidating definitions that would be applicable for trading on Pillar into Rule 1.1. Once the transition to Pillar is complete, the Exchange will file a subsequent proposed rule change to delete current Rules 6.1-O and 6.1A-O as discussed further below.

In connection with adding definitions to Rule 1.1, the Exchange proposes to delete the sub-paragraph numbering currently set forth in Rule 1.1. The Exchange does not believe that the sub-paragraph numbering is necessary because the definitions are organized in alphabetical order and would continue to be organized in alphabetical order. In addition, removing the sub-paragraph numbering would make any future amendments to Rule 1.1 easier to process as any new definitions would simply be added in alphabetical order.

Certain definitions in Rule 1.1 currently specify that they are only for "equities" trading. With the proposed consolidation of definitions, some of those definitions will become applicable to both options and cash equity trading, and others will continue to be applicable only to cash equity trading. With the proposed consolidation, the Exchange proposes to remove existing language limiting those definitions to "equities" traded on the Exchange if the definition would be equally applicable to options trading. In addition, to the extent that a proposed definition would continue to be applicable only to cash equity trading, the Exchange proposes to make a global change to update references to "equities" traded on the Exchange to "cash equity securities" traded on the Exchange. The Exchange believes these proposed modifications would add clarity and consistency to Exchange rules.

The Exchange proposes the following amendments to Rule 1.1.

First, definitions set forth in Rule 6.1-O(b) would be added to Rule 1.1 in alphabetical order with certain differences described in greater detail below.<sup>10</sup> To

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<sup>10</sup> Rule 6.1-O(b) has definitions for: Options Clearing Corporation, Rules of the Options Clearing Corporation, Clearing Member, Participating Exchange, Option Contract, Exchange Option Transaction and Exchange Transaction, Type of Option, Call, Put, Class of Options, Series of Options, Option Issue, Underlying

promote clarity, if the definition that is being copied is not specifically about options trading, the Exchange proposes to add an introductory clause to the definition to specify that the term is for options traded on the Exchange. The Exchange does not propose to copy the definition of “Quote with Size,” which is currently defined in Rule 6.1-O(b)(33), to Rule 1.1 because that term would not be used in the Pillar rules, and does not propose to copy the definition of “Short Term Options Series,” because it is duplicative of Commentary .07 to Rule 6.4-O. In addition, the Exchange is not including the definition of “Foreign Broker/Dealer,” which is currently defined in Rule 6.1-O(b)(31), in Rule 1.1, as this term is not used anywhere else in Exchange rules.<sup>11</sup> The Exchange also proposes changes to certain definitions that are being copied from Rule 6.1-O(b) to Rule 1.1, as follows:

- The Exchange proposes to amend certain definitions that are being copied to Rule 1.1 to use the term “underlying security” rather than referring separately to an “underlying stock or Exchange-Traded Fund Share.” The Exchange believes that this proposed change would not make any substantive changes because an Exchange-Traded Fund Share is a “security” as that term is defined in Rule 1.1 (and is also an NMS stock). Accordingly, the term “underlying security,” by definition, would include Exchange-Traded Fund Shares. The Exchange proposes to make this change to the following definitions that are proposed to be added to Rule 1.1: “Call,” “Class of Options,” “Covered,” “Exercise Price,” “Primary Market,” “Put,” “Option Issue,” and “Underlying Stock or Underlying Security.”<sup>12</sup>
- The Exchange proposes to streamline the definitions of “Closing Purchase Transaction,” “Closing Sale Transaction,” “Opening Purchase Transaction,” and “Opening Writing Transaction” without any substantive

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Stock or Underlying Security, Exercise Price, Aggregate Exercise Price, Expiration Month, Expiration Date, Long Position, Short Position, Opening Purchase Transaction, Opening Writing Transaction, Closing Sale Transaction, Closing Purchase Transaction, Covered, Uncovered, Outstanding, Primary Market, Options Trading, Customer, Trading Crowd, Foreign Broker/Dealer, Exchange-Traded Fund Share, Quote with Size, Trading Official, Non-OTP Firm or Non-OTP Holder Market Maker, Firm, Consolidated Book, Crowd Participants, Electronic Order Capture System, Short Term Option Series, and Quarterly Options Series. Unless otherwise specified, the Exchange proposes to copy the definitions from Rule 6.1-O(b) to Rule 1.1 without any differences.

<sup>11</sup> The Exchange is not proposing to delete the definitions of “Quote with Size,” “Foreign Broker/Dealer,” or “Short Term Options Series” at this time as such terms would be deleted in the subsequent filing to delete Rule 6.1-O.

<sup>12</sup> The Exchange proposes to make a similar non-substantive change to delete the term “Exchange-Trade Fund Share” in Rule 6.37-O(c).

differences, as follows:

- The term “Closing Purchase Transaction” is currently defined in Rule 6.1-O(b)(23) to mean “an option transaction in which the purchaser's intention is to reduce or eliminate a short position in the series of options involved in such transaction.” The proposed Rule 1.1 definition of this term would be “a transaction in a series in which the purchaser intends to reduce or eliminate a short position in such series.”
- The term “Closing Sale Transaction” is currently defined in Rule 6.1-O(b)(22) to mean an “option transaction in which the seller's intention is to reduce or eliminate a long position in the series of options involved in such transaction.” The proposed Rule 1.1 definition of this term would be “a transaction in a series in which the seller intends to reduce or eliminate a long position in such series.”
- The term “Opening Purchase Transaction” is currently defined in Rule 6.1-O(b)(20) to mean “an option transaction in which the purchaser's intention is to create or increase a long position in the series of options involved in such transaction.” The proposed Rule 1.1 definition of this term would be “a transaction in a series in which the purchaser intends to create or increase a long position in such series.”
- The term “Opening Writing Transaction” is currently defined in Rule 6.1-O(b)(21) to mean “an option transaction in which the seller's (writer's) intention is to create or increase a short position in the series of options involved in such transaction.” The proposed Rule 1.1 definition of this term would be “a transaction in a series in which the seller (writer) intends to create or increase a short position in such series.”
- The Exchange proposes to revise the definition of “Crowd Participants,” which is currently defined in Rule 6.1-O(b)(38) to mean “the Market Makers appointed to an option issue under Rule 6.35-O, and any Floor Brokers actively representing orders at the best bid or offer on the Exchange for a particular option series,” to not include the clause “for a particular option series” as unnecessary text. The Exchange considers that the definition of “Crowd Participants” as distinct from the current definition of “Trading Crowd.” Specifically, the term “Trading Crowd” refers to the physical location of the trading post for open outcry trading, whereas the term “Crowd Participants” refers to the individual Market

Makers and Floor Brokers that comprise the Trading Crowd.<sup>13</sup>

- The Exchange proposes to revise the definition of “Electronic Order Capture System” to eliminate reference to the Commission’s order Instituting Public Administrative Proceedings Pursuant to Section 19(h)(1) of the Securities Exchange Act of 1934, Making Findings and Imposing Remedial Sanctions, which was the initial authority for the Exchange to specify requirements relating to the Electronic Order Capture System. The Exchange will continue to include requirements for the Electronic Order Capture System in its rules and does not believe it is necessary to continue to cite to the original authority for this requirement in Exchange rules.
- The Exchange proposes to streamline the definition of “Expiration Date” to eliminate now obsolete language limiting the definition to options expiring before, on, or after February 15, 2015. In addition, the Exchange does not propose to include the following text in the Rule 1.1 definition of “Expiration Date”: “Notwithstanding the foregoing, in the case of certain long-term options expiring on or after February 1, 2015 that the Options Clearing Corporation has designated as grandfathered, the term “expiration date” shall mean the Saturday immediately following the third Friday of the expiration month.” This rule text is now obsolete as the Exchange does not have any series trading on the Exchange with such Saturday expiration dates.
- The Exchange proposes to amend the definition of “Options Trading,” which is currently defined in Rule 6.1-O(b)(28), to delete the phrase “issued by the Options Clearing Corporation.” Accordingly, the proposed Rule 1.1 definition of “options trading” would be as follows: “when not preceded by the word ‘Exchange,’ means trading in any option contract, whether or not approved for trading on the Exchange.” The Exchange believes that this proposed change is immaterial because the Exchange trades only options that have been issued by the Options Clearing Corporation, and therefore reference to the OCC is redundant and unnecessary.
- The Exchange proposes to add to the definition of “Option Contract,” which is currently defined in Rule 6.1-O(b)(5), that option contracts would

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<sup>13</sup> For example, current Rule 6.76-O(d) refers to Floor Brokers representing orders “in the Trading Crowd,” i.e., the physical location for such open outcry trading. By contrast, current Rule 6.76-O(d)(2) refers to the requirement that priority be afforded to Crowd Participants in accordance with Rule 6.75-O(f), which refers to the individual Market Makers or Floor Brokers that are located within the Trading Crowd and that may be eligible for priority. As discussed below, the Exchange proposes to maintain this distinction in proposed Rule 6.76P-O(h).

be included within the definition of “security” or “securities” as such terms are used in the Bylaws and Rules of the Exchange. This proposed text is copied from the last sentence of current Rule 6.1-O(a). As described below, proposed Rule 6.1P-O would not include this text. The Exchange believes that adding this text to the proposed Rule 1.1 definition of “option contract” would promote clarity and transparency in Exchange rules by consolidating related definitions in a single location.

- The Exchange proposes to streamline the definition of “Outstanding” without any substantive differences. Specifically, the Exchange proposes to replace the following Rule 6.1-O(b)(26) text, “has neither been the subject of a closing sale transaction on the Exchange or a comparable closing transaction on another participating Exchange nor been exercised nor reached its expiration date,” with the following, “has not been the subject of a closing sale transaction, exercised, or expired.” The Exchange believes that the proposed revised text has the same meaning, with more clear text.
- The Exchange proposes to modify the definition of “Routing Agreement” to replace references to “NYSE Arca, L.L.C.,” an entity that no longer exists, with the term “the Exchange,” which is a defined term in Rule 1.1.
- The Exchange proposes to modify the definition of “Trading Crowd,” which is currently defined in Rule 6.1-O(b)(30), to include Floor Brokers, which change is consistent with how this concept is defined on other options exchanges.<sup>14</sup>
- The Exchange proposes to modify the definition of an “Uncovered” position, which “in respect of a short position in an option contract means that the short position is not covered.” Because a “covered” position is also defined in proposed Rule 1.1, the Exchange proposes to add quotation marks around “covered” and, immediately after this term, to add “as defined above,” to make clear the cross-reference is to another defined term, which would add transparency to the rule text.

Second, definitions set forth in Rule 6.1A-O(a) would be added to Rule 1.1 in alphabetical order without any substantive differences.<sup>15</sup> Because certain of these

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<sup>14</sup> See, e.g., Cboe Exchange Inc. (“Cboe”) Rule 1.1 (defining the terms “in-crowd market participant” and “ICMP” to include “an in-crowd Market-Maker, an on-floor DPM or LMM with an allocation in a class, or a Floor Broker or PAR Official representing an order in the trading crowd on the trading floor”).

<sup>15</sup> Rule 6.1A-O(a) has definitions for: Authorized Trader, BBO, Complex BBO, Core Trading Hours, Customer, Professional Customer, Lead Market Maker, Market Center, Marketable, Market Maker, Market Maker Authorized Trader, Minimum Price Variation, NBBO, Complex NBBO, NOW Recipient, OX, OX

definitions are already set forth in Rule 1.1 for cash equity trading, the Exchange proposes to amend those existing definitions to specify that they would be applicable to options trading, and if applicable, set forth differences for options trading, as described in more detail below.

The Exchange does not propose to add the definition of “Directed Order Market Maker” to Rule 1.1 because in Pillar the Exchange would no longer support Directed Order Market Makers. In addition, the Exchange does not propose to add the definitions of “Complex BBO” or “Complex NBBO” to Rule 1.1, and instead has proposed to define terms relating to complex trading in a separate proposed rule change relating to electronic complex trading.<sup>16</sup> The Exchange also does not propose to add options-related definitions to Rule 1.1 relating to “Sponsored Participant,” “Sponsoring OTP Firm,” and “Sponsorship Provisions” because there are currently not any Sponsored Participants trading options on the Exchange, and the Exchange does not propose to reintroduce this category of participants. As noted above, the terms “OX” and “OX Book” will not be used in Pillar rules.

Finally, in addition to definitions that are being added to Rule 1.1 without any changes from the defined terms from Rule 6.1A-O(a), the Exchange proposes the following specific changes to the definitions that would be included in the Rule 1.1 definitions:<sup>17</sup>

- Approved Person: The Exchange proposes a non-substantive amendment to change the word “a” to “an” before “OTP Firm.”
- Authorized Trader: The Exchange proposes to amend the Rule 1.1 definition of “Authorized Trader” to remove the limitation to equities trading so that it is applicable to both cash equity securities and options traded on the Exchange, and to add that it can mean a person who may submit orders to the Exchange’s Trading Facilities on behalf of his or her OTP Holder. These proposed amendments combine the definition of Authorized Trader currently set forth in Rule 6.1A-O(a)(1) with the existing Rule 1.1 definition of Authorized Trader.<sup>18</sup>

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Book, Routing Broker, Sponsored Participant, Sponsoring OTP Firm, Sponsorship Provisions, User, Directed Order Market Maker, and Order Flow Provider.

<sup>16</sup> See Complex Pillar Notice, supra note 9.

<sup>17</sup> The Exchange also proposes a non-substantive amendment to the definition of “Exchange” to add a period at the end of the sentence.

<sup>18</sup> The proposed (combined) definition of “Authorized Trader” for cash equity and options trading would still include reference to “Sponsored Participants,” which remains applicable to cash equity trading (although, as noted above, is no longer applicable to options trading).

- Away Market: The Exchange proposes to amend the Rule 1.1 definition of “Away Market” to add how that term would be used for options trading on the Exchange. As proposed, the new text would provide: “[w]ith respect to options traded on the Exchange, the term ‘Away Market’ means any Trading Center (1) with which the Exchange maintains an electronic linkage, and (2) that provides instantaneous responses to orders routed from the Exchange.” This proposed definition is based on the Rule 6.1A-O(a)(12) definition of “NOW Recipient,” which is currently defined as “any Market Center (1) with which the Exchange maintains an electronic linkage, and (2) that provides instantaneous responses to NOW Orders routed from OX. The Exchange shall designate from time to time those Market Centers that qualify as NOW Recipients and shall periodically publish such information via its website.” The Exchange proposes four non-substantive differences for the Pillar options trading definition of “Away Market”: (1) use the Pillar term of “Away Market” instead of the term “NOW Recipient;” (2) use the term “Trading Center” instead of “Market Center;” (3) refer to “orders routed from the Exchange” instead of “NOW Orders routed from OX”; and (4) delete the text relating to the Exchange designating and publishing to its website certain Away Markets. The Exchange does not believe that this text needs to be included in the definition of Away Market because such markets are by definition those with which the Exchange maintains electronic linkage (i.e., pursuant to the Options Order Protection and Locked/Crossed Market Plan).
- “Away Market BBO” (“ABBO”): The Exchange proposes to add a new definition to Rule 1.1 for the Away Market BBO or ABBO which, with respect to options traded on the Exchange, refers to the best bid(s) or offer(s) disseminated by Away Markets (defined immediately below) and calculated by the Exchange based on market information the Exchange receives from OPRA.<sup>19</sup> Consistent with this proposal, the Exchange also proposes that the term “ABB” would mean the best Away Market bid and the term “ABO” would mean the best Away Market offer. The Exchange notes that the proposed definition of ABBO is consistent with how this concept is defined on other options exchanges.<sup>20</sup>

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<sup>19</sup> See, e.g., *infra*, discussion regarding proposed Rule 6.62P-O(a)(1)(A)(iii), which would use the term “ABBO” when referring to a calculation of the national best bid and best offer that does not include the Exchange’s BBO.

<sup>20</sup> See, e.g., Cboe Rule 1.1. (defining the term “ABBO” to means “the best bid(s) or offer(s) disseminated by Eligible Exchanges (as defined in [Cboe] Rule 5.65) and calculated by the Exchange based on market information the Exchange receives from OPRA”). The Exchange notes that Cboe’s reference to Eligible Exchanges is substantively the same as the Exchange’s reference to “Away Markets.”

In addition, the Exchange proposes that it would adjust its calculation of the ABBO for options traded on the Exchange in the same manner that the Exchange would calculate the NBBO (as described below). Accordingly, the Exchange proposes that, unless otherwise specified, the Exchange may adjust its calculation of the ABBO based on information about orders it sends to Away Markets, execution reports received from those Away Markets, and certain orders received by the Exchange.<sup>21</sup> This proposed text reflects how the Exchange currently calculates the ABBO for options trading and uses text based on Rule 7.37-E(d)(2) to use Pillar terminology to describe current functionality.<sup>22</sup> The Exchange believes that including this detail in the proposed definition of ABBO would promote clarity and transparency in Exchange rules.

- **BBO:** The Exchange proposes to amend the Rule 1.1 definition of “BBO” to add how that term would be used for options trading on the Exchange. As proposed, with respect to options traded on the Exchange, BBO would mean the best displayed bid or best displayed offer on the Exchange. This definition is based on the Rule 6.1A-O(a)(2)(a) definition of BBO, which currently defines BBO as the “best bid or offer on OX.” The Exchange believes that the proposed difference would add granularity to be clear that non-displayed quotes and orders would not be included in the BBO, which is consistent with current functionality.<sup>23</sup> The Exchange also proposes to use the term “Exchange” instead of “OX.”
- **Consolidated Book:** The term “Consolidated Book” is currently defined in Rule 6.1-O(b)(37)<sup>24</sup> and the term “OX Book” is currently defined in Rule

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<sup>21</sup> Although the Exchange has not presently identified any circumstances under which it would use an unadjusted ABBO, it has included the “[u]nless otherwise specified” text to allow for this possibility. Should the Exchange opt to utilize an unadjusted ABBO for purposes of a specified rule, it would file a subsequent rule change to this effect.

<sup>22</sup> See Securities Exchange Act Release No. 91564 (April 14, 2021), 86 FR 20541 (April 20, 2021) (SR-NYSEArca-2021-21) (Notice of filing and immediate effectiveness of proposed rule change to specify when the Exchange may adjust its calculation of the PBBO).

<sup>23</sup> For determining the BBO for cash equities trading, the Exchange considers “the best bid or offer that is a protected quotation on the NYSE Arca Marketplace,” which “protected quotations” are, by definition, displayed. Thus, only displayed interest is included in the Exchange’s calculation of the BBO on both its options and cash equities markets. See proposed Rule 1.1 (defining Protected Bid, Protected Offer, Protected Quotation) and current Rule 1.1 (ss) (defining same).

<sup>24</sup> The term “Consolidated Book” is currently defined as “the Exchange's electronic book of limit orders for the accounts of Public Customers and broker-dealers, and Quotes with Size. All orders and Quotes with Size that are entered into the Book



6.1A-O(a)(14).<sup>25</sup> For Pillar, the Exchange proposes to define the term “Consolidated Book” in Rule 1.1 to mean the Exchange’s electronic book of orders and quotes and state that all orders and quotes that are entered into the Consolidated Book would be ranked and maintained in accordance with the rules of priority, as provided for in proposed Rule 6.76P-O. This proposed definition uses terminology similar to the existing Rule 1.1 definition of “NYSE Arca Book,” which would be amended to specify that the definition would only be for cash equity securities traded on the Exchange. The Exchange believes that the proposed definition of “Consolidated Book” for options trading on Pillar is not substantively different from either the current Rule 6.1-O definition of “Consolidated Book” or the current Rule 6.1A-O definition of “OX Book.” Rather, the changes are designed to eliminate text that would not be applicable on Pillar without changing the substance of the proposed definition and would use more streamlined text to describe the Exchange’s electronic order book. For example, the Exchange is not proposing to copy from Rule 6.1-O(b)(37) the (now antiquated) provision that “[t]here is no limit to the size of orders or quotes that may be entered into the Consolidated Book” because other options exchanges do not specify any capacity limit to orders and quotes in their defined terms relating to their electronic books.<sup>26</sup> Further, the Exchange believes that the proposed use of the phrase “electronic book of orders and quotes” makes clear that the Consolidated Book would include all orders and quotes, including orders from both “Public Customers and broker-dealers,” and it is not necessary to separately reference what entity may be entering orders. In addition, as noted above, the Exchange does not propose to use the term “Quote with Size” in connection with options trading on Pillar and therefore does not propose to include reference to that term in the Pillar proposed definition for “Consolidated Book.” And, as described in greater detail below in connection with proposed Rule 6.76P-O, on Pillar, the Exchange does not propose to use the terms “Display Order and Working Order Processes”

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will be ranked and maintained in accordance with the rules of priority as provided in Rule 6.76-O. There is no limit to the size of orders or quotes that may be entered into the Consolidated Book.”

<sup>25</sup> See supra note 7 (noting that the term “OX Book” is currently defined as “the OX’s electronic file of orders and quotes, which contains all of the orders in each of the Display Order and Working Order Processes and all of the Market Makers’ quotes in the Display Order Process”)

<sup>26</sup> See, e.g., Cboe Rule 1.1. (defining “Book” and “Simple Book” as referring to “the electronic book of simple orders and quotes maintained by the System, which single book is used during both the RTH and GTH trading sessions,” without reference to any size limitations); MIAX Options Exchange (“MIAX”) Rule 100 (defining “Book” as referring to “the electronic book of buy and sell orders and quotes maintained by the System,” without reference to any size limitations).

and therefore these terms would not be included in the Rule 1.1 definition of Consolidated Book.

- Core Trading Hours: The Exchange proposes that the current definition of Core Trading Hours in Rule 1.1, which is defined as “the hours of 9:30 a.m. Eastern Time through 4:00 p.m. (Eastern Time) or such other hours as may be determined by the Exchange from time to time,” would be applicable to both cash equity securities and options trading on the Exchange. Because options trading may extend past 4:00 p.m., the Exchange proposes to amend Rule 1.1 to provide that for options traded on the Exchange, transactions may be effected on the Exchange for an equity options class until close of trading of the Primary Market for the securities underlying an options class. This proposed text is based on current Rule 6.1A-O(a)(3).<sup>27</sup>
- Customer and Professional Customer: The Exchange proposes to amend Rule 1.1 to add the definitions of “Customer” and “Professional Customer.” The proposed definitions use the same text as the definitions of Customer and Professional Customer set forth in Rules 6.1A-O(a)(4) and (4A) with non-substantive differences only to specify that these definitions would be applicable for options traded on the Exchange, eliminate redundant headers,<sup>28</sup> and re-number the sub-paragraphs. The Exchange also proposes to include a cross-reference to the definition of a broker or dealer as defined in Sections 3(a)(4) and 3(a)(5) of the Exchange Act and rules thereunder, which specificity adds clarity and transparency to the proposed definition. The Exchange notes that the proposed

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<sup>27</sup> Rule 6.1A-O(a)(3) currently defines “Core Trading Hours” to mean “the regular trading hours for business set forth in the rules of the primary markets underlying those option classes listed on the Exchange; provided, however, that transactions may be effected on the Exchange until the regular time set for the normal close of trading in the primary markets with respect to equity option classes and ETF option classes, and 15 minutes after the regular time set for the normal close of trading in the primary markets with respect to index option classes, or such other hours as may be determined by the Exchange from time to time.” The Exchange does not propose to include in the Rule 1.1 definition of Core Trading Hours for options trading the current text regarding trading that continues 15 minutes after the regular time set for the normal close of trading in the primary markets with respect to index options classes, as this is already addressed in Rule 5.20-O(a) (Trading Sessions).

<sup>28</sup> The Exchange proposes that the Rule 1.1 definition of Professional Customer would not include the sub-header of “Calculation of Professional Customer Orders” as redundant of the following text in the rule that would provide “[e]xcept as noted below, each order of any order type counts as one order for Professional order counting purposes.”

definition of Customer is consistent with how this concept is defined on other options exchanges.<sup>29</sup>

- Floor: The Exchange proposes to amend the Rule 1.1 definition of “Floor,” which refers to the options trading floor, to include the synonymous defined terms “Trading Floor” and “Options Trading Floor,” which terms are used throughout existing Exchange rules and make one change to remove the term “shall.” These proposed changes would add clarity and consistency to Exchange rules.
- Lead Market Maker: The Exchange proposes to amend the Rule 1.1 definition of “Lead Market Maker” to add how that term would be used for options trading. As proposed, the new text would provide that for options traded on the Exchange, the term “Lead Market Maker” or “LMM” would “mean a person that has been deemed qualified by the Exchange for the purpose of making transactions on the Exchange in accordance with Rule 6.82-O. Each LMM must be registered with the Exchange as a Market Maker. Any OTP Holder or OTP Firm registered as a Market Maker with the Exchange is eligible to be qualified as an LMM.” This proposed definition is based on the Rule 6.1A-O(a)(5) definition of Lead Market Maker without any substantive differences. The Exchange proposes one non-substantive difference to use the term “person” instead of “individual or entity,” because the term “person,” as currently defined in Rule 1.1, is inclusive of natural persons and entities.
- Marketable: The Exchange proposes to amend the Rule 1.1 definition of “Marketable” to extend it to address options traded on the Exchange by deleting the phrase “[w]ith respect to equities traded on the Exchange.”<sup>30</sup> The current description of the term “Marketable,” for purposes of Market Orders, is the same in both Rules 1.1 and 6.1A-O(a)(7).<sup>31</sup> Accordingly, the existing Rule 1.1 text relating to the term “Marketable” with respect to Market Orders would be applicable to options trading without any

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<sup>29</sup> See, e.g., Cboe Rule 1.1. (defining “Public Customer” as referring to “a person that is not a Broker-Dealer). Thus, the Exchange does not propose to add to Rule 1.1 the definition of “Customer” that is set forth in Rule 6.1-O(b)(29) (which simply cross-references “paragraph (c)(6) of Rule 15 c3-1 under the Securities Exchange Act of 1934, as amended”) as unnecessary and potentially confusing.

<sup>30</sup> The term “Marketable” is currently defined in Rule 1.1 to mean, “[w]ith respect to equities traded on the Exchange, the term ‘Marketable’ means for a Limit Order, an order that can be immediately executed or routed. Market Orders are always considered marketable.”

<sup>31</sup> The term “Marketable” is currently defined in Rule 6.1A-O(a)(7) for options trading to mean “for a Limit Order, the price matches or crosses the NBBO on the other side of the market. Market orders are always considered marketable.”

differences. With respect to Limit Orders, in Rule 1.1, the term “Marketable” currently means an order that can be immediately executed or routed. The current Rule 6.1A-O(a)(7) definition of the term “Marketable” for Limit Orders means when the price of the order matches or crosses the NBBO on the other side of the market. The current Rule 1.1 definition relating to Limit Orders means substantively the same thing as the current Rule 6.1A-O(a)(7) description for Limit Orders, and the Exchange proposes to use the existing Rule 1.1 definition of the term “Marketable” for both cash equity and options trading of Limit Orders. The Exchange also proposes a non-substantive amendment to add a comma after the phrase, “the term ‘Marketable’ means” and before “for a Limit Order.”

- Market Maker: The Exchange proposes to amend the Rule 1.1 definition of “Market Maker” to add how that term would be used for options trading. As proposed, the new text would provide that for options traded on the Exchange, the term “Market Maker” would refer “to an OTP Holder or OTP Firm that acts as a Market Maker pursuant to Rule 6.32-O.” This proposed definition is based on the Rule 6.1A-O(a)(8) definition of Market Maker, which is defined as “an OTP Holder or OTP Firm that acts as a Market Maker pursuant to Rule 6.32-O.” Accordingly, the proposed Rule 1.1 definition of the term “Market Maker” for options trading would not have any differences from the current Rule 6.1A-O definition. The Exchange also proposes to include in the Rule 1.1 definition of Market Maker for options trading that for purposes of Exchange rules, the term Market Maker includes Lead Market Makers, unless the context otherwise indicates. This proposed text is based on Rule 6.1-O(c), References, with a non-substantive difference to use the term “Exchange” instead of “NYSE Arca.” The Exchange believes this proposed change would streamline and clarify this definition by consolidating definitions relating to Market Makers in a single location.
- Market Maker Authorized Trader: The Exchange proposes to amend the Rule 1.1 definition of “Market Maker Authorized Trader” to add how that term would be used for options trading. As proposed, the new text would provide that for options traded on the Exchange, the term “Market Maker Authorized Trader” or “MMAT” would “mean an authorized trader who performs market making activities pursuant to Rule 6-O on behalf of an OTP Firm or OTP Holder registered as a Market Maker.” This proposed definition is based on the Rule 6.1A-O(a)(9) definition of Market Maker Authorized Trader without any differences.
- Market Participant Identifier (“MPID”): The Exchange proposes to add a new definition to Rule 1.1 for “Market Participant Identifier (‘MPID’).” This term is currently used in, but not defined in, Rules 7.19-E and 7.31-E(i)(2) for cash equities trading. Because this term would also be used for

options trading on Pillar, the Exchange believes that defining this term in Rule 1.1 would promote clarity and transparency. The proposed definition would provide that “Market Participant Identifier” or “MPID” refers to the identifier assigned to the orders and quotes of a single ETP Holder, OTP Holder, or OTP Firm for the execution and clearing of trades on the Exchange by that permit holder. The definition would further provide that an ETP Holder, OTP Holder, or OTP Firm may obtain multiple MPIDs and each such MPID may be associated with one or more sub-identifiers of that MPID. The Exchange believes that using the term MPID on the Exchange for options trading would promote clarity as this is an identifier commonly used by members of exchanges and the Exchange believes that using this term for its OTP Holders and OTP Firms would promote consistency, particularly for those firms that are also ETP Holders on the Exchange.

- Minimum Price Variation or MPV: The Exchange proposes to amend Rule 1.1 to add the definition of “Minimum Price Variation” or “MPV” for both cash equity securities and options that are traded on the Exchange. The Exchange proposes that the term “Minimum Price Variation” or “MPV” means the minimum price variations established by the Exchange. The Exchange further proposes that the MPVs for quoting cash equity securities traded on the Exchange are set forth in Rule 7.6-E. The Exchange further proposes that the MPVs for quoting and trading options traded on the Exchange are set forth in Rule 6.72-O(a). The proposed definition as it relates to options trading is based on the Rule 6.1A-O(a)(10) definition of MPV, which defines the term “Minimum Price Variation” to mean “the variations established by the Exchange pursuant to Rule 6.72-O(a).” Similar to this current rule, the proposed Rule 1.1 definition of MPV for options trading would cross reference Rule 6.72-O(a). The Exchange proposes a difference to add reference to “quoting and trading options” to distinguish how the MPV for options would be determined from how the MPV for quoting cash equity securities would be determined.
- NBBO: The Exchange proposes to amend the Rule 1.1 definition of “NBBO, Best Protected Bid, Best Protected Offer, Protected Best Bid and Offer (PBBO)” to add how the term NBBO would be used for options trading. The Exchange proposes that: “[w]ith respect to options traded on the Exchange, the term ‘NBBO’ means the national best bid or offer. The terms ‘NBB’ means the national best bid and ‘NBO’ means the national best offer.” This proposed definition includes the current definition of NBBO from Rule 6.1A-O(a)(11)(a), which defines that term as “the national best bid or best offer.” The Exchange proposes to add the terms “NBB” and “NBO” as clarifying terms for options trading.

In addition, the Exchange proposes that, unless otherwise specified, for

options trading, the Exchange may adjust its calculation of the NBBO based on information about orders it sends to Away Markets, execution reports received from those Away Markets, and certain orders received by the Exchange. This proposed text reflects how the Exchange currently calculates the NBBO for options trading and is based on how the PBBO is calculated on the Exchange's cash equity market, as described in Rule 7.37-E(d)(2).<sup>32</sup> The Exchange proposes that it would adjust its calculation of the NBBO for options traded on the Exchange in the same manner that the Exchange calculates the PBBO for cash equity securities traded on the Exchange. The Exchange believes that adding this detail to the proposed definition of NBBO would promote clarity and transparency in Exchange rules. The Exchange further notes that there are limited circumstances when the Exchange would not adjust its calculation of the NBBO and would determine the NBBO for options in the same way that the Exchange determines the NBBO for cash equity securities traded on the Exchange. As described in detail below, the Exchange will specify in its rules when it would not be using an adjusted NBBO for purposes of a specific rule.

- NYSE Arca Book: The Exchange proposes to amend the Rule 1.1 definition of "NYSE Arca Book" to specify that this term is applicable only for cash equity securities traded on the Exchange. As noted above, the Exchange uses the term "Consolidated Book" for options traded on the Exchange and would continue to use that term on Pillar for options trading.
- NYSE Arca Marketplace: The Exchange proposes to amend the Rule 1.1 definition of "NYSE Arca Marketplace" to specify that this term is applicable only for cash equity securities traded on the Exchange.
- Order Flow Provider or OFP: The Exchange proposes to add the definition of "Order Flow Provider or OFP" to Rule 1.1 to mean "any OTP Holder that submits, as agent, orders to the Exchange." This proposed definition is based on the Rule 6.1A-O(a)(21) definition of "Order Flow Provider" without any differences.
- Trading Center: The Exchange proposes to amend the Rule 1.1 definition of "Trading Center" to add how this term would be used for options trading. As proposed: "[w]ith respect to options traded on the Exchange, for purposes of Rule 6-O, the term "Trading Center" means a national securities exchange that has qualified for participation in the Options Clearing Corporation pursuant to the provisions of the rules of the Options

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See Securities Exchange Act Release No. 91564 (April 14, 2021), 86 FR 20541 (April 20, 2021) (SR-NYSEArca-2021-21) (Notice of filing and immediate effectiveness of proposed rule change to specify when the Exchange may adjust its calculation of the PBBO).

Clearing Corporation.” This proposed definition is based on the Rule 6.1A-O(a)(6) definition of “Market Center” with a non-substantive difference to use the term “Trading Center” instead of “Market Center.”

- User: The Exchange proposes to amend the Rule 1.1 definition of “User” to add how this term would be used for options trading. As proposed: “[w]ith respect to options traded on the Exchange, the term ‘User’ shall mean any OTP Holder or OTP Firm who is authorized to obtain access to the Exchange pursuant to Rule 6.2A-O.” This proposed definition is based on the Rule 6.1A-O(a)(19) definition of User, with one difference not to include the reference to Sponsored Participant, which, as described above, is no longer used in connection with options trading.
- User Agreement: The Exchange proposes a non-substantive amendment to the Rule 1.1 definition of “User Agreement” to replace the term “NYSE Arca, L.L.C” with the term the “Exchange.”

In addition to proposed amendments to Rule 1.1, the Exchange proposes to amend Rule 6.96-O to add the definition of “Routing Broker,” which is currently defined in Rule 6.1A-O(a)(15) to mean “the broker-dealer affiliate of NYSE Arca, Inc. and/or any other non-affiliate that acts as a facility of NYSE Arca, Inc. for routing orders entered into OX of OTP Holders, OTP Firms and OTP Firms' Sponsored Participants to other Market Centers for execution whenever such routing is required by NYSE Arca Rules.” For options trading on Pillar, the Exchange proposes to define the term in Rule 6.96-O (Operation of a Routing Broker) to mean “the broker-dealer affiliate of the Exchange and/or any other non-affiliate that acts as a facility of the Exchange for routing orders submitted to the Exchange to other Trading Centers for execution whenever such routing is required by Exchange Rules and federal securities laws.”<sup>33</sup> The proposed rule text is based on the current definition in Rule 6.1A-O(a)(15), with non-substantive differences to streamline the definition and to use Pillar terminology. Specifically, the Exchange does not propose to include terms that would no longer be applicable to trading on Pillar, including reference to OX, Market Centers, and Sponsored Participants. The Exchange notes that including the definition of “Routing Broker” in its rule governing the operation of the routing broker is consistent with the Exchange’s cash equity rules, which also defines the term “Routing Broker” in Rule 7.45-E(a) (Operation of Routing Broker)

In connection with the proposed amendments to Rule 1.1, the Exchange proposes to add the following preamble to Rule 6.1A-O: “This Rule is not applicable to trading on Pillar.” This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rule 6.1A-O would not be applicable to

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<sup>33</sup> The Exchange also proposes non-substantive amendments to Rule 6.96-O to refer to “the Exchange,” a defined term in Rule 1.1 (rather than NYSE Arca, Inc.) and to renumber current paragraphs (a), (b), and (c), as paragraphs (b), (c), and (d).

trading on Pillar.

Proposed Rule 6.1P-O: Applicability

Current Rule 6.1-O sets forth the applicability, definitions, and references in connection with options trading. As noted above, the definitions in Rule 6.1-O(b) and reference in Rule 6.1-O(c) to LMMs being included in the definition of Market Maker will be copied to proposed Rule 1.1 for purposes of trading on Pillar.

The Exchange proposes new Rule 6.1P-O to include only those portions of Rule 6.1-O relating to applicability of Exchange Rules that would continue to be applicable after the transition to Pillar. Proposed Rule 6.1P-O(a) would be identical to the first two sentences of current Rule 6.1-O(a). As noted above, the proposed definition of “option contract” would incorporate the final sentence of Rule 6.1-O(a), which states that option contracts are included in the definition of “security” or “securities.” Accordingly, the Exchange does not propose to include this text in proposed Rule 6.1P-O(a).

Proposed Rule 6.1P-O(b) would provide that unless otherwise stated, Exchange rules would be applicable to transactions on the Exchange in option contracts. The proposed rule is similar to Rule 6.1-O(e) because it addresses the applicability of other Exchange Rules.”<sup>34</sup> The Exchange proposes differences from current Rule 6.1-O(e) to eliminate obsolete and duplicative text and to streamline the proposed rule text without any substantive differences. For example, the Exchange does not believe it is necessary to identify which rules are or are not applicable to trading of option contracts because any rule with “-O” appended to it is applicable to trading of option contracts. In addition, Rule 1.1 is now applicable to trading of options contracts. And, as discussed above, the Exchange has proposed to amend the definition of “option contract” to specify that they are included in the definition of “security” or “securities.” Finally, the reference in Rule 6.1-O(e) to “‘specialist’ means ‘Market Maker’” is duplicative of Rule 6.32-O, and therefore is not necessary to add to proposed Rule 6.1P-O(b).

In connection with proposed Rule 6.1P-O, the Exchange proposes to add the following preamble to Rule 6.1-O: “This Rule is not applicable to trading on

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<sup>34</sup> Rule 6.1-O(e) provides: “*Applicability of Other Exchange Rules.* The following Rules apply to transactions on the Exchange in option contracts issued or subject to issuance by the Options Clearing Corporation: Rules 4.15-O-4.19-O, 5.1-O, 9.21-O-9.28-O and 11.6. The following Rules do not apply to transactions on the Exchange in option contracts: Rule 1.1. All other Exchange rules are applicable to transactions on the Exchange in option contracts unless the context clearly indicates otherwise. In applying the Rules of the Exchange to transactions on the Exchange in option contracts, ‘security’ or ‘securities’ includes option contracts, ‘specialist’ means Market Maker on the Options Trading Floor.”



Pillar.” This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rule 6.1-O would not be applicable to trading on Pillar.

Proposed Rule 6.76P-O: Order Ranking and Display

Rule 6.76-O governs order ranking and display for the current Exchange options trading system. Proposed Rule 6.76P-O would address order ranking and display for options trading under Pillar, including accounting for the quoting activity of options Market Makers as noted below. With the transition to Pillar, the Exchange does not propose any substantive differences to how orders and quotes would be ranked and displayed on the Exchange and, unless otherwise specified in the proposed rules, the Exchange proposes that same-priced orders and quotes would be ranked no differently than how they are ranked in the OX system. For example, same-priced displayed orders and quotes would be ranked ahead of same-priced non-displayed orders and quotes, and within each category of displayed or non-displayed interest, orders and quotes would be ranked in time priority. However, the Exchange proposes to eliminate the terminology relating to the “Display Order Process” and “Working Order Process” (each of which are described below) and instead use Pillar terminology based on Rule 7.36-E, which governs order ranking and display on the Exchange’s cash equity market.<sup>35</sup>

Options Market Makers enter quotes and orders and the current OX system processes quotes and orders together with respect to ranking and display. The Exchange proposes that it would operate the same way using the Pillar technology. 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 and quotes on the Pillar trading platform. In addition, throughout proposed Rule 6.76P-O, the Exchange proposes to change the term “shall” to “will,” which is a stylistic preference that would add consistency to Exchange rules.

Proposed Rule 6.76P-O(a) would set forth definitions for purposes of all of Rule 6-O (Options Trading) on the Pillar trading platform, including proposed Rule 6.76AP-O (Order Execution and Routing), described below. The proposed definitions are based on Rule 7.36-E(a) definitions for purposes of Rule 7-E cash equity trading, with terminology differences, as noted above, to reference “orders and quotes” throughout proposed Rule 6.76P-O. The Exchange believes that these proposed definitions would provide transparency regarding how the Exchange would operate its options platform on Pillar and serve as the foundation for how orders/quotes and modifiers would be described for options trading on Pillar, as discussed in more detail below. In addition, the Exchange believes that even with

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As noted herein (*see supra* note 7), the Exchange also proposes to eliminate the use of the terms “OX” and “OX Book,” as these terms would not be applicable to trading on Pillar.

using Pillar terminology that is based on the Exchange's cash equity rules, unless otherwise specified, the definitions that are described in these proposed rules do not differ in substance from current Rule 6.76-O relating to options trading.

- Proposed Rule 6.76P-O(a)(1) would define the term “display price” to mean the price at which an order or quote ranked Priority 2 - Display Orders or Market Order is displayed, which price may be different from the limit price or working price of the order (i.e., if it is a Non-Routable Limit Order or an ALO Order as described below in proposed Rule 6.62P-O(e)(1), (2), respectively). This proposed definition uses Pillar terminology based on Rule 7.36-E(a)(1). To incorporate quotes, the Exchange proposes one difference in terminology to refer to “order or quote ranked Priority 2 - Display Orders,” versus referring to “Limit Order,” as set forth in Rule 7.36-E(a)(1). The term “Priority 2 - Display Orders” is described in more detail below. The Exchange also proposes a second difference compared to the Exchange's cash equity rules to include Market Orders as interest that may have a display price (for example, as described below and consistent with current functionality, a Market Order could be displayed at its Trading Collar, which is unique to options trading and not available on the cash equity platform).
- Proposed Rule 6.76P-O(a)(2) would define the term “limit price” to mean the highest (lowest) specified price at which a Limit Order or quote 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/quote would be displayed or eligible to trade. This proposed definition uses Pillar terminology based on Rule 7.36-E(a)(2), with a terminology difference to refer to the specified price of a “Limit Order or quote,” versus referring to “Limit Order,” as set forth in Rule 7.36-E(a)(2).
- Proposed Rule 6.76P-O(a)(3) would define the term “working price” to mean the price at which an order or quote is eligible to trade at any given time, which may be different from the limit price or display price of an order. This proposed definition is based on Rule 7.36-E(a)(3), with a terminology difference to refer to “order or quote” for purposes of determining ranking priority, versus referring solely to an “an order,” as set forth in Rule 7.36-E(a)(3). The Exchange believes that the term “working price” would provide clarity regarding the price at which an order/quote 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 the circumstances. The Exchange will be using this term in connection with orders/quotes and modifiers, as described in more detail below.
- Proposed Rule 6.76P-O(a)(4) would define the term “working time” to mean the effective time sequence assigned to an order or quote 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 options 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/quote for purposes of ranking and is subject to change, depending on circumstances. This proposed definition is based on Rule 7.36-E(a)(4), with a terminology difference to refer to an “order or quote,” versus referring solely to “an order,” as set forth in Rule 7.36-E(a)(4).

- Proposed Rule 6.76P-O(a)(5) would define an “Aggressing Order” or “Aggressing Quote” to mean a buy (sell) order or quote that is or becomes marketable against sell (buy) interest on the Consolidated Book. The proposed terms would therefore refer to orders or quotes that are marketable against other orders or quotes on the Consolidated Book. These terms would be applicable to incoming orders or quotes, orders that have returned unexecuted after routing, or resting orders or quotes that become marketable due to one or more events. For the most part, resting orders or quotes will have already traded with contra-side interest against which they are marketable.

To maximize the potential for orders or quotes to trade, the Exchange continually evaluates whether resting interest may become marketable. Events that could trigger a resting order to become marketable include updates to the working price of such order or quote, updates to the NBBO, changes to other interest resting on the Consolidated Book, or processing of inbound messages. To address such circumstances, the Exchange proposes to include in proposed Rule 6.76P-O(a)(5) that a resting order or quote may become an Aggressing Order or Aggressing Quote if its working price changes, if the NBBO is updated, because of changes to other orders or quotes on the Consolidated Book, or when processing inbound messages.

The proposed definition of an “Aggressing Order” is based on Rule 7.36-E(a)(5), with differences in the proposed rule to account for options trading, such as including the defined term “Aggressing Quote”; referring to an “order or quote” versus “an order”; referring to the Consolidated Book rather than NYSE Arca Book; and referring to the NBBO instead of the PBBO, which is not a term used in options trading. The Exchange believes that these proposed definitions would promote transparency in Exchange rules by providing detail regarding circumstances when a resting order or quote may become marketable, and thus would be an Aggressing Order or Aggressing Quote.

Under current Rule 6.76-O, bids and offers are ranked and maintained in the Display Order Process and/or the Working Order Process of the OX Book

according to price-time priority. In the Display Order Process, all Limit Orders (with no other conditions), quotes, and the displayed portion of Reserve Orders (not the reserve size) are ranked in price-time priority, displayed on an anonymous basis (except as permitted by Rule 6.76A-O), and the best-ranked interest is disseminated.<sup>36</sup> In the Working Order Process, the reserve portion of Reserve Orders,<sup>37</sup> All-or-None Orders, Stop and Stop Limit Orders and Stock Contingency Orders are ranked in price-time priority based on the limit price or, in the case of Stop and Stop Limit Orders, the stop price. As described in more detail below, proposed Rule 6.62P-O, relating to orders and modifiers, would specify whether an order or quote would be displayable, i.e., ranked Priority 2 Display Orders, or non-displayable, i.e., ranked Priority 3 - Non-Display Orders.

Proposed Rule 6.76P-O(b) would govern the display of non-marketable Limit Orders and quotes. As proposed, the Exchange would display “all non-marketable Limit Orders and quotes ranked Priority 2 –Display Orders unless the order or modifier instruction specifies that all or a portion of the order is not to be displayed,” which functionality is the same as that set forth in the first sentence of the preamble to the current Rule 6.76-O, stating that the Exchange displays “all non-marketable limit orders in the Display Order Process.” The Exchange proposes to use Pillar ranking terminology (described further below) to describe the same functionality and references to the Display Order Process would not be included.

Rule 6.76P-O(b)(1), which is substantially identical to current Rule 6.76-O(b), would provide that except as otherwise permitted in proposed new Rule 6.76AP-O (discussed below), all non-marketable displayed interest would be displayed on an anonymous basis.<sup>38</sup>

Proposed Rule 6.76P-O(b)(2) is substantially identical to the second sentence of

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<sup>36</sup> See Rule 6.76-O(a)(1)(A)-(B), (b) and (c). When the displayed portion of the Reserve Order is decremented completely, the displayed portion of the Reserve Order shall be refreshed for the displayed amount; or the entire reserve amount, if the remaining reserve amount is smaller than the displayed amount, from the reserve portion and shall be submitted and ranked at the specified limit price and the new time that the displayed portion of the order was refreshed. See Rule 6.76-O(a)(1)(B). As discussed in more detail below, the Exchange proposes to describe how Reserve Orders would function in proposed Rule 6.62P-O(d)(1).

<sup>37</sup> See Rule 6.76-O(a)(2)(A)-(E). After the displayed portion of a Reserve Order is refreshed from the reserve portion, the reserve portion remains ranked based on the original time of order entry, while the displayed portion is sent to the Display Order Process with a new time-stamp. See Rule 6.76-O(a)(2)(A).

<sup>38</sup> Rule 6.76-O(b) provides that “[e]xcept as otherwise permitted by Rule 6.76A-O, all bids and offers at all price levels in the Display Order Process of the OX Book shall be displayed on an anonymous basis.”

the preamble to current Rule 6.76-O, and mirroring that text, would provide that the Exchange would “disseminate current consolidated quotations/last sale information, and such other market information as may be made available from time to time pursuant to agreement between the Exchange and other Trading Centers, consistent with the Plan for Reporting of Consolidated Options Last Sale Reports and Quotation Information.”<sup>39</sup>

Finally, proposed Rule 6.76P-O(b)(3) would provide that if “an Away Market locks or crosses the Exchange BBO, the Exchange will not change the display price of any Limit Orders or quotes ranked Priority 2 - Display Orders and any such orders will be eligible to be displayed as the Exchange’s BBO.” This proposed rule describes Pillar functionality, which is the same as current functionality. The Exchange believes that including this text in the proposed rules would promote clarity and granularity. In addition, this proposed concept, which is based on Rule 7.36-E(b)(4), makes clear that resting displayed interest that did not cause a locked or crossed market condition can stand its ground and maintain priority at the price at which it was originally displayed. This provision uses Pillar terminology and functionality described in Rule 7.36-E(b)(4), but does not include text from the cash equity rule providing for the treatment of displayed Limit Orders that are “marketable against protected quotations on Away Market” before “resuming trading and publishing a quote in a UTP Security following a Regulatory Halts,” because the concept of trading a security on an unlisted trading privileges basis and how a non-primary cash equity market would resume trading after a primary listing exchanges resumes trading following a trading halt is not applicable to options trading.

Proposed Rule 6.76P-O(c) would describe the Exchange’s general process for ranking orders and quotes, which process is the same as that set forth in current Rule 6.76-O(a), with differences to use Pillar ranking terminology and include additional detail related to order/quote modifiers.<sup>40</sup> As proposed, Rule 6.76P-O(c) would provide that all non-marketable orders and quotes would be ranked and maintained in the Consolidated 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/quote or modifier condition. Accordingly,

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<sup>39</sup> The second sentence of the preamble to current Rule 6.76-O states, “OX also will disseminate current consolidated quotations/last sale information, and such other market information as may be made available from time to time pursuant to agreement between the Exchange and other Market Centers, consistent with the Plan for Reporting of Consolidated Options Last Sale Reports and Quotation Information.” The Exchange proposes a difference to use the term “Trading Centers” instead of “Market Centers.”

<sup>40</sup> Rule 6.76-O(a) states that the Exchange ranks bids and offers “according to price-time priority, such that within each price level, all bids and offers shall be organized by the time of entry”.

orders and quotes would be first ranked by price. Next, at each price level, orders and quotes would be assigned a priority category, which is similar to the Exchange's current process to assign orders and quotes as being part of either the "Display Order Process" or "Working Order Process." Orders and quotes in each priority category would be required to be exhausted before moving to the next priority category. Within each priority category, orders and quotes would be ranked by time. These general requirements for ranking are applicable to all orders and quotes, unless an order or quote 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 above-described terms of "Display Order Process" and "Working Order Process" in Rule 6.76-O.

However, substantively there would be no difference in how the Exchange would rank orders and quotes on the Pillar trading platform from how it ranks orders and quotes in the current option 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. In addition, this proposed rule would use Pillar terminology based on Rule 7.36-E(c), with terminology differences to reflect options trading, including that the proposed rule references "non-marketable orders and quotes," not solely "non-marketable orders," and references the "Consolidated Book," rather than the "NYSE Arca Book." These differences between the equity rules and the proposed rules reflect the differences between cash equities and options trading; interest on the Exchange's options market would be ranked (in price-time priority) as it is on the Exchange's cash equity market.

Proposed Rule 6.76P-O(d) would describe how orders and quotes would be ranked based on price, which additional detail would provide transparency regarding the Exchange's price-ranking process. Specifically, as proposed, all orders and quotes would be ranked based on the working price of an order or quote. Orders and quotes to buy would be ranked from highest working price to lowest working price and orders and quotes 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 or quote changes, the price priority of an order or quote would change. This proposed pricing priority is current functionality, but the new rule would add detail regarding the concept of "working price" and its impact on priority and would use Pillar terminology. In addition, this proposed rule uses Pillar terminology from Rule 7.36-E(d), with terminology differences to reflect options trading to reference "orders and quotes" as opposed to solely "orders."

Proposed Rule 6.76P-O(e) would describe the proposed priority categories for ranking purposes, which added detail and terminology would be new for options trading without any functional differences.<sup>41</sup> As proposed, at each price, all orders and quotes would be assigned a priority category. If, at a price, there are

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<sup>41</sup> See supra notes 36 and 37 (regarding treatment of Reserve Orders per Rule 6.76-O(a)(1)(B) and (a)(2)(A)).

no orders or quotes in a priority category, the next category would have first priority. The Exchange does not propose to include in Rule 6.76P-O, which sets forth the general rule regarding ranking, specifics about how one or more order or quote types may be ranked and displayed. Instead, as described in more detail below, the Exchange will address separately in new Rule 6.62P-O governing orders and modifiers which priority category correlates to different 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 currently addressed in Rule 6.76-O (a)(1)(B) and (a)(2)(A), will be addressed in proposed Rule 6.62P-O and therefore would not be included in proposed Rule 6.76P-O.<sup>42</sup>

The proposed changes are also the same as the terms used for priority categories for cash equity trading as set forth in Rule 7.36-E(e)(1)-(3), with terminology differences to include options-specific reference to “orders and quotes” rather than just orders as it relates to interest ranked Priority 2 and 3. In addition, the Exchange does not propose to include the Priority 4 -Tracking Orders category, which relates to an order type not available for options trading. The proposed terminology changes to use priority categories rather than refer to the “Display Order Process” and “Working Order Process” would not result in any changes in how the Exchange would rank orders and quotes on Pillar from how it currently ranks orders and quotes on the OX system.

The proposed priority categories would be:

- Proposed Rule 6.76P-O(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. As described in greater detail below, a Market Order subject to a Trading Collar would be displayed on the Consolidated Book. In such circumstances, the displayed Market Order would have priority over all other resting orders at that price. Under current options trading functionality, Market Orders have priority over all other same-side orders with the same working price. The proposed level of detail and priority categorization would be new terminology for options trading and the Exchange believes that the proposed rule change would add transparency and specificity to Exchange rules without changing functionality.
- Proposed Rule 6.76P-O(e)(2) would specify “Priority 2 – Display Orders.” This proposed priority category would replace the “Display Order Process,” which is described above. As proposed, non-marketable Limit Orders or quotes with a displayed working price would have second

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<sup>42</sup> See, e.g., Rule 6.76-O(a)(1) and (2) (setting forth the price-time ranking and priority structure for bids and offers submitted to the Exchange, including ranking of certain order types with contingencies).

priority, which treatment of displayed orders and quotes is consistent with current functionality. For an order or quote that has a display price that differs from the working price of the order or quote, the order or quote would be ranked Priority 3 - Non-Display Orders at the working price.<sup>43</sup> This aspect of the proposed rule is consistent with current functionality. For example, as described above, currently, the display portion of a Reserve Order is subject to the Display Order Process and the reserve portion is subject to the Working Order Process. The proposed level of detail and priority categorization would be new for options trading and the Exchange believes that it would add transparency and specificity to Exchange rules. In addition, this priority category operates the same as how Priority 2 -Display Orders function on the Exchange's cash equity market, as described in Rule 7.36-E(e)(2), with a terminology difference for the proposed rule to reflect options trading by including reference to quotes, which would not be processed differently on Pillar as compared to the OX system.

- Proposed Rule 6.76P-O(e)(3) would specify “Priority 3 – Non-Display Orders.” This priority category would be used in Pillar rules instead of reference to the “Working Order Process,” which is described above. As proposed, non-marketable Limit Orders or quotes for which the working price is not displayed, including the reserve interest of Reserve Orders, would have third priority. This proposed rule is consistent with current functionality. The proposed level of detail and priority categorization would be new for options trading and the Exchange believes that it would add transparency and specificity to Exchange rules. In addition, this priority category operates the same as how Priority 3 - Non-Display Orders function on the Exchange's cash equity market, as described in Rule 7.36-E(e)(3), with a terminology difference for the proposed rule to reflect options trading by including reference to quotes, which would not be processed differently on Pillar as compared to the OX system.

Proposed Rule 6.76P-O(f) would set forth that at each price level within each priority category, orders and quotes would be ranked based on time priority. This proposed rule is consistent with current Rule 6.76-(O)(a), which provides, in relevant part, that “within each price level, all bids and offers shall be organized by the time of entry.” The proposed changes set forth below are consistent with current functionality and would add detail not included in existing option rules. In addition, the proposed changes use terminology based on Rule 7.36-E(f)(1) and (3), with differences to reference options terminology of “orders and quotes” rather than just “orders” and to the “Consolidated Book” rather than the “NYSE Arca Book,” which differences are designed to address the distinction between cash equities and options trading without altering how such interest would be

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<sup>43</sup> See, e.g., *infra*, discussion regarding proposed Non-Routable Limit Order per Rule 6.62P-O(e)(1).



ranked (in price-time priority) on each market.<sup>44</sup>

- Proposed Rule 6.76P-O(f)(1) would provide that an order or quote would be assigned a working time when it is first added to the Consolidated Book based on the time such order or quote is received by the Exchange. 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 6.76-O. This proposed rule uses Pillar terminology that is substantially the same as in Rule 7.36-E(f)(1). To provide transparency in Exchange rules, the Exchange further proposes to include in proposed Rule 6.76P-O(f) how the working time would be determined for orders that are routed, which is consistent with current options trading functionality. As proposed:
  - Proposed Rule 6.76P-O(f)(1)(A) would specify that an order that is fully routed to an Away Market on arrival, per proposed Rule 6.76AP-O(b)(1), would not be assigned a working time unless and until any unexecuted portion of the order returns to the Consolidated Book. The Exchange notes that this is the current process for assigning a working time to an order (although this detail would be new to option trading rules) and uses Pillar terminology that is substantially the same as in Rule 7.36-E(f)(1)(A), with a terminology difference that the proposed rule includes reference to the “Consolidated Book” rather than the “NYSE Arca Book.” This proposed rule is also consistent with current Rule 6.76A-O(c)(2)(C), which provides that when an order or portion of an order has been routed away and is not executed either in whole or in part at the other Market Center, it will be ranked and displayed in the OX Book in accordance with the terms of the order.
  - Proposed Rule 6.76P-O(f)(1)(B) would specify that for an order that, on arrival, is partially routed to an Away Market, the portion that is not routed would be assigned a working time. If any unexecuted portion of the order returns to the Consolidated 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

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<sup>44</sup> As discussed, *infra*, the Exchange proposes to rank orders and quotes on Pillar in the same manner as it does on the OX system, unless otherwise specified in the proposed rules (e.g., same-priced displayed orders and quotes would be ranked ahead of same-priced non-displayed orders and quotes, and within each category of displayed or non-displayed interest, orders and quotes would be ranked in time priority).

original order has already executed and any unexecuted portion of the order returns to the Consolidated 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 (although this detail would be new to option trading rules) and uses Pillar terminology that is substantially the same as in Rule 7.36-E(f)(1)(B)), with a terminology difference that the proposed rule would reference the “Consolidated Book” rather than the “NYSE Arca Book.”

- Proposed Rule 6.76P-O(f)(2) would provide that an order or quote would be assigned a new working time if: (A) the display price of an order or quote changes, even if the working price does not change, or (B) the working price of an order or quote changes, unless the working price is adjusted to be the same as the display price of an order or quote. This proposed text would be new and is different from how the Exchange adjusts the working time for cash equities trading when the working price of an order is updated to be the same as the display price.<sup>45</sup> The Exchange believes that for its options market, adjusting the working time any time the display price of an order or quote changes, would respect the priority of orders/quotes that were previously displayed at the price to which the display price is changing. In addition, the Exchange believes it is appropriate to adjust the working time of an order or quote any time its working price changes, unless the display price does not change. This proposed order handling in Exchange rules is consistent with the rules of other options exchanges.<sup>46</sup>
- Proposed Rule 6.76P-O(f)(3) would provide that an order or quote would be assigned a new working time if the size of an order or quote increases and that an order or quote retains its working time if the size of the order or quote is decreased. This proposed detail about the process for assigning (or not) a new working time when the size of an order changes is not currently described in the Exchange’s option rules and is consistent with existing functionality for how orders (but not quotes) are processed on the

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<sup>45</sup> Currently, for cash equity trading, Rule 7.36-E(f)(2) provides that, “[a]n order is assigned a new working time any time the working price of an order changes.” The Exchange plans to propose changes to this cash equity rule to align with that being proposed for its options market at a later date.

<sup>46</sup> See, e.g., Cboe BZX (“BZX”) Rule 11.9(g)(1)(B) (providing that, for orders subject to “display price sliding,” BZX “will re-rank an order at the same price as the displayed price in the event such order’s displayed price is locked or crossed by a Protected Quotation of an external market” and that “[s]uch event will not result in a change in priority for the order at its displayed price”).

OX system and would use Pillar terminology.<sup>47</sup> This provision is substantively identical to Rule 7.36-E(f)(3), with a terminology difference to reference “orders or quotes” as opposed to solely “an order.”

Proposed Rule 6.76P-O(g) would specify that the Exchange would apply ranking restrictions applicable to specified order, quote, or modifier instructions. These order, quote, and modifier instructions would be identified in proposed new Rule 6.62P-O, described below. Proposed Rule 6.76P-O(g) uses Pillar terminology substantially the same as is used in Rule 7.36-E(g), with a difference to reference quotes, which is unique to options trading. Current Rule 6.76-O(a)(2)(C)-(E) discusses ranking of certain order types with contingencies in the Working Order Process. The Exchange proposes that for Pillar, ranking details regarding orders and quotes designated with contingencies would be described in proposed Rule 6.62P-O(d) and (e). Accordingly, the Exchange does not propose to include the detail described in Rule 6.76-O(a)(2)(C) - (E) in proposed Rule 6.76P-O.<sup>48</sup>

Finally, proposed Rule 6.76P-O(h) would be applicable to “Orders Executed Manually” and would contain the same text as set forth in Rule 6.76-O(d) without any substantive differences except for the non-substantive change of capitalizing the defined term Trading Crowd (per proposed Rule 1.1), removing the superfluous clause “in addition,” and updating the cross-reference to reflect the new Pillar rule.<sup>49</sup>

In connection with proposed Rule 6.76P-O, the Exchange proposes to add the following preamble to Rule 6.76-O: “This Rule is not applicable to trading on Pillar.” This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rule 6.76-O would not be applicable to trading on Pillar.

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<sup>47</sup> Currently, on the Exchange’s OX system, if the size of a quote is reduced, the Exchange processes the reduced quantity as a new quote that is assigned a new effective time sequence. By contrast, orders reduced in size are not assigned a new working time by the OX system. The Exchange proposes that, on Pillar, both quotes and orders reduced in size would not receive a new working time. The proposed provision would provide for consistent handling of orders and quotes when the size of such interest is reduced.

<sup>48</sup> As discussed, supra note 44, on Pillar, the Exchange would rank orders and quotes -- including those with contingencies (i.e., MMALO and MMRP) -- the same way it does on the OX system, unless otherwise specified in the proposed rules. See proposed Rule 6.62P-O(e) (for discussion of Non-Routable Limit Orders and ALO Orders, both of which have contingencies and may be designated as quotations under Pillar).

<sup>49</sup> See proposed Rule 6.76P-O(h)(1) (removing “in addition”) (B) (regarding “Trading Crowd”) and (D) (updating the cross-reference to new subparagraph (B) in connection with the Section 11(a)(1)(G) of the Exchange Act and Rule 11a1-1(T) thereunder (“G exemption rule“)).

### Proposed Rule 6.76AP-O: Order Execution and Routing

Current Rule 6.76A-O, titled “Order Execution — OX,” governs order execution and routing at the Exchange. The Exchange proposes that Rule 6.76AP-O would set forth the order execution and routing rules for options trading on Pillar. The Exchange proposes that the title for new Rule 6.76AP-O would be “Order Execution and Routing” instead of “Order Execution — OX” because the Exchange does not propose to use the term “OX” in connection with Pillar. The Exchange believes that because proposed Rule 6.76AP-O, like Rule 6.76A-O, would specify 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 6.76AP-O. This proposed rule is based on Rule 7.37-E, which describes the order execution and routing rules for cash equity securities trading on the Pillar platform, with differences described below to reflect differences for options trading. In addition, throughout proposed Rule 6.76AP-O, the Exchange proposes to use the term “will” instead of “shall,” which is a stylistic preference that would add consistency to Exchange rules.

Proposed Rule 6.76AP-O(a) and its subparagraphs would set forth the Exchange’s order execution process and would cover the same subject as the preamble to Rule 6.76A-O, which provides that like-priced orders and quotes are matched for execution, provided the execution price is equal to or better than the NBBO, unless such order has been routed to an Away Market at the NBBO.<sup>50</sup> The Exchange proposes a difference from current Rule 6.76A-O(a)-(c) to use Pillar terminology of “Aggressing Order” and “Aggressing Quote” -- rather than refer to an “incoming marketable bid or offer,” because (as described above) the proposed terms are more expansive and allow for interest to be (or become) marketable even after arrival (i.e., not limited to “incoming” interest). As proposed, per Rule 6.76AP-O(a), an Aggressing Order or Aggressing Quote would be matched for execution against contra-side orders or quotes in the Consolidated Book according to the price-time priority ranking of the resting interest, subject to specified parameters.

The Exchange does not propose to include in proposed Rule 6.76AP-O text based on current Rule 6.76A-O(a)(1), which describes “Step 1: Display Order Process,” or text based on current Rule 6.76A-O(b), which describes “Step 2: Working Order Process,” because by proposing detailed text in Rule 6.76P-O(c) - (f) regarding how orders and quotes would be ranked on the Exchange, it would be duplicative and unnecessary to describe this process again in proposed Rule 6.76AP-O. Instead, the Exchange believes that cross referencing the price-time priority ranking of the resting interest, per proposed Rule 6.76P-O, would provide

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<sup>50</sup> Rule 6.76A-O(a)-(c) sets forth a three-step process -- the Display Order Process, the Working Order Process, and Routing Away, Steps 1-3, respectively -- governing the handling of incoming marketable bids and offers.

transparency regarding how an Aggressing Order or Aggressing Quote would trade with resting interest. The Exchange notes that it made a similar stylistic change for its cash equity platform to eliminate references to the “Display Order Process” and “Working Order Process” in Rule 7.37-E (which was replaced by the aforementioned priority categories) when it transitioned to Pillar.<sup>51</sup>

Proposed Rule 6.76AP-O(a)(1) would set forth the LMM Guarantee, which is substantively the same as the current LMM Guarantee, as described in Rule 6.76A-O(a)(1)(A) - (D). Specifically, as with the current OX system, if an LMM is quoting at the NBBO, that LMM quote would be guaranteed to trade with 40% of the incoming bid or offer. This LMM guarantee is currently described in Rule 6.76A-O(a)(1)(A), which provides, in relevant part, that an LMM or Directed Order Market Maker (“DOMM”) that is quoting at the NBBO may be entitled to an allocation guarantee of the greater of: an amount equal to 40% of the incoming bid or offer up to the LMM’s or DOMM’s disseminated quote size; or the LMM’s or DOMM’s share in the order of ranking. However, current Rule 6.76A-O(a)(1)(A)(ii) provides that if there are Customer orders ranked ahead of the LMM (or DOMM, as applicable), or if there is no LMM (or DOMM) quoting at the NBBO, the incoming bid or offer will be matched against orders and quotes in the Display Process strictly in the order of their ranking. The Exchange proposes a substantive difference from current rules because, on Pillar, the Exchange would no longer support DOMMs or Directed Orders. Accordingly, rule text relating to DOMMs or Directed Orders is not included in proposed Rule 6.76AP-O and, as described below, only LMM’s would be entitled to the LMM Guarantee.<sup>52</sup>

Proposed Rule 6.76AP-O(a)(1) would describe the LMM Guarantee on Pillar and would provide that an LMM would be entitled to an allocation guarantee when the execution price is equal to the NBB (NBO), the LMM has a displayed quote at the NBB (NBO), and there is no displayed Customer interest in time priority at the NBBO in the Consolidated Book. If the execution would meet these conditions, which are the same as under the Exchange’s current options rules, the Aggressing Order or Aggressing Quote would be matched against the quote of the LMM for an amount equal to 40% of the Aggressing Order or Aggressing Quote, up to the size of the LMM’s quote (the “LMM Guarantee”). The Exchange proposes to use the term “Aggressing Order or Aggressing Quote” instead of the term “incoming bid or offer” to provide greater specificity that the LMM Guarantee would be applied against any order or quote that becomes an Aggressing Order or Aggressing Quote, which is consistent with current functionality and uses Pillar terminology to describe that same functionality. Accordingly, the LMM Guarantee would function on Pillar, as described in current Rule 6.76A-O(a)(1), except as noted above to exclude reference to Directed Orders or DOMMs. The Exchange proposes non-substantive clarifying

<sup>51</sup> See NYSE Arca Equities Pillar Notice, supra note 8 at 28728-29.

<sup>52</sup> The Exchange proposes to add a preamble to Rule 6.88-O (Directed Orders) to provide that the Rule would not be applicable to trading on Pillar.

differences to specify that the execution price must be equal to the NBBO in addition to the proposed text that the LMM must have a displayed quote at the NBBO, which adds specificity compared to existing rule text that such LMM must be “quoting at the NBBO.”

Proposed Rule 6.76AP-O(a)(1)(A) would provide that if an LMM has more than one quote at a price, the LMM Guarantee would be applied only to the first LMM quote in time priority, which text would add granularity and transparency to Exchange rules. This text would be new and reflects that on Pillar, the Exchange would permit multiple quotes from the same LMM at the same price and that only the first quote in time priority would be eligible for the LMM Guarantee. On the OX system, an LMM may send only one same-side quotation using the OTP associated with its status as LMM.<sup>53</sup> Under Pillar, as described below regarding proposed Rule 6.37AP-O (Market Maker Quotations), LMMs would be able to send multiple same-side quotes associated with its OTP by utilizing different order/quote entry ports (i.e., in Pillar, LMM1 can send a bid for 1.00 in XYZ over order/quote entry port 1 and another bid for 1.00 in XYZ over order/quote entry port 2 and the bid sent via order/quote entry port 2 would not replace the quote sent over order/quote entry port 1). Because an LMM using Pillar could have more than one same-side, same-priced quote in an assigned series,<sup>54</sup> proposed Rule 6.76AP-O(a)(1)(A) is necessary to provide that only one such LMM quote (the first in time) would be eligible for the LMM Guarantee, consistent with current functionality.

Proposed Rule 6.76AP-O(a)(1)(B), which is substantively identical to current Rule 6.76A-O(a)(1)(B), would provide that if an LMM is entitled to an allocation (i.e., an LMM Guarantee pursuant to proposed paragraph (a)(1)) and the Aggressing Order or Aggressing Quote had an original size of five (5) contracts or fewer, then such order or quote would be matched against the quote of the LMM for an amount equal to 100%, up to the size of the LMM’s quote. The Exchange also proposes to add Commentary .01 to the proposed rule (which is substantively identical to Commentary .02 of current Rule 6.76A-O) to make clear that on a quarterly basis, the Exchange would evaluate what percentage of the volume executed on the Exchange comprised of orders for five (5) contracts or fewer that was allocated to LMMs and would reduce the size of the orders

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<sup>53</sup> While not specified in the current rules, the OX system utilizes a unique identifier for LMMs to send quotes and each LMM may only send LMM quotes in their assigned series using this single unique identifier. Therefore, LMM quotes are subject to the current Rule 6.37A(a)(1) requirement that a new same-side quote sent by that LMM updates the previous bid or offer, if any. Unlike LMMs, on the OX system, Market Makers not acting as an LMM may opt to utilize multiple OTPs to send more than one same-side quote in the same assigned series. See infra note 132.

<sup>54</sup> See, e.g., infra, discussion regarding proposed Rule 6.37AP-O(a)(1).

included in this provision if such percentage is over 40%.<sup>55</sup>

Proposed Rule 6.76AP-O(a)(1)(C) would specify that if the result of applying the LMM Guarantee is a fractional allocation of contracts, the LMM Guarantee would be rounded down to the nearest contract and if the result of applying the LMM Guarantee results in less than one contract, the LMM Guarantee would be equal to one contract. The Exchange believes that including this additional detail (which is based on current functionality) in the proposed rule would add transparency to Exchange rules.

Finally, the Exchange proposes Rule 6.76AP-O(a)(1)(D), which would provide that after applying any LMM Guarantee, the Aggressing Order or Aggressing Quote would be allocated pursuant to proposed paragraph (a) of this Rule, i.e., that such orders or quotes would be matched for execution against contra-side interest resting in the Consolidated Book according to price-time priority. This proposed text is substantively identical to Rule 6.76A-O(a)(1)(C) and uses Pillar terminology, and eliminates the now obsolete reference to DOMMs, Directed Orders, and the Display Order Process.

Consistent with the Exchange's proposed approach to new Rule 6.76P-O, proposed Rule 6.76AP-O would not include references to specific order types and instead would 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 6.62P-O, described below.

Proposed Rule 6.76AP-O(b) would set forth the Exchange's routing process and is intended to address the same subject as Rule 6.76A-O(c), which is currently referred to as "Step 3: Routing Away" in order processing, without any substantive differences. Under current Rule 6.76A-O(c), the Exchange will route to another Market Center any unexecuted portion of an order that is eligible to route.<sup>56</sup> Proposed Rule 6.76AP-O(b) would provide that, absent an instruction not to route, the Exchange would route marketable orders to Away Market(s) after such orders are matched for execution with any contra-side interest in the Consolidated Book in accordance with proposed paragraph (a) of this Rule regarding Order Execution. Proposed Rule 6.76AP-O(b) also uses the same Pillar

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<sup>55</sup> See proposed Rule 6.76AP-O, Commentary .01, which will not include cross-reference that appears in the current rule Commentary .02 to Rule 6.76A-O because the Exchange determined such cross-reference was superfluous and opted to remove excess verbiage.

<sup>56</sup> Under the current rule, each eligible order is routed "as limit order equal to the price and up to the size of the quote published by the Market Center(s)" or, if "a marketable Reserve Order, the Exchange may route such order serially as component orders, such that each component corresponds to the displayed size." See Rule 6.76AP-O(c)(1)(A), (B). In the proposed Pillar rule, the Exchange proposes to use the term "Away Market" instead of "Market Center."

terminology that is used in current Rule 7.37-E(b), which governs the Exchange's routing process on the Exchange's cash equity platform, with differences to use option trading terminology such as "Consolidated Book."

The proposed rule would then set forth additional details regarding routing that are consistent with current routing functionality, but are not described in current rules:

- Proposed Rule 6.76AP-O(b)(1) would provide that an order that cannot meet the pricing parameters of proposed Rule 6.76AP-O(a) may be routed to Away Market(s) before being matched for execution against contra-side interest in the Consolidated Book. The Exchange believes that this proposed rule text, which is consistent with current functionality, provides transparency that an order may be routed before being matched for execution, for example, to prevent locking or crossing or trading through the NBBO. This rule uses Pillar terminology that is substantially the same as in Rule 7.37-E(b)(1), with a terminology difference to reference the "Consolidated Book" rather than the "NYSE Arca Book."
- Proposed Rule 6.76AP-O(b)(2) would provide that an order with an instruction not to route would be processed as provided for in proposed Rule 6.62P-O.<sup>57</sup> As described in greater detail below, the Exchange proposes to describe how orders and quotes with an instruction not to route would be processed in proposed Rule 6.62P-O(e).
- Proposed Rule 6.76AP-O(b)(3) would provide that any order or portion thereof that has been routed would not be eligible to trade on the Consolidated 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 6.76A-O(c)(2) with no substantive differences and is based in part on Pillar terminology used in Rule 7.37-E(b)(6). Similar to Rule 6.76A-O(c)(2)(A), which provides that an order routed to an Away Market is subject to the trading rules of that market and, while so routed, has no standing relative to other orders on the Exchange in the OX Book, the Exchange proposes that Rule 6.76AP-O(b)(3) would state that once routed, an order would not be eligible to trade on the Consolidated Book. The Exchange does not believe it is necessary to include the text that once routed an order would be subject to the routing destination's trading rules, as such detail is obvious and unnecessary. In addition, because, as discussed above, the working time assigned to orders that are routed is being proposed to be addressed in new Rule 6.76P-O(f)(1)(A) and (B), the Exchange believes it would be unnecessary to restate this information in

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<sup>57</sup> See, e.g., *infra*, discussion regarding proposed Rule 6.62P-O(e), Orders with Instructions Not to Route.



new Rule 6.76AP-O.

- Proposed Rule 6.76AP-O(b)(4) would provide that requests to cancel an order that has been routed in whole or part would not be processed unless and until all or a portion of the order returns unexecuted. This proposed rule uses Pillar terminology and operates substantively the same as Rule 7.37-E(b)(7)(A). This rule represents current functionality and is based on Rule 6.76A-O(c)(2)(B), except that, unlike the current rule, the proposed rule does not state that such orders (while still routed away) are subject to the applicable trading rules of the market to which such order was routed.
- Finally, proposed Rule 6.76AP-O(c) would provide that after trading with eligible contra-side interest on the Consolidated 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 6.76P-O. This rule represents current functionality as set forth in Rule 6.76A-O generally and paragraph (c)(2)(C) as it pertains to orders that were routed away and then returned unexecuted in whole or part to the Exchange without any substantive differences. This proposed rule uses Pillar terminology and operates substantively the same as Rule 7.37-E(c).

The Exchange believes that the specific routing methodologies for an order type or modifier should be included with how the order type is defined, which will be described in proposed Rule 6.62P-O. Accordingly, the Exchange does not believe it needs to specify in proposed Rule 6.76AP-O whether an order is eligible to route, and if so, whether there are any specific routing instructions applicable to the order and therefore will not be carrying over such specifics that are currently included in Rule 6.76A-O.

In connection with proposed Rule 6.76AP-O, the Exchange proposes to add the following preamble to Rule 6.76A-O: “This Rule is not applicable to trading on Pillar.” This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rule 6.76A-O would not be applicable to trading on Pillar.

#### Proposed Rule 6.62P-O: Orders and Modifiers

Current Rule 6.62-O (Certain Types of Orders Defined) defines the order types that are currently available for options trading both on the OX system and for open outcry trading on the Exchange. The Exchange proposes that new Rule 6.62P-O would set forth the order types and modifiers that would be available for options trading both on Pillar (i.e., electronic order entry) and in open outcry trading. The Exchange proposes to specify that Rule 6.62-O would not be applicable to trading on Pillar.

Because the Exchange proposes to use for options trading the Pillar technology that is currently used for cash equity trading, the Exchange has identified opportunities to offer additional order, quote, and modifier functionality for

options trading that is based on existing functionality on cash equity trading but has not previously been available for options trading. In addition, certain order and quote types and modifiers that would be available for options trading on Pillar would be based on, or similar to, order types and modifiers available on the Exchange's cash equity market. Because there would be similar orders and modifiers on both the Exchange's cash equity and options markets using similar terminology, the Exchange proposes to structure proposed Rule 6.62P-O based on Rule 7.31-E and use similar terminology. The Exchange also proposes to title proposed Rule 6.62P-O as "Orders and Modifiers," which is the title of Rule 7.31-E.

*Primary Order Types.* Proposed Rule 6.62P-O(a) would specify the Exchange's primary order types, which would be Market Orders and Limit Orders, and is based on Rule 7.31-E(a), which sets forth the Exchange's cash equity primary order types. Similar to Rule 7.31-E(a), proposed Rule 6.62P-O(a) would also set forth the Exchange's proposed Limit Order Price Protection functionality and Trading Collars.

*Market Orders.* Proposed Rule 6.62P-O(a)(1) would define a Market Order as an unpriced order message to buy or sell a stated number of option contracts at the best price obtainable, subject to the Trading Collar assigned to the order, and would further specify that unexecuted Market Orders may be designated Day or GTC, which represents current functionality, and that unexecuted Market Orders would be ranked Priority 1 - Market Orders.<sup>58</sup> This proposed rule text uses Pillar terminology similar to Rule 7.31-E(a)(1) to describe Market Orders for options trading, with differences to reflect options trading functionality. For example, proposed Rule 6.62P-O(a)(1) would specify the ability to designate a Market Order as GTC, which is current options trading functionality that would continue on Pillar (but which modifier is not available on the Exchange's cash equity platform).<sup>59</sup> Similarly, the Exchange proposes to reference that trading of a

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<sup>58</sup> Market Orders are currently defined in Rule 6.62-O(a) as follows: "A Market Order is an order to buy or sell a stated number of option contracts and is to be executed at the best price obtainable when the order reaches the Exchange. Market Orders entered before the opening of trading will be eligible for trading during the Opening Auction Process. The system will reject a Market Order entered during Core Trading Hours if at the time the order is received there is not an NBB and an NBO ("collectively NBBO") for that series as disseminated by OPRA. If the Exchange receives a Market Order to buy (sell) and there is an NBB (NBO) but no NBO (NBB) as disseminated by OPRA at the time the order is received, the order will be processed pursuant to Rule 6.60-O(a) -Trade Collar Protection."

<sup>59</sup> The ability for a Market Order to be designated Day or GTC is based on current Rules 6.62-O(m) (describing a "Day Order") and 6.62-O(n) (describing a "Good-til-Cancelled Order" or "GTC Order") and Commentary .01 to Rule 6.62-O, which requires all orders to be either "day," "immediate or cancel," or "good 'til

Market Order would be subject to the Trading Collar assigned to the order, which is similar to the third paragraph of the current definition of Market Order in Rule 6.62-O(a). As described in greater detail below, the Exchange proposes changes to its Trading Collar functionality on Pillar.

Proposed Rule 6.62P-O(a)(1) would further provide that for purposes of processing Market Orders, the Exchange would not use an adjusted NBBO.<sup>60</sup> On the Exchange's cash equity market, the Exchange does not use an adjusted NBBO when processing Market Orders. The Exchange proposes to similarly not use an adjusted NBBO when processing Market Orders on its options market, which would be new for options trading. The Exchange believes that because Market Orders trade immediately on arrival, using an unadjusted NBBO would provide a price protection mechanism by using a more conservative view of the NBBO.

Proposed Rule 6.62P-O(a)(1)(A) would provide that a Market Order that arrives during continuous trading would be rejected, or that was routed, returns unexecuted, and has no resting quantity to join would be cancelled if it fails the validations specified in proposed Rule 6.62P-O(a)(1)(A)(i) - (iv). This proposed rule is based in part on Rule 6.62-O(a), which specifies that a Market Order will be rejected during Core Trading Hours if, when received, there is no NBBO for the applicable option series as disseminated by OPRA, with differences to use Pillar terminology and to expand the circumstances when a Market Order would be rejected beyond the absence of an NBBO. As proposed, a Market Order would be rejected (or cancelled if routed first) if:<sup>61</sup>

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cancelled.” As described in more detail below, on Pillar, the time-in-force designation, e.g., Day or GTC, would be a modifier that can be added to an order type and would not be described in the rules as a separate order type. Similar to Rule 7.31-E, the Exchange would specify which time-in-force designations are available for each order type.

<sup>60</sup> See discussion *supra*, regarding the proposed Rule 1.1 definition of “NBBO” and that when using an unadjusted NBBO, the NBBO would not be adjusted based on information about orders the Exchange sends to Away Markets, execution reports received from those Away Markets, and certain orders received by the Exchange. The Exchange believes that the unadjusted NBBO is a more conservative view of the NBBO because the Exchange waits for an update from OPRA rather than updating it based on its view of the NBBO.

<sup>61</sup> The Exchange will also reject a Market Order if it is entered when the underlying NMS stock is either in a Limit State or a Straddle State, which is current functionality. See Rule 6.65A-O(a)(1). The Exchange proposes a non-substantive amendment to Rule 6.65A-O(a)(1) to add a cross reference to proposed Rule 6.62P-O(a)(1). The Exchange also proposes to amend the second sentence of Rule 6.65A-O(a)(1) to remove references to trading collars, and instead specify that the Exchange would cancel any resting Market Orders if the underlying NMS stock enters a Limit State or a Straddle State and would notify OTP Holders of the reason for such cancellation. This proposed change would

- There is no NBO (proposed Rule 6.62P-O(a)(1)(A)(i)). This criterion is similar to the current rule, which provides that a Market Order will be rejected if there is no NBO. The Exchange believes that in the absence of an NBO, Market Orders should not trade as there is no market for the option.
- There is no NBB and the NBO is higher than \$0.50 (for sell Market Orders only). The Exchange further proposes that if there is no NBB and the NBO is \$0.50 or below, a Market Order to sell would not be rejected and would have a working price and display price one MPV above zero and would not be subject to a Trading Collar (proposed Rule 6.62P-O(a)(1)(A)(ii)). The Exchange believes that if there is no NBB, but an NBO \$0.50 or below, the Exchange would be able to price that Market Order to sell at one MPV above zero. The functionality described in this proposed rule would be new and is designed to provide an opportunity for an arriving sell Market Order to trade when the NBO is below \$0.50. The proposed rule would further provide that a Market Order to sell would be cancelled if it was assigned a Trading Collar, routed, and when it returns unexecuted, it has no resting portion to join and there is no NBB, regardless of the price of the NBO. Accordingly, in this scenario, if there is no NBB and there is an NBO that is \$0.50 or below, the returned, unexecuted Market Order would be cancelled rather than displayed at one MPV above zero.
- There are no contra-side Market Maker quotes on the Exchange or contra-side ABBO, provided that a Market Order to sell would be accepted as provided for in proposed Rule 6.62P-O(a)(1)(A)(ii) (proposed Rule 6.62P-O(a)(1)(A)(iii)). This functionality would be new and is designed to prevent a Market Order from trading at prices that may not be current for that series in the absence of Market Maker quotations or an ABBO.
- The NBBO is not locked or crossed, and the spread is equal to or greater than a minimum amount based on the midpoint of the NBBO (proposed Rule 6.62P-O(a)(1)(A)(iv)). The proposed “wide-spread” parameter for purposes of determining whether to reject a Market Order is similar to the wide-spread parameter applied when determining whether a trade is a Catastrophic Error, as set forth in Rule 6.87-O(b)(3), with two differences. First, as shown below, the lowest bucket would be \$0.00 up to and including \$2.00, instead of \$0.00 to \$1.99, which means the \$2.00 price point would be included in this bucket. The Exchange proposes this difference because it would simplify the application to have the break points after whole dollar price points. Second, the wide-spread calculation

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describe both how Market Orders function today on the OX system and how they would be processed on Pillar.

would be based off of the midpoint of the NBBO, rather than off of the bid price, as follows:

The midpoint of the NBBO	Spread Parameter
\$0.00 to \$2.00	\$0.75
Above \$2.00 to and including \$5.00	\$1.25
Above \$5.00 to and including \$10.00	\$1.50
Above \$10.00 to and including \$20.00	\$2.50
Above \$20.00 to and including \$50.00	\$3.00
Above \$50.00 to and including \$100.00	\$4.50
Above \$100.00	\$6.00

The Exchange notes that this proposed protection for Market Orders is a new risk control designed to protect against erroneous executions and use of the midpoint of the NBBO as a basis for a price protection mechanism is consistent with similar functionality on other options markets.<sup>62</sup>

Proposed Rule 6.62P-O(a)(1)(B) would provide that an Aggressing Market Order to buy (sell) would trade with all orders or quotes to sell (buy) on the Consolidated Book priced at or below (above) the Trading Collar before routing to Away Market(s) at each price.<sup>63</sup> Proposed Rule 6.62P-O(a)(1)(B) would further provide that after trading or routing, or both, a Market Order would be displayed at the Trading Collar, subject to proposed Rule 6.62P-O(a)(1)(C), which is consistent with current functionality that Market Orders would be displayed at a Trading Collar, per Rule 6.60-O(a)(5).

Proposed Rule 6.62P-O(a)(1)(C) would provide that a Market Order would be cancelled before being displayed if there are no remaining contra-side Market Maker quotes on the Exchange or contra-side ABBO. Proposed Rule 6.62P-O(a)(1)(D) would provide that a Market Order would be cancelled after being displayed at its Trading Collar if there ceases to be a contra-side NBBO. These

<sup>62</sup> See, e.g., Cboe Rule 5.34(a)(2) (setting forth the “Market Order NBBO Width Protection” wherein Cboe cancels or rejects market orders submitted “when the NBBO width is greater than x% of the midpoint of the NBBO,” subject to minimum and maximum dollar values determined by Cboe).

<sup>63</sup> The Exchange has defined an Aggressing Order in proposed Rule 6.76P-O(a)(5). An Aggressing Market Order is a Market Order that is an Aggressing Order.

proposed cancellation events are similar to functionality described in Rule 6.60-O(a)(4)(E), which provides that “[t]he Exchange will cancel a Market Order, or the balance thereof, that has been collared pursuant to paragraph (a)(1)(A) or (B) [of that Rule] above, if after exhausting trading opportunities within the Collar Range, the Exchange determines there are no quotes on the Exchange and/or no interest on another market in the affected option series.” As proposed, in Pillar, the Exchange would cancel a Market Order in similar circumstances, with proposed modifications that a Market Order would be cancelled only if there are no remaining contra-side Market Maker quotes on the Exchange or if there is no contra-side ABBO. The Exchange believes that this proposed change from the current rule would provide that a Market Order would be cancelled when there is no contra-side interest against which to determine the price at which such order could trade.

Finally, proposed Rule 6.62P-O(a)(1)(E) would provide that a resting, displayed Market Order that is locked or crossed by an Away Market would be routed to that Away Market. Because Market Orders are intended to trade at the best price obtainable, the Exchange proposes to route displayed Market Orders if they are locked or crossed by an Away Market.<sup>64</sup> This proposed Rule is based on current functionality, which is not described in current rule. Therefore, the proposed rule is designed to promote clarity and transparency in Exchange rules.

*Limit Orders.* Proposed Rule 6.62P-O(a)(2) would define a Limit Order as an order message to buy or sell a stated number of option contracts at a specified price or better, subject to Limit Order Price Protection and the Trading Collar assigned to the order, and that a Limit Order may be designated Day, IOC, or GTC. In addition, unless otherwise specified, the working price and the display price of a Limit Order would be equal to the limit price of the order, it is eligible to be routed, and it would be ranked under the proposed category of “Priority 2 - Display Orders.” This proposed rule text uses Pillar terminology that is based in part on Rule 7.31-E(a)(2). The ability for a Limit Order to be designated IOC, Day, or GTC is based on current Rules 6.62-O(k), (m) and (n), respectively, and therefore would differ from the cash equity rules because (unlike on the cash equity platform) a Limit Order could be designated GTC, but is consistent with current options trading functionality. In addition, unlike cash equity trading, but consistent with current options trading functionality, Limit Orders would be subject to trading collars. As described in more detail below, on Pillar, trading collars will differ from both current options trading collar functionality and trading collar functionality available on the Exchange’s cash equity platform (which is available only for Market Orders).

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As described above for proposed Rule 6.76P-O(b)(3), displayed interest other than displayed Market Orders would stand their ground if locked or crossed by an Away Market. The Exchange would provide an option for Limit Orders to instead be routed, see discussion infra, regarding proposed Rule 6.62P-O(i)(1) and the proposed Proactive if Locked/Crossed Modifier.

Proposed Rule 6.62P-O(a)(2)(A) would provide that a marketable Limit Order to buy (sell) received by the Exchange would trade with all orders and quotes to sell (buy) on the Consolidated Book priced at or below (above) the NBO (NBB) before routing to the ABO (ABB) and may route to prices higher (lower) than the NBO (NBB) only after trading with orders and quotes to sell (buy) on the Consolidated Book at each price point, and once no longer marketable, the Limit Order would be ranked and displayed on the Consolidated Book. This proposed rule text is based on Rule 6.62-O(b), which provides that a “‘marketable’ limit order is a Limit Order to buy (sell) at or above (below) the NBBO.” The proposed rule text is more specific and uses the same Pillar terminology used to describe Limit Orders in Rule 7.31-E(a)(2)(A) for cash equity trading. In addition, proposed Rule 6.62P-O(a)(2)(A) would use terminology specific to options trading (i.e., the proposed rule refers to the Consolidated Book rather than the NYSE Arca Book as well as to the NBBO as opposed to the PBBO).

*Limit Order Price Protection.* The Exchange proposes to describe its proposed Limit Order Price Protection functionality in proposed Rule 6.62P-O(a)(3). On the OX system, the concept of “Limit Order Price Protection” for orders is set forth in Rule 6.60-O(b) and is called the “Limit Order Filter.” For quotes, price protection filters are described in Rule 6.61-O. The proposed “Limit Order Price Protection” on Pillar would be applicable to both Limit Orders and quotes and, at a high level, would work similarly to how the current price protection mechanisms function on the OX system because a Limit Order or quote would be rejected if it is priced at a specified threshold away from the contra-side NBB or NBO.<sup>65</sup> The Exchange proposes to enhance the functionality for options trading on Pillar by using new thresholds and reference prices (as discussed further below) that would be applicable to both orders and quotes. The concept of a “Reference Price” as used in connection with risk controls would be new for options but consistent with Pillar terminology for the Exchange’s cash equity market as well as how this term is used on other option exchanges.<sup>66</sup> Thus, this

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<sup>65</sup> Current Rule 6.60-O(b) provides that unless otherwise determined by the Exchange, the specified threshold percentage for orders is 100% when the contra-side NBB or NBO is priced at or below \$1.00 and 50% when the contra-side NBB or NBO is priced above \$1.00. Current Rule 6.61-O(a)(1)(A) provides that unless otherwise determined by the Exchange, the specified threshold for Market Maker bids is \$1.00 if the contra-side NBO is priced at or below \$1.00 and for Market Maker offers no limit if the NBB is priced at or below \$1.00. Current Rule 6.61-O(a)(1)(B) provides that unless otherwise determined by the Exchange, the specified threshold for Market Maker bids is 50% if the contra-side NBO (NBB) is priced above \$1.00.

<sup>66</sup> See, e.g., Cboe Rule 5.6(c) (setting forth the “reference price” applicable to orders for which Cboe delta-adjusts the execution price after the market close). As discussed infra, the Exchange likewise proposes to use the term Reference Price

term is not new or novel.

Proposed Rule 6.62P-O(a)(3)(A) would provide that each trading day, a Limit Order or quote to buy (sell) would be rejected or cancelled (if resting) if it is priced at a “Specified Threshold,” described below, equal to or above (below) the Reference Price, rounded down to the nearest price within the MPV for the Series (“Limit Order Price Protection”). In other words, a Limit Order designated GTC would be re-evaluated for Limit Order Price Protection on each day that it is eligible to trade and would be cancelled if the limit price is through the Specified Threshold. In addition, the proposed rounding down is consistent with current functionality, is standard on Pillar for price protection mechanisms, and is based on how Limit Order Price Protection is calculated on the Exchange’s cash equity market if it is not within the MPV for the security, as described in the last sentence of Rule 7.31-E(a)(2)(B). The proposed text would therefore promote granularity in Exchange rules. The proposed rule would further provide that Cross Orders and Limit-on-Open (“LOO”) Orders (described below) as well as orders represented in open outcry (except CTB Orders), would not be subject to Limit Order Price Protection and that Limit Order Price Protection would not be applied to a Limit Order or quote if there is no Reference Price, which is consistent with current functionality.

- Proposed Rule 6.62P-O(a)(3)(A)(i) would provide that a Limit Order or quote that arrives when a series is open would be evaluated for Limit Order Price Protection on arrival.
- Proposed Rule 6.62P-O(a)(3)(A)(ii) would provide that a Limit Order or quote received during a pre-open state would be evaluated for Limit Order Price Protection after an Auction concludes.<sup>67</sup>
- Proposed Rule 6.62P-O(a)(3)(A)(iii) would provide that a Limit Order or quote that was resting on the Consolidated Book before a trading halt would be evaluated for Limit Order Price Protection again after the Trading Halt Auction concludes.

The Exchange believes that these proposed rules would add clarity and transparency to when the Exchange would evaluate a Limit Order or quote for Limit Order Price Protection.

Proposed Rule 6.62P-O(a)(3)(B) would specify that the Reference Price for

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in connection with Trading Collars (proposed Rule 6.62P-O(a)(4)) and other risk checks (proposed Rule 6.41P-O).

<sup>67</sup> See discussion *infra*, regarding proposed Rule 6.64P-O(a) and proposed definitions for the terms “Auction,” “Auction Price,” “Auction Collar,” “pre-open state,” and “Trading Halt Auction.”



calculating Limit Order Price Protection for an order or quote to buy (sell) would be the NBO (NBB), provided that, immediately following an Auction, the Reference Price would be the Auction Price, or if none, the upper (lower) Auction Collar price, or, if none, the NBO (NBB). The Exchange believes that adjusting the Reference Price for Limit Order Price Protection immediately following an Auction would ensure that the most up-to-date price would be used to assess whether to cancel a Limit Order that was received during a pre-open state or would be reevaluated after a Trading Halt Auction. The Exchange further proposes that for purposes of calculating Limit Order Price Protection, the Exchange would not use an adjusted NBBO, which use of an unadjusted NBBO is consistent with how Limit Order Price Protection currently functions on the Exchange's cash equity market, as described in Rule 7.31-E(a)(2)(B).<sup>68</sup> The Exchange believes that using an unadjusted NBBO for risk protection mechanisms is consistent with the goal of such mechanisms to prevent erroneous executions by using a more conservative view of the NBBO.

Proposed Rule 6.62P-O(a)(3)(C) would specify the Specified Threshold and would provide that unless determined otherwise by the Exchange and announced to OTP Holders and OTP Firms by Trader Update, the Specified Threshold applicable to Limit Order Price Protection would be:

<b>Reference Price</b>	<b>Specified Threshold</b>
\$0.00 to \$1.00	\$0.30
\$1.01 to \$10.00	50%
\$10.01 to \$20.00	40%
\$20.01 to \$50.00	30%
\$50.01 to \$100.00	20%
\$100.01 and higher	10%

The Exchange believes that it would provide a more reasonable and deterministic trading outcome to use a fixed dollar amount (of \$0.30) rather than a percentage calculation when the Reference Price is \$1.00 or less. The Exchange believes that the balance of the proposed thresholds, which are percentages tied to the amount of the Reference Price that decrease as that Price increases, are more granular than those currently specified in Rules 6.60-O(b) (for orders) and 6.61-O(a)(1)(A) and (B) (for quotes) and therefore determining whether to reject a Limit Order or quote will be more tailored to the applicable Reference Price.<sup>69</sup> In addition,

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<sup>68</sup> References to the NBBO, NBB, and NBO in Rule 7.31-E refer to using a determination of the national best bid and offer that has not been adjusted.

<sup>69</sup> On the OX system, the thresholds for price protection on orders and quotes (per Rules 6.60-O(b) and 6.61-O(a)(1), respectively), depend solely on whether the contra-side NBBO (i.e., the reference price) is more or less than \$1.00. The

consistent with Rules 6.60-O(b) and 6.61-O(a)(1), the Exchange proposes that these thresholds could change, subject to announcing the changes by Trader Update. Providing flexibility in Exchange rules regarding how the Specified Thresholds would be set is consistent with the rules of other options exchanges.<sup>70</sup>

*Trading Collar.* Trading Collars on the OX system are currently described in Rule 6.60-O(a). Under the current rules, incoming Market Orders and marketable Limit Orders are limited in having an immediate execution if they would trade at a price greater than one “Trading Collar.” A collared order is displayed at that price and then can be repriced to new collars as the NBBO updates. On Pillar, the Exchange proposes Trading Collar functionality that would be new for Pillar and is not currently available on the Exchange’s cash equity platform.

Unlike current options trading collar functionality, which permits a collared order to be repriced, as proposed, a Market Order or Limit Order would be assigned a single Trading Collar that would be applicable to that order until it is fully executed or cancelled (unless the series is halted). The new proposed Trading Collar would function as a ceiling (for buy orders) or floor (for sell orders) of the price at which such order could be traded, displayed, or routed. The Exchange further proposes that when an order is working at its assigned Trading Collar, it would cancel if not executed within a specified time period.

More specifically, proposed Rule 6.62P-O(a)(4) would provide that a Market Order or Limit Order to buy (sell) would not trade or route to an Away Market at a price above (below) the Trading Collar assigned to that order. As further proposed, Auction-Only Orders, Limit Orders designated IOC or FOK, Cross Orders, ISOs, and Market Maker quotes would not be subject to Trading Collars, which interest is excluded under current functionality.<sup>71</sup> The proposed rule, however, would explicitly add reference to Auction-Only Orders, Cross Orders, and ISOs being excluded from Trading Collars, which new detail would add granularity to the proposed rule and would also address that the proposed Day ISOs, described below, would not be subject to Trading Collars. In addition,

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Exchange believes the additional Reference Price levels -- and corresponding Specified Thresholds -- would make the application of the Limit Order Price Protection more precise to the benefit of all market participants.

<sup>70</sup> See, e.g., Cboe Rule 5.34(a)(4) (describing the “Drill-Through Protection” and that Cboe “determines the buffer amount on a class and premium basis” without specifying the amount of such buffers); and the Nasdaq Stock Market LLC (“Nasdaq”) Options 3, Section 15(a)(1)(B) (specifying that “Order Price Protection” can be a configurable dollar amount not to exceed \$1.00 through such contra-side Reference BBO as specified by Nasdaq and announced via an Options Trader Alert).

<sup>71</sup> See Rule 6.60-O(a)(3) (“Trade Collar Protection does not apply to quotes, IOC Orders, AON Orders, FOK Orders, and NOW Orders.”).

Trading Collars would not be applicable during Auctions but (as described below) would be calculated after such Auction concludes.

Proposed Rule 6.62P-O(a)(4)(A) would provide that a Trading Collar assigned to an order would be calculated once per trading day and would be updated only if the series is halted. Accordingly, an order designated GTC would receive a new Trading Collar each day, but that Trading Collar would not be updated intraday unless the series is halted. Proposed Rule 6.62P-O(a)(4)(A)(i) would provide that an order that is received during continuous trading would be assigned a Trading Collar before being processed for either trading, repricing, or routing and that an order that is routed on arrival and returned unexecuted would use the Trading Collar previously assigned to it. Proposed Rule 6.62P-O(a)(4)(A)(ii) would provide that an order received during a pre-open state would be assigned a Trading Collar after an Auction concludes. Finally, proposed Rule 6.62P-O(a)(4)(A)(iii) would provide that the Trading Collar for an order resting on the Consolidated Book before a trading halt would be calculated again after the Trading Halt Auction concludes. The Exchange believes that because Trading Collars are intended as a price protection mechanism, updating the Trading Collar after a series has reopened would allow for the Trading Collar assigned to an order to reflect more updated pricing.

Proposed Rule 6.62P-O(a)(4)(B) would provide that the Reference Price for calculating the Trading Collar for an order to buy (sell) would be the NBO (NBB), which is consistent with how trading collars are currently determined for Limit Orders, with differences to use this Reference Price for all orders and for how the Reference Price would be determined after an Auction.<sup>72</sup> The Exchange proposes to use the Pillar term “Reference Price” to describe what would be used for Trading Collar calculations.<sup>73</sup> The proposed rule would further provide that for Auction-eligible orders to buy (sell) that were received during a pre-open state or orders that were re-assigned a Trading Collar after a trading halt, the Reference Price would be the Auction Price or, if none, the upper (lower) Auction Collar price or, if none, the NBO (NBB). For reasons similar to those described above, the Exchange proposes to use a more conservative view of the NBBO for purposes of risk protection mechanisms. Therefore, the Exchange proposes that for purposes of calculating a Trading Collar, the Exchange would not use an adjusted NBBO. Proposed Rule 6.62P-O(a)(4)(B)(i) would further provide that a Trading Collar would not be assigned to a Limit Order if there is no Reference Price at the time of calculation, which is consistent with current functionality and the proposed rule would add granularity to Exchange rules.

Proposed Rule 6.62P-O(a)(4)(C) would describe how the Trading Collar would be

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<sup>72</sup> Under current rules, trading collars are calculated based off of the contra-side NBBO. See Rule 6.60-O(a)(1)(A)(ii).

<sup>73</sup> See discussion regarding Cboe Rule 5.34(a)(4) and Nasdaq Options 3, Section 15(a)(1)(B), supra note 70.

calculated and would provide that the Trading Collar for an order to buy (sell) would be a specified amount above (below) the Reference Price, as follows: (1) for orders with a Reference Price of \$1.00 or lower, \$0.25; or (2) for orders with a Reference Price above \$1.00, the lower of \$2.50 or 25%. Trading Collars under the current rule are based on a specified dollar amount (set forth in four tranches).<sup>74</sup> The Exchange believes the proposed functionality (set forth in two tranches) would tailor the Trading Collar calculations with either a specified dollar amount or percentage, depending on the Reference Price of the order, while at the same time providing that the thresholds would be within the current parameters for determining whether a trade is an Obvious Error or Catastrophic Error.<sup>75</sup> Proposed Rule 6.62P-O(a)(4)(C)(i) would further provide that if the calculation of a Trading Collar would not be in the MPV for the series, it would be rounded down to the nearest price within the applicable MPV, which is consistent with current functionality and based on how Trading Collars are calculated on the Exchange's cash equity market, as described in Rule 7.31-E(a)(1)(B). Proposed Rule 6.62P-O(a)(4)(C)(ii) would further provide that for orders to sell, if subtracting the Trading Collar from the Reference Price would result in a negative number, the Trading Collar for Limit Orders would be the limit price and the Trading Collar for Market Orders would be one MPV above zero, which would provide more granularity in Exchange rules and would ensure that there will be a Trading Collar calculated for low-priced orders to sell.

Proposed Rule 6.62P-O(a)(4)(D) would describe how the Trading Collar would be applied and would provide that if an order to buy (sell) would trade or route above (below) the Trading Collar or would have its working price repriced to a Trading Collar that is below (above) its limit price, the order would be added to the Consolidated Book at the Trading Collar for 500 milliseconds and if not traded within that period, would be cancelled. In addition, once the 500-millisecond timer begins for an order, the order would be cancelled at the end of the timer even if it repriced or has been routed to an Away Market during that period, in which case any portion of the order that is returned unexecuted would be cancelled.

The Exchange believes that the proposed Trading Collar functionality is designed to provide a similar type of order protection as is currently available (as described in Rule 6.60-O(a)) because it would limit the price at which a marketable order could be traded, routed, or displayed. The Exchange believes that the proposed differences are designed to simplify the functionality by applying a static ceiling

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<sup>74</sup> Under the current rule, the Trading Collar for buy (sell) orders is as follows: \$0.25 for each option contract for which the NBB (NBO) is less than \$2.00; \$0.40 where the NBB (NBO) is between \$2.00 - \$5.00; \$0.50 where the NBB (NBO) is between \$5.01 - \$10.00; \$0.80 where the NBB (NBO) is between \$10.01 but does not exceed - \$20.00; and \$1.00 when the NBB (NBO) is \$20.01 or more.

<sup>75</sup> See Rules 6.87-O(c)(1) (thresholds for Obvious Errors) and 6.87-O(d)(1) (thresholds for Catastrophic Errors).

price (for a buy order) or floor price (for a sell order) at which such order could be traded or routed that would be determined at the time of entry (or after a series opens or reopens) and would be applicable to the order until it is traded or cancelled. The Exchange believes that the proposed functionality would provide greater determinism to an OTP Holder or OTP Firm of the Trading Collar that would be applicable to a Market Order or Limit Order and when such order may be cancelled if it reaches its Trading Collar.

*Time in Force Modifiers.* Proposed Rule 6.62P-O(b) would set forth the time-in-force modifiers that would be available for options trading on Pillar and uses Pillar terminology similar to that used in Rule 7.31-E(b), with differences to offer time-in-force modifiers currently available for options trading that are not available for cash equity trading. The Exchange proposes to offer the same time-in-force modifiers that are currently available for options trading on the Exchange and use Pillar terminology to describe the functionality. As noted above, the Exchange proposes to describe the Time in Force Modifiers in proposed Rule 6.62P-O(b), and then specify for each order type which Time in Force Modifiers would be available for such orders or quotes.

*Day Modifier.* Proposed Rule 6.62P-O(b)(1) would provide that any order or quote to buy or sell designated Day, if not traded, would expire at the end of the trading day on which it was entered and that a Day Modifier cannot be combined with any other Time in Force Modifier. This proposed rule text uses Pillar terminology based on Rule 7.31-E(b)(1) with one difference to reference “quotes” in addition to orders. This proposed functionality would operate no differently than how a “Day Order,” as described in Rule 6.62-O(m), currently functions.

*Immediate-or-Cancel (“IOC”) Modifier.* Proposed Rule 6.62P-O(b)(2) would provide that a Limit Order may be designated IOC or Routable IOC, as described in proposed Rules 6.62P-O(b)(2)(A) and (B) and that a Limit Order designated IOC would not be eligible to participate in any Auctions. This proposed rule text is based on the first and third sentences of Rule 7.31-E(b)(2) without any differences and makes explicit current (but not defined) functionality.<sup>76</sup> The Exchange proposes to use Pillar terminology based on Rule 7.31-E(b)(2) to describe this functionality.

Proposed Rule 6.62P-O(b)(2)(A) would define a “Limit IOC Order” as a Limit Order designated IOC that would be traded in whole or in part on the Exchange as soon as such order is received, and the unexecuted quantity would be cancelled and that a Limit IOC Order does not route. This proposed rule text uses Pillar

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<sup>76</sup> The proposed rule does not include the second sentence of Rule 7.31-E(b)(2), which provides that the “IOC Modifier will override any posting or routing instructions of orders that include the IOC Modifier,” as this functionality is not applicable to options because an order that is not eligible to include an IOC Modifier would be rejected on Pillar.

terminology based on Rule 7.31-E(b)(2)(A) without any substantive differences. The proposed Pillar Limit IOC Order would function the same as an “Immediate-or-Cancel Order (IOC Order),” as currently described in Rule 6.62-O(k), without any differences.

Proposed Rule 6.62P-O(b)(2)(B) would define a “Limit Routable IOC Order” as a Limit Order designated Routable IOC that would be traded in whole or in part on the Exchange as soon as such order is received, and the unexecuted quantity routed to Away Market(s) and that any quantity not immediately traded either on the Exchange or an Away Market would be cancelled. This proposed rule text uses Pillar terminology based on Rule 7.31-E(b)(2)(B) without any substantive differences. The proposed Pillar Limit Routable IOC Order is also based on the “NOW Order,” as currently described in Rule 6.62-O(o) and uses Pillar terminology.

*Fill-or-Kill (“FOK”) Modifier:* Proposed Rule 6.62P-O(b)(3) would provide that a Limit Order designated FOK would be traded in whole on the Exchange as soon as such order is received, and if not so traded is to be cancelled and that a Limit Order designated FOK does not route and does not participate in any Auctions. The Exchange does not offer the FOK Modifier on its cash equity market, and this proposed rule uses Pillar terminology to offer the same functionality that is currently described in Rule 6.62-O(l) as the “Fill-or-Kill Order (FOK Order)” without any substantive differences.

*Good-Till-Cancelled (“GTC”) Modifier.* Proposed Rule 6.62P-O(b)(4) would provide that a Limit or Market Order designated GTC remains in force until the order is filled, cancelled, the MPV in the series changes overnight, the option contract expires, or a corporate action results in an adjustment to the terms of the option contract. The Exchange does not offer the GTC Modifier on its cash equity market, and this proposed rule uses Pillar terminology to offer the same functionality that is currently described in Rule 6.62-O(n) as the “Good-Till-Cancelled (GTC Order),” with the substantive difference that the proposed text makes clear (consistent with current functionality) that such orders may be cancelled if the MPV changes overnight. Otherwise, the proposed Rule describes the same functionality that is currently described in Rule 6.62-O(n) as the “Good-Till-Cancelled (GTC Order).”

*Auction-Only Orders.* Proposed Rule 6.62P-O(c) would define an “Auction-Only Order” as a Limit Order or Market Order that is to be traded only in an Auction pursuant to Rule 6.64P-O,<sup>77</sup> which uses Pillar terminology based on Rule 7.31-E(c) in lieu of the current description of an “Opening Only Order” set forth in Rule 6.62-O(r), without any functional differences to how such orders trade on

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<sup>77</sup> See discussion *infra*, regarding proposed Rule 6.64P-O and definitions relating to Auctions. As proposed, an “Auction” includes the opening or reopening of a series for trading either on a trade or quote. See proposed Rule 6.64P-O(a)(5).

Pillar.<sup>78</sup> The proposed rule would further provide that an Auction-Only Order would not be accepted when a series is opened for trading (i.e., would be accepted only during a pre-open state, which includes a trading halt) and any portion of an Auction-Only Order that is not traded in a Core Open Auction or Trading Halt Auction would be cancelled. This represents current functionality.<sup>79</sup> The proposed rule is designed to provide clarity and uses Pillar terminology from both the last sentence of Rule 7.31-E(c)(1) and the last sentence of Rule 7.31-E(c)(2) for options trading.

Proposed Rule 6.62P-O(c)(1) would define a “Limit-on-Open Order (‘LOO Order’)” as a Limit Order that is to be traded only in an Auction. This proposed rule uses Pillar terminology based on Rule 7.31-E(c)(1) to describe functionality that would be no different from current functionality, as described in Rule 6.62-O(r).

Proposed Rule 6.62P-O(c)(2) would define a “Market-on-Open Order (‘MOO Order’)” as a Market Order that is to be traded only in an Auction (whether a Core Open Auction or Trading Halt Auction, per proposed Rule 6.64P-O(a)(1)(A), (B)). This proposed rule uses Pillar terminology based on Rule 7.31-E(c)(2) to describe functionality for options that would be no different from current functionality, as described in Rule 6.62-O(r).

Proposed Rule 6.62P-O(c)(3) would define an “Imbalance Offset Order (‘IO Order’).” The Exchange currently offers an IO Order for participation in Trading Halt Auctions on its cash equity market but does not offer this order type for options trading on the OX system. For cash equity trading, the IO Order is a conditional order type that is eligible to participate in a Trading Halt Auction only if it would offset the imbalance. To provide OTP Holders and OTP Firms with greater flexibility for options trading on Pillar, the Exchange proposes to offer more expansive functionality than is currently available for cash equity trading and to offer the IO Order for both Core Open Auctions and Trading Halt Auctions.

As proposed, the IO Order would function no differently than how an IO Order currently functions on the Exchange’s cash equity market (except that it would be eligible to trade in all Auctions). Accordingly, proposed Rule 6.62P-O(c)(3) would define an IO Order as a Limit Order that is to be traded only in an Auction,

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<sup>78</sup> Rule 6.62-O(r) defines an “Opening Only Order” as “a Market Order or Limit Order which is to be executed in whole or in part during the opening auction of an options series or not at all. Any portion not so executed is to be treated as cancelled.” Per Rule 6.64-O(d), the Exchange utilizes the same process for orders eligible to participate in the opening or reopening (following a trading halt) of a series.

<sup>79</sup> See Rule 6.62-O(r) (providing that any portion of an Opening Only Order “not so executed is to be treated as cancelled.”)

which is based on Rule 7.31-E(c)(5), with a difference that for options trading, it would also be available for Core Open Auctions.

- Proposed Rule 6.62P-O(c)(3)(A) would provide that an IO Order would participate in an Auction only if: (1) there is an Imbalance in the series on the opposite side of the market from the IO Order after taking into account all other orders and quotes eligible to trade at the Indicative Match Price; and (2) the limit price of the IO Order to buy (sell) would be at or above (below) the Indicative Match Price. This proposed text is based on Rule 7.31-E(c)(5)(B) except that it includes reference to quotes, which are unique to options trading, and does not limit the order type to Trading Halt Auctions.
- Proposed Rule 6.62P-O(c)(3)(B) would provide that the working price of an IO Order to buy (sell) would be adjusted to be equal to the Indicative Match Price, provided that the working price of an IO Order would not be higher (lower) than its limit price. This proposed text is based on Rule 7.31-E(c)(5)(C) without any differences.

*Orders with a Conditional or Undisplayed Price and/or Size.* Proposed Rule 6.62P-O(d) would set forth the orders with a conditional or undisplayed price and/or size that would be available for options trading on Pillar. On Pillar, the Exchange proposes to offer the same type of orders that are available in the OX system and that are currently described in Rule 6.62-O(d) as a “Contingency Order or Working Order,” with changes as described below.<sup>80</sup>

*Reserve Order.* Reserve Orders are currently defined in Rule 6.62-O(d)(3). The Exchange proposes that for options traded on Pillar, Reserve Orders would function similarly to how Reserve Orders function on its cash equity market, as described in Rule 7.31-E(d)(1), with differences described below. Accordingly, the Exchange proposes that proposed Rule 6.62P-O(d)(1), which would define Reserve Orders for options trading on Pillar, would use Pillar terminology based on Rule 7.31-E(d)(1), with differences to reflect differences in options and cash equity trading. For example, options trading does not have a concept of “round lot” or “odd lot” trading, and therefore the proposed options trading version of the Rule would not include a description of behavior that correlates to such functionality.

Proposed Rule 6.62P-O(d)(1) would define a Reserve Order as a Limit Order with a quantity of the size displayed and with a reserve quantity of the size (“reserve

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As discussed, *supra*, regarding proposed Rule 6.76P-O(g), the Exchange proposes to include details about ranking of orders and quotes with contingencies in this proposed Rule 6.62P-O(d) using the Pillar priority scheme. Also, as discussed *infra*, *see e.g.*, note 44, the ranking and priority of quotes under Pillar is consistent with handling on the OX system unless otherwise noted herein.



interest”) that is not displayed and that the displayed quantity of a Reserve Order is ranked under the proposed category of “Priority 2 - Display Orders” and the reserve interest is ranked under the proposed category of “Priority 3 - Non-Display Orders.” This proposed rule text is based on Rule 7.31-E(d)(1) without any differences. This proposed rule text is also consistent with Rule 6.76-O(a)(1)(B) and (a)(2), with orders ranked under the proposed category of “Priority 2 - Display Orders” functioning the same as orders in the current “Display Order Process” and orders ranked under the proposed category of “Priority 3 - Non-Displayed Orders” functioning the same as orders in the current “Working Order Process.” Proposed Rule 6.62P-O(d)(1) would further provide that both the display quantity and the reserve interest of an arriving marketable Reserve Order would be eligible to trade with resting interest in the Consolidated Book or route to Away Markets, unless designated as a Non-Routable Limit Order, which is based on the third sentence of Rule 7.31-E(d)(1) with a non-substantive difference to add reference to Non-Routable Limit Order.

Proposed Rule 6.62P-O(d)(1) would further provide that the working price of the reserve interest of a resting Reserve Order to buy (sell) would be adjusted in the same manner as a Non-Displayed Limit Order, as provided for in paragraph (d)(2)(A) of this Rule, provided that it would never be priced higher (lower) than the working price of the display quantity of the Reserve Order. This proposed rule text is based on the last sentence of Rule 7.31-E(d)(1) with one difference to reference that the reserve interest could never have a working price that is more aggressive than the working price of the display quantity of the Reserve Order, which would be new functionality on Pillar for options trading (and not currently available for cash equity trading) designed to ensure that the reserve interest of a Reserve Order to buy (sell) would never trade at a price higher (lower) than the working price of the display quantity of the Reserve Order.<sup>81</sup>

- Proposed Rule 6.62P-O(d)(1)(A) would provide that the displayed portion of a Reserve Order would be replenished when the display quantity is decremented to zero and that the replenish quantity would be the minimum display size of the order or the remaining quantity of the reserve interest if it is less than the minimum display quantity. This proposed rule text is based on Rule 7.31-E(d)(1)(A) with differences to reflect that options are not traded in “round lots” or “odd lots.” Accordingly, the Exchange would not replenish a Reserve Order on the options trading

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<sup>81</sup> For example, as described in more detail below, the proposed Non-Routable Limit Order would be eligible to be repriced only once after it is resting in the Consolidated Book (see proposed Rule 6.62P-O(e)(1)). If the display quantity of a Non-Routable Limit Order that is combined with a Reserve Order has already been repriced and is no longer eligible to be repriced, and the ABBO adjusts, the reserve quantity would not adjust to a price that would be more aggressive than the working price of the display quantity of the order. This functionality is not currently available on the Exchange’s cash equity market.

platform until the display portion is fully decremented, which is consistent with current functionality as described in Rule 6.76-O(a)(1)(B).

- Proposed Rule 6.62P-O(d)(1)(B) would provide that each time the display quantity of a Reserve Order is replenished from reserve interest, a new working time would be assigned to the replenished quantity, which is consistent with current Rule 6.76-O(a)(1)(B)(ii), which provides that when refreshed, the new display quantity will be ranked at the new time that the displayed portion of the order was refreshed. This proposed rule text is based in part on Rule 7.31-E(d)(1)(B) with differences to reflect that for options traded on Pillar, there would never be more than one display quantity of a Reserve Order, and therefore the Exchange would not have different “child” display quantities of a Reserve Order with different working times, as could occur for a Reserve Order on the Exchange’s cash equity trading platform.
- Proposed Rule 6.62P-O(d)(1)(C) would provide that a Reserve Order may be designated as a Non-Routable Limit Order and if so designated, the reserve interest that replenishes the display quantity would be assigned a display price and working price consistent with the instructions for the order. This proposed rule text is based on Rule 7.31-E(d)(1)(B)(ii) without any substantive differences. The Exchange believes that the proposed rule would promote transparency and granularity in Exchange rules.
- Proposed Rule 6.62P-O(d)(1)(D) would provide that a routable Reserve Order would be evaluated for routing both on arrival and each time the display quantity is replenished, which is consistent with Rule 6.76A-O(c)(1)(B), which provides that a Reserve Order may be routed serially as component orders. Proposed Rule 6.62P-O(d)(1)(D)(i) would provide that if routing is required, the Exchange would route from reserve interest before publishing the display quantity. And proposed Rule 6.62P-O(d)(1)(D)(ii) would provide that any quantity of a Reserve Order that is returned unexecuted would join the working time of the reserve interest and that if there is no reserve interest to join, the returned quantity would be assigned a new working time. This proposed rule text is based on Rule 7.31-E(d)(1)(D) and subparagraphs (i) and (ii) with differences to reflect that there is no concept of round lots or multiple child display orders for options trading. The Exchange believes that the proposed rule would promote transparency and granularity in Exchange rules.
- Proposed Rule 6.62P-O(d)(1)(E) would provide that a request to reduce the size of a Reserve Order would cancel the reserve interest before cancelling the display quantity. This proposed rule text is based on Rule 7.31-E(d)(1)(E) with differences only to reflect that there would not be more than one child display order for options trading of Reserve Orders on

Pillar. The Exchange believes that the proposed rule would promote transparency and granularity in Exchange rules.

- Proposed Rule 6.62P-O(d)(1)(F) would provide that a Reserve Order may be designated Day or GTC, but it may not be designated as an ALO Order. This proposed rule text is based in part on Rule 7.31-E(d)(1)(C), with differences to reflect that the GTC Modifier would be available for Reserve Orders trading on the Pillar options trading platform (consistent with current functionality) and that Primary Pegged Orders would not be available for options traded on Pillar (also consistent with current functionality). The Exchange believes that the proposed rule would promote transparency and granularity in Exchange rules.

*Non-Displayed Limit Order.* The Exchange proposes to offer the Non-Displayed Limit Order for options trading on Pillar, which would be new for options trading and would provide OTP Holders and OTP Firms with a non-displayed order type in lieu of non-displayed PNP Blind Orders, which latter order type would not be available on Pillar.<sup>82</sup> The proposed order type would function similarly to the existing Non-Displayed Limit Order as described in Rule 7.31-E(d)(2). Proposed Rule 6.62P-O(d)(2) would define a Non-Displayed Limit Order as a Limit Order that is not displayed, does not route, and is ranked under the proposed category of “Priority 3 - Non-Display Orders”; and that a Non-Displayed Limit Order may be designated Day or GTC and would not participate in any Auctions. This proposed rule text uses the same Pillar terminology as used in Rule 7.31-E(d)(2) with differences to reflect that the GTC Time-in-Force Modifier is available for options trading on Pillar.

- Proposed Rule 6.62P-O(d)(2)(A) would provide that the working price of a Non-Displayed Limit Order would be assigned on arrival and adjusted when resting on the Consolidated Book and that the working price of a Non-Displayed Limit Order to buy (sell) would be the lower (higher) of the limit price or the NBO (NBB). This proposed rule text is based on Rule 7.31-E(d)(2)(A) with non-substantive differences to reference the Consolidated Book instead of the NYSE Arca Book and to streamline the rule text without any substantive differences.

*All-or-None (“AON”) Order.* AON Orders are currently defined in Rule 6.62-O(d)(4). AON Orders are not available on the Exchange’s cash equity market, and for options trading on Pillar, would function similarly to how AON Orders currently function because such orders would only execute if they can be satisfied

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The Exchange notes that a Non-Displayed Limit Order would function similarly to a PNP Blind Order that locks or crosses the contra-side NBBO. In such case, a PNP Blind Order is not displayed, as described in Rule 6.62-O(u) (“if the PNP Blind Order would lock or cross the NBBO, the price and size of the order will not be disseminated”).

in their entirety. However, unlike the OX system, where AON Orders are not integrated in the Consolidated Book, on Pillar, the Exchange proposes that AON Orders would be ranked in the Consolidated Book and function as conditional orders that would trade only if their condition could be met, similar to how orders with a Minimum Trade Size (“MTS”) Modifier function on Pillar on the Exchange’s cash equity market. In addition, on Pillar, the Exchange would not support Market Orders designated as AON, which would be a change from current functionality. The Exchange does not believe it needs to continue offering AON Market Orders because such functionality was not used often on the OX system, indicating a lack of market participant interest in this functionality. Because of the new functionality that would be available for AON Orders on Pillar, the Exchange proposes to use Pillar terminology to describe this order type.

Proposed Rule 6.62P-O(d)(3) would provide that an AON Order is a Limit Order that is to be traded in whole on the Exchange at the same time or not at all, which represents current functionality as described in the first sentence of Rule 6.62-O(d)(4). Proposed Rule 6.62P-O(d)(3) would further provide that an AON Order that does not trade on arrival would be ranked under the proposed category of “Priority 3 - Non-Display Orders” and that an AON Order may be designated Day or GTC, does not route, and would not participate in any Auctions. This proposed rule text uses Pillar terminology to describe the proposed new functionality that such orders would be ranked on the Consolidated Book.

- Proposed Rule 6.62P-O(d)(3)(A) would provide that the working price of an AON Order would be assigned on arrival and adjusted when resting on the Consolidated Book and that the working price of an AON Order to buy (sell) would be the lower (higher) of the limit price or NBO (NBB). Because an AON Order is non-displayed, the Exchange proposes that its working price should be adjusted in the same manner as the proposed Non-Displayed Limit Order.
- Proposed Rule 6.62P-O(d)(3)(B) would provide that an Aggressing AON Order to buy (sell) would trade with sell (buy) orders and quotes that in the aggregate can satisfy the AON Order in its entirety. This proposed rule text is new and promotes clarity in Exchange rules that an Aggressing AON Order (whether on arrival or as a resting order that becomes an Aggressing Order) would be eligible to trade with more than one contra-side order or quote, provided that multiple orders and quotes in the aggregate would satisfy the AON Order in its entirety.
- Proposed Rule 6.62P-O(d)(3)(C) would provide that a resting AON Order to buy (sell) would trade with an Aggressing Order or Aggressing Quote to sell (buy) that individually can satisfy the whole AON Order. This is proposed new functionality, because currently, an AON Order can trade only against resting interest in the Consolidated Book. The Exchange believes this proposed change would provide an AON Order with

additional execution opportunities.

- Proposed Rule 6.62P-O(d)(3)(C)(i) would provide that if an Aggressing Order or Aggressing Quote to sell (buy) does not satisfy the resting AON Order to buy (sell), that Aggressing Order or Aggressing Quote would not trade with and may trade through such AON Order. Proposed Rule 6.62P-O(d)(3)(C)(ii) would further provide that if a resting non-displayed order to sell (buy) does not satisfy the quantity of a same-priced resting AON Order to buy (sell), a subsequently arriving order or quote to sell (buy) that satisfies the AON Order would trade before such resting non-displayed order or quote to sell (buy) at that price. Both of these proposed rules are similar to current Rule 6.62-O(d)(4), which provides that a resting AON Order can be ignored if its condition is not met. Similar to current functionality, even though an AON would be ranked in the Consolidated Book, it is still a conditional order type and therefore, by its terms, can be skipped over for an execution. This proposed rule text is also based on how the MTS Modifier functions on the cash equity market, as described in Rule 7.31-E(i)(3)(E)(i) and (ii).
- Proposed Rule 6.62P-O(d)(3)(D) would provide that a resting AON Order to buy (sell) would not be eligible to trade against an Aggressing Order or Aggressing Quote to sell (buy): (i) at a price equal to or above (below) any orders or quotes to sell (buy) that are displayed at a price equal to or below (above) the working price of such AON Order; or (ii) at a price above (below) any orders or quotes to sell (buy) that are not displayed and that have a working price below (above) the working price of such AON Order. This proposed rule text is new functionality for AON Orders that is designed to protect the priority of resting orders and quotes and is based on how the MTS Modifier functions on the cash equity market, as described in Rule 7.31-E(i)(3)(C) and its subparagraphs (i) and (ii).
- Proposed Rule 6.62P-O(d)(3)(E) would provide that if a resting AON Order to buy (sell) becomes an Aggressing Order it would trade as provided in paragraph (d)(3)(B) of this Rule; however, other resting orders or quotes to buy (sell) ranked Priority 3 - Non-Display Orders that become Aggressing Orders or Aggressing Quotes at the same time as the resting AON Order would be processed before the AON Order. This is proposed new functionality and is designed to promote clarity in Exchange rules that if multiple orders ranked Priority 3 - Non-Display Orders, including AON and non-AON Orders, become Aggressing Orders or Aggressing Quotes at the same time, the AON Order would not be eligible trade until the other orders ranked Priority 3- Non-Display Orders have been processed, even if they have later working times. The Exchange believes that it would be consistent with the conditional nature of AON Orders for other same-side non-displayed orders to have a trading opportunity before the AON Order.

*Stop Order.* Stop Orders are currently defined in Rule 6.62-O(d)(1). The Exchange proposes to use Pillar terminology with more granularity to describe Stop Orders in proposed Rule 6.62P-O(d)(4), as specified below. Proposed Rule 6.62P-O(d)(4) would provide that a Stop Order is an order to buy (sell) a particular option contract that becomes a Market Order (or is “elected”) when the Exchange BB (BO) or the most recent consolidated last sale price reported after the order was placed in the Consolidated Book (the “Consolidated Last Sale”) (either, the “trigger”) is equal to or higher (lower) than the specified “stop” price. The proposed functionality is consistent with existing functionality and provides more granularity of the circumstances when a Stop Order would be elected.<sup>83</sup> Because a Stop Order becomes a Market Order when it is elected, the Exchange proposes that when it is elected, it would be cancelled if it does not meet the validations specified in proposed Rule 6.62P-O(a)(1)(A) and if not cancelled, it would be assigned a Trading Collar. This is consistent with current functionality, which is not described in the current rule describing Stop Orders, that once converted to a Market Order, such order is subject to the checks applicable in the current rule for Market Orders, i.e., cancelling such order if there is no NBBO. The proposed rule references the checks that would be applicable to a Market Order on Pillar and thus adds greater granularity and transparency to Exchange rules.

Proposed Rule 6.62P-O(d)(4)(A) would provide that a Stop Order would be assigned a working time when it is received but would not be ranked or displayed in the Consolidated Book until it is elected and that once converted to a Market Order, the order would be assigned a new working time and be ranked Priority 1-Market Orders. The original working time assigned to a Stop Order would be used to rank multiple Stop Orders elected at the same time. This is consistent with the current rule, which provides that a Stop Order is not displayed and has no standing in any Order Process in the Consolidated Book, unless or until it is triggered. The proposed rule is designed to provide greater granularity and clarity regarding the treatment of Stop Orders, both when received and when elected.

Proposed Rule 6.62P-O(d)(4)(B) would specify additional events that are designed to limit when a Stop Order may be elected so that a Market Order does not trade during a period of pricing uncertainty:

- Proposed Rule 6.62P-O(d)(4)(B)(i) would provide that if not elected on arrival, a Stop Order that is resting would not be eligible to be elected based on a Consolidated Last Sale unless the Consolidated Last Sale is equal to or in between the NBBO. This proposed rule text provides additional transparency of when a resting Stop Order would be eligible to be elected.

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The current rule states that a Stop Order to buy (sell) will be triggered (i.e., elected) if “trades at a price equal to or greater (less) than the specified ‘stop’ price on the Exchange or another Market Center.” See Rule 6.62-O(d)(1).

- Proposed Rule 6.62P-O(d)(4)(B)(ii) would provide that a Stop Order would not be elected if the NBBO is crossed.
- Proposed Rule 6.62P-O(d)(4)(B)(iii) would provide that after a Limit State or Straddle State is lifted, the trigger to elect a Stop Order would be either the Consolidated Last Sale received after such state was lifted or the Exchange BB (BO).<sup>84</sup>

*Stop Limit Order.* Stop Limit Orders are currently defined in Rule 6.62-O(d)(2). The Exchange proposes to use Pillar terminology with more granularity to describe Stop Limit Orders in proposed Rule 6.62P-O(d)(5), as specified below.

Proposed Rule 6.62P-O(d)(5) would provide that a Stop Limit Order is an order to buy (sell) a particular option contract that becomes a Limit Order (or is “elected”) when the Exchange BB (BO) or the Consolidated Last Sale (either, the “trigger”) is equal to or higher (lower) than the specified “stop” price.<sup>85</sup> The proposed functionality is consistent with existing functionality and provides more granularity of when a Stop Limit Order would be elected than the current Rule 6.62-O(d)(2) definition of Stop Limit Order. As further proposed, a Stop Limit Order to buy (sell) would be rejected if the stop price is higher (lower) than its limit price, which rejection would be new functionality under Pillar and would prevent the Exchange from accepting potentially erroneously-priced orders. Because a Stop Limit Order becomes a Limit Order when it is elected, the Exchange proposes that when it is elected, it would be cancelled if it fails Limit Order Price Protection or a Price Reasonability Check and if not cancelled, it would be assigned a Trading Collar.<sup>86</sup> This functionality is consistent with current functionality, though it is not explicitly stated in the current rule describing Stop Limit Orders. Specifically, both in the current OX System and as proposed on Pillar, once converted to a Limit Order, such order is subject to the checks applicable in the current rule for Limit Orders, i.e., Limit Order Filter on the OX System. The proposed rule references the checks that would be applicable to a Limit Order on Pillar and thus adds greater granularity and transparency to Exchange rules.

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<sup>84</sup> Rule 6.65A-O(a)(2) currently provides that the Exchange will not elect Stop Orders when the underlying NMS stock is either in a Limit State or a Straddle State, which would continue to be applicable on Pillar. The Exchange proposes a non-substantive amendment to Rule 6.65A-O(a)(2) to add a cross-reference to proposed Rule 6.62P-O(d)(4).

<sup>85</sup> The term “Consolidated Last Sale” is defined in proposed Rule 6.62P-O(d)(4).

<sup>86</sup> See discussion *infra*, regarding proposed Rule 6.41P-O and Price Reasonability Checks.

Proposed Rule 6.62P-O(d)(5)(A) would provide that a Stop Limit Order would be assigned a working time when it is received but would not be ranked or displayed in the Consolidated Book until it is elected and that once converted to a Limit Order, the order would be assigned a new working time and be ranked under the proposed category of “Priority 2 - Display Orders.” This functionality is consistent with the current rule, which provides that a Stop Limit Order is not displayed and has no standing in any Order Process in the Consolidated Book, unless or until it is triggered. The proposed rule is designed to provide greater granularity and clarity.

Proposed Rule 6.62P-O(d)(5)(B) would specify additional events that are designed to limit when a Stop Limit Order may be elected so that a Limit Order would not have a possibility of trading or being added to the Consolidated Book during a period of pricing uncertainty.

- Proposed Rule 6.62P-O(d)(5)(B)(i) would provide that if not elected on arrival, a Stop Limit Order that is resting would not be eligible to be elected based on a Consolidated Last Sale unless the Consolidated Last Sale is equal to or in between the NBBO.
- Proposed Rule 6.62P-O(d)(5)(B)(ii) would provide that a Stop Limit Order would not be elected if the NBBO is crossed.

Orders with Instructions Not to Route. Currently, the Exchange defines non-routable orders in Rule 6.62-O as a PNP Order (which includes a Repricing PNP Order (“RPNP”)) (current Rule 6.62-O(p)), a Liquidity Adding Order (“ALO”) (which includes a Repricing ALO (“RALO”)) (current Rule 6.62-O(t)); a PNP-Blind Order (current Rule 6.62-O(u)); and a PNP-Light Order (Rule 6.62-O(v)). The Exchange also defines Intermarket Sweep Orders (current Rule 6.62-O(aa)), which are also non-routable.

The Exchange separately defines quotes -- all of which are non-routable<sup>87</sup> -- in Rule 6.37A-O and such quotes may be designated as a Market Maker - Light Only Quotation (“MMLO”) (current Rule 6.37A-O(a)(3)(A)); a Market Maker - Add Liquidity Only Quotation (“MMALO”) (current Rule 6.37A-O(a)(3)(B)); and a Market Maker - Repricing Quotation (“MMRP”) (current Rule 6.37A-O(a)(3)(C)). On the OX system, Market Maker quotes not designated as MMALO or MMRP will cancel (rather than reprice) if they would lock or cross the NBBO, per Rule 6.37A-O(a)(4)(C).

On Pillar, the Exchange proposes to streamline the non-routable order types and quotes that would be available for options trading, use terminology that is similar to how non-routable orders are described for cash equity trading as described in Rule 7.31-E(e), and describe the functionality that would be applicable to both

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<sup>87</sup> See Rule 6.37A-O(a)(2) (providing that “[a] quotation will not route”).



orders and quotes in proposed Rule 6.62P-O(e).<sup>88</sup> As described in greater detail below, proposed Rule 6.37AP-O governing Market Maker Quotations would no longer define how quotations would function. Instead, that rule would specify that a Market Maker may designate either a Non-Routable Limit Order or ALO Order as a Market Maker quote. Because the way in which non-routable orders and quotes would function on Pillar would be virtually identical (with differences described below), and because Market Makers could enter a Non-Routable Limit Order or an ALO Order and then choose to designate it either as a quote or an order, the Exchange believes that it would promote transparency in Exchange rules to consolidate the description of the functionality in a single rule and eliminate duplication in Exchange rules. As described below, proposed Rule 6.37A-O would cross reference proposed Rule 6.62P-O(e).

On Pillar, the Exchange would no longer offer functionality based on the PNP-Blind Order, PNP-Light Order, or MMLO because it believes that the proposed orders/quotes with instructions not to route on Pillar would continue to provide OTP Firms and OTP Holders with the core functionality associated with these existing order and quotation types, including that the proposed rules would provide for non-routable functionality and the ability to either reprice or cancel such orders/quotes. In addition, as discussed above, the Exchange believes that the proposed Non-Displayed Limit Order would provide functionality similar to what is currently available with the PNP-Blind Order, thus obviating the need for the Exchange to offer PNP-Blind Orders under Pillar.<sup>89</sup>

*Non-Routable Limit Order.* Proposed Rule 6.62P-O(e)(1) would define the Non-Routable Limit Order. As explained further below, this proposed order type incorporates functionality currently available in both the existing PNP and RPNP order types, as defined in Rule 6.62-O, and the existing MMRP quotation type, as defined in Rule 6.37A-O(a)(3)(C),<sup>90</sup> and uses Pillar terminology. As described below, a Market Maker can designate a Non-Routable Limit Order as either a quote or an order and such interest so designated would be handled the same except as specified below. Accordingly, references to the capitalized term “Non-Routable Limit Order” describes functionality for either a quote or an order,

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<sup>88</sup> As discussed, supra, regarding proposed Rule 6.76P-O(g), the Exchange proposes to include details about ranking of orders and quotes with contingencies in this proposed Rule 6.62P-O(e) using the Pillar priority scheme. Also, as discussed infra, see e.g., note 44, the ranking and priority of quotes under Pillar is consistent with handling on the OX system unless otherwise noted herein.

<sup>89</sup> See discussion, infra, regarding Non-Displayed Limit Orders generally, per proposed Rule 6.62P-O(e).

<sup>90</sup> Both RPNPs and MMRPs function similarly. Compare current Rule 6.37A-O(a)(4)(B) and subparagraphs (i) and (ii) with current Rule 6.62-O(p)(1)(A) and subparagraphs (i) and (ii). They are defined in separate rules only because the former is for quotes and the latter for orders.

unless otherwise specified.

Proposed Rule 6.62P-O(e)(1) would provide that a Non-Routable Limit Order is a Limit Order or quote that does not route and may be designated Day or GTC and would further provide that a Non-Routable Limit Order with a working price different from the display price would be ranked under the proposed category of “Priority 3-Non-Display Orders” and a Non-Routable Limit Order with a working price equal to the display price would be ranked under the proposed category of “Priority 2-Display Orders.” This proposed rule uses Pillar terminology and describes the same functionality as set forth in the Exchange’s cash equity market in Rules 7.31-E(e)(1) and 7.31-E(e)(1)(B), including references to the Pillar concepts of “working” and “display” price as well to Priority rankings as proposed in Rule 6.76P-O(e)(2), (3). This proposed rule also describes functionality similar to that described in the first clause of current Rule 6.62-O(p) relating to a PNP Order, which states that the portion of such order not executed on arrival is ranked in the Consolidated Book without routing any portion of the order to another Market Center (although the current rule does not include Pillar concepts of “working” and “display” price or Pillar Priority rankings).

Proposed Rule 6.62P-O(e)(1)(A) would provide that a Non-Routable Limit Order would not be displayed at a price that would lock or cross the ABBO and that a Non-Routable Limit Order to buy (sell) would trade with orders or quotes to sell (buy) in the Consolidated Book priced at or below (above) the ABO (ABB). This proposed text is designed to provide granularity that a Non-Routable Limit Order would never be displayed at a price that would lock or cross the ABBO, which is consistent with current PNP and RPNP Order functionality and with current Market Maker quoting functionality, as described in Rules 6.62-O(p), (p)(1), and 6.37A-O(a)(3)-(4), respectively. The Exchange proposes to use the term “ABBO” to provide more granularity in Exchange rules.

Proposed Rule 6.62P-O(e)(1)(A)(i) would provide that a Non-Routable Limit Order can be designated to be cancelled if it would be displayed at a price other than its limit price. This would be an optional designation and would provide OTP Holders and OTP Firms with functionality similar to how a PNP Order or a Market Maker quote not designated as MMALO or MMRP currently functions, which cancel if such order or quote locks or crosses the NBBO.<sup>91</sup> The Exchange proposes a substantive difference from the current PNP Order functionality such that if an OTP Holder or OTP Firm opts to cancel instead of reprice a Non-Routable Limit Order, such order would be cancelled only if it could not be displayed at its limit price -- which could be because the order would be repriced

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<sup>91</sup> A PNP Order cannot route, and any unexecuted portion is ranked in the Consolidated Book except that such order is canceled if it would lock or cross the NBBO. See Rule 6.62-O(p). A Market Maker quote not designated as MMALO or MMRP will cancel (rather than reprice) if such quote would lock or cross the NBBO. See Rule 6.37A-O(a)(4)(C).

to display at a price that would not lock or cross the ABBO or because it would be repriced due to Trading Collars.<sup>92</sup> Stated otherwise, if a Non-Routable Limit Order with a designation to cancel could be displayed at its original limit price and not lock or cross the ABBO, such order or quote would not be cancelled. The Exchange believes that the proposed rule provides granularity of the operation of a Non-Routable Limit Order and when such order or quote would be cancelled, if so designated, including specifying circumstances when such order could be repriced, such as to avoid locking or crossing the ABBO or because of Trading collars. This proposed functionality is not currently available for cash equity trading.

Proposed Rule 6.62P-O(e)(1)(A)(ii) would provide that if not designated to cancel, if the limit price of a Non-Routable Limit Order to buy (sell) would lock or cross the ABO (ABB), it would be repriced to have a working price equal to the ABO (ABB) and a display price one MPV below (above) that ABO (ABB). Accordingly, the proposed Non-Routable Limit Order, if not designated to cancel, would reprice in the same manner as an RPNP order or MMRP quotation reprices on arrival per Rules 6.62-O(p)(1)(A) and 6.37A-O(a)(4)(B), which both offer similar functionality. The Exchange proposes functionality on Pillar for the Non-Routable Limit Order that is consistent with but different in application to the RPNP Order or MMRP on OX. Specifically, proposed Rule 6.62P-O(e)(1)(B) would provide that the display price of a resting Non-Routable Limit Order to buy (sell) that has been repriced would be repriced higher (lower) only one additional time.<sup>93</sup> If after that second repricing, the display price could be repriced higher (lower) again, the order can be designated to either remain at its last working price and display price or be cancelled, provided that a resting Non-Routable Limit Order that is designated as a quote cannot be designated to be cancelled.<sup>94</sup>

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<sup>92</sup> Current Rule 6.62-O(p)(1)(B) provides that an incoming RPNP order would cancel if its limit price is more than a configurable number of MPVs outside its initial display price (on arrival). Under Pillar, because Trading Collars would be applicable to Non-Routable Limit Orders (and such orders may be repriced or “collared” on arrival), the Exchange does not propose to cancel an incoming Non-Routable Limit Order if its limit price is more than a configurable number of MPVs outside its initial display price. As such, this aspect of RPNP functionality is not incorporated in the proposed Pillar rules and the Exchange instead proposes to incorporate Trading Collar functionality into the Non-Routable Limit Order.

<sup>93</sup> For example, on arrival, a Non-Routable Limit Order to buy (sell) with a limit price higher (lower) than the ABO (ABB), would have a display price one MPV below (above) the ABO (ABB) and a working price equal to the ABO (ABB). If the ABO (ABB) reprices higher (lower), the resting Non-Routable Limit Order to buy (sell) would similarly be repriced higher (lower). If the ABO (ABB) adjusts higher (lower) again, the resting Non-Routable Limit Order would not be adjusted again.

<sup>94</sup> The working time of a Non-Routable Limit Order would be adjusted as described in proposed Rule 6.76P-O(f)(2), which would be applicable to any scenario when

As compared to the proposal on Pillar to limit the number of times that Non-Routable Limit Orders may be repriced, the OX system restricts repricing of RPNPs and MMRPs based on the limit price of the interest being a configurable number of MPVs away from its initial display price.<sup>95</sup> The Exchange therefore believes that the proposed functionality is consistent with current functionality because in either case, there will be limited repricing of resting interest, and adds determinism to order execution based on the explicit restriction on the number of times resting interest may be repriced.

The Exchange notes that a designation to cancel after an order has been repriced once is separate from the designation to cancel if a Non-Routable Limit Order cannot be displayed at its limit price. When a Non-Routable Limit Order is designated to cancel if it cannot be displayed at its limit price, there is no repricing and therefore the option of a second cancellation designation is moot. Rather, this second cancellation designation is applicable only to a resting Non-Routable Limit Order that has been designated to reprice on arrival and was repriced before it was displayed on the Consolidated Book. This functionality provides OTP Holders and OTP Firms with an option to cancel a resting order if market conditions are such that a resting order could be repriced again, e.g., the contra-side ABBO changes. The Exchange proposes that this second cancellation option would not be available for any Non-Routable Limit Orders designated by a Market Maker as a quote. The Exchange believes that this proposed difference would assist Market Makers in maintaining quotes in their assigned series by reducing the potential to interfere with a Market Maker's ability to maintain their continuous quoting obligations.<sup>96</sup>

Proposed Rule 6.62P-O(e)(1)(B)(i) would provide that if the limit price of the resting Non-Routable Limit Order to buy (sell) that has been repriced no longer locks or crosses the ABO (ABB), it would be assigned a working price and

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the working time of an order may change, including a Non-Routable Limit Order. Similar to how the Pillar rules function on the Exchange's cash equity market, the Exchange does not propose to separately describe how the working time of an order changes in proposed Rule 6.62P-O.

<sup>95</sup> See, e.g., Rule 6.62-O(p)1(B) (providing that “[a]n incoming RPNP will be cancelled if its limit price to buy (sell) is more than a configurable number of MPVs above (below) the initial display price (on arrival), after first trading with eligible interest, if any,” which configurable number of MPVs will be determined by the Exchange and be announced by Trader Update) and Rule 6.37A-O(a)(4)(C) (providing that, an MMRP to buy (sell) will be canceled after trading with marketable interest in the Consolidated Book up (down) to the NBO (NBB), if its limit price is more than a configurable number of MPVs above (below) the initial display price (on arrival)).

<sup>96</sup> Proposed Rules 6.37AP-O(b) and (c) set forth the continuous quoting obligations of Lead Market Makers and Market Makers, respectively.

display price equal to its limit price. This proposed rule text is based on the way in which Non-Routable Limit Orders function on the Exchange's cash equity market, as described in Rule 7.31-E(e)(1)(A)(iv), with a difference that the proposed rule does not include text describing that, in such circumstances, the order "will not be assigned a new working price or display price based on changes to the PBO (PBB)." The Exchange does not propose to include this text because it is redundant of proposed Rule 6.76P-O(b)(3), which describes that once an order is displayed, it can stand its ground if it is locked or crossed by the Away Market PBBO, which is consistent with current functionality as described immediately below.<sup>97</sup>

Proposed Rule 6.62P-O(e)(1)(B)(ii) would provide that the working price of a resting Non-Routable Limit Order to buy (sell) that has been repriced would be adjusted to be equal to its display price if the ABO (ABB) is equal to or lower (higher) than its display price. This proposed rule is based in part on how an RPNP or MMRP reprices when the NBO (NBB) updates to lock or cross its display price (as described in Rules 6.62-O(p)(1)(A)(i) and 6.37A-O(a)(4)(B)(i)) and uses Pillar terminology (i.e., ABBO and concepts of working price and display price).<sup>98</sup> The proposed rule would further provide that once the working price and display price of a Non-Routable Limit Order to buy (sell) are the same, the working price would be adjusted higher (lower) only if the display price of the order is adjusted.<sup>99</sup>

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<sup>97</sup> See discussion supra regarding proposed Rule 6.76P-O(b)(3), which describes how the Exchange would not change the display price of any Limit Orders or quotes ranked under the proposed category of "Priority 2 - Display Orders."

<sup>98</sup> Rule 6.62-O(p)(1)(A)(i) provides that "if the NBO (NBB) updates to lock or cross the RPNP's display price, such RPNP will trade at its display price in time priority behind other eligible interest already displayed at that price." Rule 6.37A-O(a)(4)(B)(i) provides that "if the NBO (NBB) updates to lock or cross the MMRP's display price, such MMRP will trade at its display price in time priority behind other eligible interest already displayed at that price." On Pillar, however, if the NBO (NBB) updates to lock or cross the display price of a Non-Routable Order, and the working price is adjusted to be equal to the display price, the order will not receive a new working time. See discussion supra regarding proposed Rule 6.76P-O(f)(2)(B).

<sup>99</sup> For example, if the ABO is 1.05 and the Exchange receives a Non-Routable Limit Order to buy priced at 1.10, it would be assigned a display price of 1.00 and a working price of 1.05. If the ABO adjusts to 1.00, the working price of the Non-Routable Limit Order to buy would be adjusted to 1.00 to be equal to its display price. However, if the Away Market BO moves back to 1.05, the Non-Routable Limit Order's working price would not adjust again to 1.05 and would stay at 1.00.

Finally, proposed Rule 6.62P-O(e)(1)(C) would provide that the designation to cancel a Non-Routable Limit Order (including those designated as quotations<sup>100</sup>) would not be applicable in an Auction and, per proposed Rule 6.64P-O(g)(2) (described below) such order would participate in an Auction at its limit price. This proposed rule text promotes clarity and transparency that a Non-Routable Limit Order would be eligible to participate in an Auction, but that it would be repriced to its limit price for participation in such Auction, which is consistent with current RPNP functionality, as described in the last sentence of Rule 6.62-O(p) and providing that an RPNP would be processed as a Limit Order and would not be repriced for purposes of participating in an opening or reopening auction. This proposal is also consistent with Rule 6.37A-O(a)(5), which provides that MMRPs received when a series is not open for trading will be eligible to participate in the opening auction and re-opening auction (as applicable) at the limit price of the MMRP.

*ALO Order.* Proposed Rule 6.62P-O(e)(2) would define an ALO Order as a Limit Order or quote that is a Non-Routable Limit Order that would not remove liquidity from the Consolidated Book. This proposed order type incorporates functionality currently available with ALO and RALO order types, as defined in Rule 6.62-O(t), and with the MMALO quotation type, as defined in Rule 6.37A-O(a)(3)(B), with differences described below, including an option to cancel or reprice an ALO Order if such non-routable interest would trade as a liquidity taker. Unless otherwise specified in proposed Rule 6.62P-O(e)(2), an ALO Order would function the same as a Non-Routable Limit Order, including that it would participate in an Auction at its limit price. As described below, per proposed Rule 6.37AP-O, a Market Maker can designate an ALO Order as either a quote or an order and such interest would be handled the same, except as specified below. Accordingly, references to the capitalized term “ALO Order” describe functionality for both quotes and orders.

Proposed Rule 6.62P-O(e)(2)(A) would provide that an ALO Order would not be displayed at a price that would lock or cross the ABBO, would lock or cross displayed interest in the Consolidated Book, or would cross non-displayed interest in the Consolidated Book.<sup>101</sup> Because an ALO Order would never remove liquidity, this proposed rule text ensures that such ALO Order would not be displayed at a price that would lock or cross displayed interest either on the

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<sup>100</sup> See discussion, *infra*, regarding proposed Rule 6.64P-O(g)(1), which provides that “all resting Market Maker quotations” -- including Non-Routable Limit Orders designated as quotations -- will be canceled in the event of a Trading Halt, which functionality is consistent with current Rule 6.37A-O(a)(5), which likewise provides that “[a]ll resting quotations will be cancelled in the event of a trading halt”).

<sup>101</sup> This functionality is consistent with the current rule, which states that an ALO Order is accepted only if it is “*not* executable at the time of receipt” (emphasis added). See Rule 6.62-O(t).

Exchange or an Away Market, and would not be displayed at a price that crosses non-displayed interest in the Consolidated Book. This proposed rule text is consistent with current functionality, as described for MMALO in Rule 6.37A-O(a)(3)(B) and for Liquidity Adding Order in Rule 6.62-O(t), that such quotes or orders would not trade as takers.

Proposed Rule 6.62P-O(e)(2)(A)(i) would provide that an ALO Order can be designated to be cancelled if it would be displayed at a price other than its limit price. This proposed designation to cancel would be optional and an ALO Order so designated would function similarly to a Liquidity Adding Order, as defined in Rule 6.62-O(t), which is rejected if it would be marketable against the NBBO. While the Exchange does not currently offer a cancellation option for a quote designated as MMALO, the default behavior for any Market Maker quote on the OX system is to cancel if such quote locks or crosses the NBBO and is not designated as MMALO (or MMRP).

Proposed Rule 6.62P-O(e)(2)(A)(ii) would provide that an ALO Order to buy (sell) would be displayed at its limit price if it locks non-displayed orders or quotes to sell (buy) on the Consolidated Book. This proposed functionality would be new for options trading on Pillar.<sup>102</sup> Allowing a conditional order to lock interest in the Consolidated Book is consistent with current functionality for other non-displayed orders. For example, an AON is a non-displayed conditional order type that could be priced to trade at a price that locks contra-side interest, but the interest would not interact if the AON condition could not be satisfied, in which case, two orders with locking prices, one that is non-displayed, would both be accepted by the Exchange. The proposed ALO Order is also a conditional order type because it can never be a liquidity taker. The Exchange believes that allowing an ALO Order to lock non-displayed interest would reduce potential repricing or cancellation events for an incoming ALO Order and would likewise reduce potential information leakage about non-displayed interest in the Consolidated Book. This behavior is also consistent with how ALO Orders function on the Exchange's cash equity platform.<sup>103</sup> Because an ALO Order would not be repriced in this scenario, this functionality would be the same regardless of whether the ALO Order includes the optional designation to cancel.

Proposed Rule 6.62P-O(e)(2)(A)(iii) would provide that an ALO Order to buy (sell) would not consider an AON Order or an order with an MTS Modifier to sell (buy) for purposes of determining whether it needs to be repriced or cancelled. This proposed rule would be new functionality and is designed to promote

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<sup>102</sup> Currently, an order designated as a RALO to buy (sell) that would trade with any undisplayed sell (buy) interest will be displayed at a price one MPV below (above) that undisplayed sell interest. See Rule 6.62-O(t)(1)(A). See also Rule 6.37A-O(a)(4)(A)(i) (describing similar functionality for a quote designated as a MMALO).

<sup>103</sup> See, e.g., Rule 7.31-E(e)(2)(B)(iv).

transparency that a resting contra-side order with conditional instructions, i.e., an AON Order or an order with an MTS Modifier, would not have any bearing on whether an Aggressing ALO Order would need to be repriced. Accordingly, an ALO Order would not trade as the liquidity taker with such orders (even if it could satisfy their size condition) and could be displayed at a price that would lock or cross the price of such orders. Once the ALO Order is resting on the Consolidated Book, the Exchange would reevaluate the orders on the Consolidated Book. For example, if the ALO Order could satisfy the size condition of the resting AON Order, the resting AON Order would become the Aggressing Order and would trade as the liquidity taker with such resting ALO Order.

Proposed Rule 6.62P-O(e)(2)(B) would describe how an ALO Order would be processed if it is not designated to cancel, as follows:

- If the limit price of an ALO Order to buy (sell) would lock or cross displayed orders or quotes to sell (buy) on the Consolidated Book, it would be repriced to have a working price and display price one MPV below (above) the lowest (highest) priced displayed order or quote to sell (buy) on the Consolidated Book (proposed Rule 6.62P-O(e)(2)(B)(i)). This proposed rule is consistent with how both RALO and MMALO reprice under current rules.<sup>104</sup>
- If the limit price of an ALO Order to buy (sell) would lock or cross the ABO (ABB), it would be repriced to have a working price equal to the ABO (ABB) and a display price one MPV below (above) the ABO (ABB) (proposed Rule 6.62P-O(e)(2)(B)(ii)). This proposed functionality is consistent with how both RALO and MMALO reprice under current rules.<sup>105</sup>
- If the limit price of an ALO Order to buy (sell) would cross non-displayed orders or quotes<sup>106</sup> on the Consolidated Book, it would be repriced to have a working price and display price equal to the lowest (highest) priced non-displayed order or quote to sell (buy) on the Consolidated Book (proposed Rule 6.62P-O(e)(2)(B)(iii)). This functionality would be new on Pillar for

<sup>104</sup> Current Rule 6.62-O(t)(1) provides that a RALO will be repriced instead of rejected if it would trade as a liquidity taker or display at a price that locks or crosses any interest on the Exchange or the NBBO. Current Rule 6.62-O(t)(1)(A) further provides that if an RALO would trade with any displayed or undisplayed contra-side interest on the Consolidated Book, it would be displayed at a price one MPV inside such interest. See also Rule 6.37-O(a)(4)(A)(i).

<sup>105</sup> See Rules 6.62-O(t)(1)(A) and 6.37A-O(a)(4)(A)(i).

<sup>106</sup> For example, a contra-side Market Maker quote designated as a Non-Routable Limit Order could have a non-displayed working price.



options trading and would provide that an ALO Order would never take liquidity thereby eliminating the potential for an ALO to cross non-displayed interest in the Consolidated Book. This proposed functionality is therefore different not only from how RALOs and MMALOs currently function, but is also different from how ALO Orders currently function on the Exchange's cash equity market.<sup>107</sup> For the reasons discussed above, the Exchange believes that displaying ALO Orders at a price that locks the best-priced non-displayed interest would reduce potential information leakage about the non-displayed orders on the Consolidated Book.

Because an ALO would never be a liquidity-taking order, the above-described repricing scenarios provide clarity and transparency regarding how an ALO Order would be repriced (or cancelled, if this optional designation is selected) to prevent either trading with interest on the Consolidated Book or routing to an Away Market. Accordingly, with the exception of how an ALO Order that locks or crosses non-displayed interest would be processed, the proposed ALO Order would be consistent with the current functionality available for RALO, as described in Rule 6.62-O(t)(1)(A) and for MMALO, as described in Rule 6.37-O(a)(4)(A).

Proposed Rule 6.62P-O(e)(2)(C) would provide that the display price of a resting ALO Order to buy (sell) that has been repriced would be repriced higher (lower) only one additional time and that if, after that repricing, the display price could be repriced higher (lower) again, the order can be designated to either remain at its last working price and display price or be cancelled, provided that a resting ALO Order that is a quote cannot be designated to be cancelled. This proposed functionality would be new to Pillar and is based on how the proposed Non-Routable Limit Order would function, as described above.<sup>108</sup> Consistent with the treatment of Non-Routable Limit Orders designated as Market Maker quotations, the Exchange likewise proposes that this second cancellation designation would not be available for an ALO Order designated by a Market Maker as a quote. The purpose of this proposed functionality is to assist Market Makers in maintaining quotes in their assigned series and to avoid any interference with Market Makers' ability to maintain their continuous quoting obligations.<sup>109</sup>

Proposed Rule 6.62P-O(e)(2)(C)(i) would provide that if the limit price of an ALO Order to buy (sell) that has been repriced no longer locks or crosses

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<sup>107</sup> See Rule 7.31-E(e)(2)(B)(ii).

<sup>108</sup> This proposed feature to limit the number of times an ALO Order may be repriced differs from the treatment of RALOs, which may be continuously repriced (both the displayed and undisplayed price) as interest in the Consolidated Book or NBBO moves. See Rule 6.62-O(t)(1)(A).

<sup>109</sup> Proposed Rules 6.37AP-O(b) and (c) set forth the continuous quoting obligations of Lead Market Makers and Market Makers, respectively.

displayed orders or quotes in the Consolidated Book, locks or crosses the ABBO, or crosses non-displayed orders or quotes in the Consolidated Book, it would be assigned a working price and display price equal to its limit price. This proposed rule text is similar to proposed Rule 6.62P-O(e)(1)(B)(i) for Non-Routable Limit Orders, with differences to reflect the additional circumstances when an ALO Order would be repriced based off of contra-side displayed or non-displayed interest in the Consolidated Book because, unlike a Non-Routable Limit Order, an ALO Order would not trade as a liquidity taker. The proposed rule is designed to provide granularity and clarity regarding when a resting ALO Order would be assigned a working price and display price equal to its limit price.<sup>110</sup>

Proposed Rule 6.62P-O(e)(2)(D) would provide that the working price of a resting ALO Order to buy (sell) that has been repriced would be adjusted to be equal to its display price (and would not be adjusted again unless the display price of the order is adjusted) if:

- the ABO (ABB) re-prices to be equal to or lower (higher) than the display price of the resting ALO Order to buy (sell) (proposed Rule 6.62P-O(e)(2)(D)(i)); or
- an ALO Order or Day ISO ALO to sell (buy) is displayed on the Consolidated Book at a price equal to the working price of the resting ALO Order to buy (sell) (proposed Rule 6.62P-O(e)(2)(D)(ii)).

This proposed rule text is similar to proposed Rule 6.62P-O(e)(1)(C) for Non-Routable Limit Orders, with differences to reflect the additional circumstances when an ALO Order would be repriced as a result of contra-side interest on the Consolidated Book so that the ALO Order would not be a liquidity taker. Specifically, the Exchange proposes that for an ALO Order that has been repriced and has a non-displayed working price, if the Exchange receives a contra-side ALO Order (or Day ISO ALO) with a limit price that is equal to or crosses the working price of the resting ALO Order, the working price of the resting ALO Order would be adjusted to be equal to its display price. This proposed functionality would reduce the potential for two contra-side ALO Orders to have working prices that are locked on the Consolidated Book. The proposed rule text is designed to provide more granularity than the current Rule regarding circumstances when an ALO Order would be repriced.

Proposed Rule 6.62P-O(e)(2)(E) would provide that when the working price and display price of an ALO Order to buy (sell) are the same, the working price would be adjusted higher (lower) only if the display price of the order is adjusted. This

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The proposed rule is similar to RALO functionality currently described in Rule 6.62-O(t)(1)(A)(ii) (if the NBO (NBB) updates to lock or cross the RALO's display price, such RALO will trade at its display price"). See also Rule 6.37A-O(a)(4)(A)(i)(b) (describing similar functionality for MMALO).

proposed functionality would be new for Pillar and is not currently available on the Exchange's cash equity platform.

Proposed Rule 6.62P-O(e)(2)(F) would provide that the ALO designation would be ignored for ALO Orders that participate in an Auction, including those designated as quotations.<sup>111</sup> This proposed rule is based on Rule 7.31-E(e)(2)(A), which similarly provides that an ALO Order can participate in an auction and that its ALO designation would be ignored. This is also new functionality for options because currently, the Exchange rejects ALOs and MMALOs if entered outside of Core Trading Hours or during a trading halt and if resting, are cancelled during a trading halt.<sup>112</sup> The Exchange proposes this new functionality to provide such ALO Orders with an execution opportunity in an Auction.

*Intermarket Sweep Order ("ISO")*. ISOs are currently defined in Rule 6.62-O as 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 Away Market Protected Quotations<sup>113</sup> and that 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). The Exchange proposes to offer identical functionality on Pillar and to describe such functionality in proposed Rule 6.62P-O(e)(3) using Pillar terminology, including that an ISO is a Limit Order that does not route and meets the requirements of Rule 6.92-O(a)(8).

Currently, an ISO must be entered with a time-in-force of IOC. On Pillar, the Exchange proposes to add the ability for an OTP Holder or OTP Firm to designate an ISO either as IOC, which is current functionality, or with a Day time-in-force designation, which would be new for options trading. The Exchange also proposes to offer new functionality for options trading to designate a Day ISO as ALO. Both the proposed Day ISO and Day ISO ALO functionality are available on the Exchange's cash equity market as described in Rule 7.31-E(e)(3). The Exchange proposes to describe the functionality for each type of ISO separately,

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<sup>111</sup> See discussion, *infra.* regarding proposed Rule 6.64P-O(g)(1), which provides that "all resting Market Maker quotations" -- including ALO Orders designated as quotations -- will be canceled in the event of a Trading Halt, which functionality is consistent with current Rule 6.37A-O(a)(5), which likewise provides that "[a]ll resting quotations will be cancelled in the event of a trading halt").

<sup>112</sup> See Rules 6.62-O(t) and 6.37A-O(a)(3)(B), for ALO Orders and MMALOs, respectively.

<sup>113</sup> The terms "Protected Bid," "Protected Offer," and "Quotation" are defined in Rule 6.92-O(a)(15) and (16) and the term "Away Market" is defined in Rule 1.1. Accordingly, Away Market Protected Quotations refer to Protected Bids and Protected Offers that are disseminated pursuant to the OPRA Plan and are the Best Bid and Best Offer displayed by an Eligible Exchange, as those terms are defined in Rule 6.92-O.

as follows:

- *IOC ISO*. Proposed Rule 6.62P-O(e)(3)(A) would define an IOC ISO as an ISO designated IOC to buy (sell) that would be immediately traded with orders and quotes to sell (buy) in the Consolidated Book up to its full size and limit price and may trade through Away Market Protected Quotations and any untraded quantity of an IOC ISO would be immediately and automatically cancelled. This proposed rule uses the same Pillar terminology as used in Rule 7.31-E(e)(3)(B) to describe functionality that would be offered on Pillar without any differences from how ISOs currently function. The Exchange proposes a non-substantive difference in the proposed Pillar options rule to reference that an IOC ISO may trade through Away Market Protected Quotations, which is consistent with both current options and cash equity platform functionality.
- *Day ISO*. Proposed Rule 6.62-O(e)(3)(B) would define a Day ISO as an ISO designated Day to buy (sell) that, if marketable on arrival, would be immediately traded with orders and quotes to sell (buy) in the Consolidated Book up to its full size and limit price and may trade through Away Market Protected Quotations and that any untraded quantity of a Day ISO would be displayed at its limit price and may lock or cross Away Market Protected Quotations at the time the Day ISO is received by the Exchange. As noted above, this proposed functionality (allowing Day designation for ISOs) would be new on the Exchange for options trading and would offer market participants additional control over their trading interest. The proposed rule is substantively identical to the Day ISO functionality available on the Exchange’s cash equity market, as described in Rule 7.31-E(e)(3)(C), with a non-substantive difference to use the phrase “may lock or cross Away Market Protected Quotations at the time the Day ISO is received by the Exchange” instead of “may lock or cross a protected quotation that was displayed at the time of arrival of the Day ISO.” These proposed textual differences are designed to promote clarity and transparency without any substantive differences. The availability of the Day time-in-force designation for ISOs would not be new for options trading, however, as such orders are currently available on other options exchanges.<sup>114</sup> The proposed Day ISO is also consistent with current Rule 6.95-O(b)(3), which describes an exception to the prohibition on locking or crossing a Protected Quotation if the Member simultaneously routed an ISO to execute against the full displayed size of any locked or crossed

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<sup>114</sup> See Nasdaq Options 3, Section 7(a)(7) (“ISOs may have any time-in-force designation . . .”) and Cboe Rules 5.30(a)(2) and (3). See also Cboe US Options Fix Specifications, dated June 15, 2021, Section 4.4.7, available here: [http://cdn.cboe.com/resources/membership/US\\_Options\\_FIX\\_Specification.pdf](http://cdn.cboe.com/resources/membership/US_Options_FIX_Specification.pdf), which references how a Day ISO would be processed under specified circumstances.

Protected Bid or Protected Offer.<sup>115</sup> Although the Exchange has not previously availed itself of this exception, this exception to locking and crossing Protected Bids and Protected Offers would only be needed if an ISO is designated as Day and therefore would be displayed at a price that would lock or cross a Protected Quotation; an IOC ISO would never be displayed and therefore this existing exception would not be applicable to such orders.

- *Day ISO ALO*. Proposed Rule 6.62P-O(e)(3)(C) would define a Day ISO ALO as a Day ISO with an ALO modifier. This proposed order type would be new for options trading and is based on the Day ISO ALO currently available on the Exchange's cash equity market, as described in Rule 7.31-E(e)(3)(D), with differences to reflect how the order type would function on the Exchange's options market. Specifically, similar to the differences between the proposed ALO Order for options trading on Pillar, as compared to the cash equity version of the ALO Order, for options trading, a Day ISO with an ALO designation would not trade as liquidity taker.

As proposed, on arrival, a Day ISO ALO to buy (sell) may lock or cross Away Market Protected Quotations, but would not remove liquidity from the Consolidated Book, which is how the Exchange proposes that ALO Orders would function on Pillar and consistent with current options functionality for RALO as described herein.<sup>116</sup> A Day ISO ALO to buy (sell) can be designated to be cancelled if it would be displayed at a price

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<sup>115</sup> The Commission has previously stated that the requirements in the Options Linkage Plan relating to Locked and Crossed Markets are “virtually identical to those applicable to market centers for NMS stock under Regulation NMS.” See also Securities Exchange Act Release No. 60405 (July 30, 2009), 74 FR 39362, 39368 (August 6, 2009) (Order approving Options Linkage Plan). Accordingly, guidance relating to the ISO exception for locked and crossed markets for NMS stocks that specifically contemplate use of Day ISOs is also applicable to options trading. See Responses to Frequently Asked Questions Concerning Rule 611 and Rule 610 of Regulation NMS, FAQ 5.02 (“The ISO exception to the SRO lock/cross rules, in contrast, requires that ISOs be routed to execute against all protected quotations with a price that is *equal* to the display price (*i.e.*, those protected quotations that would be locked by the displayed quotation), as well as all protected quotations with prices that are better than the display price (*i.e.*, those protected quotations that would be crossed by the displayed quotation).” Consistent with this guidance, the Exchange implemented Rule 6.95-O(b)(3). See also Cboe Rule 5.67(b)(3), and Nasdaq Options 5, Section 3(b)(3).

<sup>116</sup> By contrast, the Rule 7.31-E(e)(3)(D) description of Day ISO ALO for cash equity trading incorporates cash equity functionality that an order with an ALO would trade if it crosses the working price of any displayed or non-displayed orders.

other than its limit price, which is similar to the proposed cancellation instruction for ALO Orders for options trading on Pillar, described above. Proposed Rule 6.62P-O(e)(3)(C)(i) would provide that if not designated to cancel, a Day ISO ALO that would lock or cross orders and quotes on the Consolidated Book would be repriced as specified in proposed Rule 6.62P-O(e)(2)(B). This proposed rule therefore incorporates the proposed repricing functionality for ALO Orders for options trading on Pillar with the proposed Day ISO ALO. Proposed Rule 6.62P-O(e)(3)(C)(ii) would provide that, once resting, a DAY ISO ALO would be processed as an ALO Order as specified in proposed Rule 6.62P-O(e)(2)(C) - (G).

Complex Orders. Complex Orders are defined in Rule 6.62-O(e). The Exchange proposes to define Complex Orders for Pillar in proposed Rule 6.62P-O(f) based on Rule 6.62-O(e) and its sub-paragraphs (1) and (2) without any substantive differences. The Exchange proposes to add clarifying text that the different options series in a Complex Order are also referred to as the “legs” or “components” of the Complex Order. The Exchange also proposes that proposed Rule 6.62P-O(f) would provide that a Complex Order would be any order involving the simultaneous purchase and/or sale of “two or more options series in the same underlying security,” and not use the modifier “different” before the phrase “more option series.” The Exchange believes that the word “different” is redundant and unnecessary in this context. In addition, proposed Rule 6.62P-O(f)(1) and (2) would not reference mini-options contracts, which no longer trade on the Exchange.

Cross Orders. Currently, the only electronically-entered cross orders available on the Exchange are Qualified Contingent Cross Orders, which are defined in Rule 6.62-O(bb) and Commentary .02 to Rule 6.62-O. In addition, Rule 6.90-O describes how Qualified Contingent Cross Orders are processed. The Exchange proposes to define the term “Cross Orders” on Pillar as being a Qualified Contingent Cross (“QCC”) Order in proposed Rule 6.62P-O(g). As proposed, QCC Orders on Pillar would function identically to how Qualified Contingent Cross Orders function on the OX system, and for purposes of the rules governing trading on Pillar, the Exchange proposes to merge language from two rules relating to QCC Orders into a single rule, proposed Rule 6.62P-O(g), using Pillar terminology and functionality as described below. Proposed Rule 6.62P-O(g)(1) would describe rules applicable to electronically-entered QCC Orders and Complex QCC Orders. In addition, the Exchange proposes to adopt new Rule 6.62P-O(g)(1)(D) to provide for the trading of complex QCC orders.<sup>117</sup>

Proposed Rule 6.62P-O(g)(1)(A) would provide that a QCC Order must be comprised of an originating order to buy or sell at least 1,000 contracts that is

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<sup>117</sup> See also Complex Pillar Notice, *supra* note 9, (describing proposed Rule 6.91P-O regarding complex order trading on Pillar).

identified as being part of a qualified contingent trade coupled with a contra-side order or orders totaling an equal number of contracts. This proposed rule text is based on Rule 6.62-O(bb) with a non-substantive difference that the Pillar rule would not reference mini-options contracts, which no longer trade on the Exchange. Proposed Rule 6.62P-O(g)(1)(A) would also specify that if a QCC has more than one option leg (a “Complex QCC Order”), each option leg must have at least 1,000 contracts, which is consistent with existing functionality that is not described in the current rule. Complex QCCs which are described below, are available for options trading on other options exchanges, and therefore are not novel.<sup>118</sup> The proposed rule would further provide that a QCC Order that is not rejected per proposed Rule 6.62P-O(g)(1)(C) or (D) would immediately trade in full at its price, would not route, and may be entered with an MPV of \$0.01 regardless of the MPV of the options series<sup>119</sup> and that QCC Orders may be entered by Floor Brokers from the Trading Floor or routed to the Exchange from off-Floor. This proposed rule is consistent with current Rule 6.90-O, which provides that QCC Orders are automatically executed upon entry provided that they meet specified criteria. On Pillar, the Exchange proposes to specify those criteria in proposed Rule 6.62P-O(g)(1)(C), described below. In addition, the proposed Rule would provide that Rule 6.47A-O (related to exposure of orders on the Exchange) does not apply to Cross Orders, which text is substantively identical to Commentary .03 to current Rule 6.90-O.<sup>120</sup>

Proposed Rule 6.62P-O(g)(1)(B) and subparagraphs (i) - (vi) would define a “qualified contingent trade” as a transaction consisting of two or more component orders, executed as agent or principal, where specified requirements are also met and uses the same text as currently set forth in Commentary .02 and subparagraphs (a) - (f) to Rule 6.62-O without any differences.

Proposed Rule 6.62P-O(g)(1)(C) would describe general rules relating to execution of QCC Orders and would provide that a QCC Order with one option leg would be rejected if received when the NBBO is crossed or if it would be traded at a price that (i) is at the same price as a displayed Customer order on the Consolidated Book and (ii) is not at or between the NBBO and would provide that

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<sup>118</sup> See, e.g., Cboe Rule 5.6(c) (setting forth operation of Complex QCC Orders) and MIAX Rule 515(h)(4) (same).

<sup>119</sup> Allowing QCC Orders to trade in pennies under Pillar is consistent with current functionality. See Rule 6.90-O(2) (providing that QCC Orders may only be entered in the regular trading increments applicable to the options class under Rule 6.72-O(b)). Rule 6.72-O(b) provides that minimum trading increment for option contracts traded on NYSE Arca will be one cent (\$0.01) for all series.

<sup>120</sup> Commentary .03 to Rule 6.90-O provides that “NYSE Arca Rule 6.47A-O does not apply to Qualified Contingent Cross Orders.” As noted above, at this time, the Exchange would only be offering QCC Cross Orders and therefore the proposed rule is substantively the same as this current Commentary.

the QCC Order would never trade at a price worse than the Exchange BBO. This proposed rule is based on Rule 6.90-O without any substantive differences but adds detail about pricing of a QCC Order vis a vis the Exchange BBO. The Exchange believes that specifying that a QCC Order would be rejected when the NBBO is crossed, which is new text, provides greater granularity than current Rule 6.90-O(1), which provides that “Qualified Contingent Cross Orders will be automatically cancelled if they cannot be executed.” The other two proposed conditions are identical to the current functionality, as specified in Rule 6.90-O: that Qualified Contingent Cross Orders are automatically executed “provided that the execution (i) is not at the same price as a Customer Order in the Consolidated Book and (ii) is at or between the NBBO.”

Proposed Rule 6.62P-O(g)(1)(D) would describe how Complex QCC Orders would be executed on the Exchange. As proposed, a Complex QCC Order must include a limit price, no option leg would trade at a price worse than the Exchange BBO, and would be rejected if:

- any option leg cannot execute in compliance with proposed paragraph (g)(1)(C) of this Rule (described above), which is consistent with Complex QCC handling on other options exchanges;<sup>121</sup>
- the best-priced Complex Order(s) on the Exchange contain(s) displayed Customer interest and the Complex QCC Order price does not improve such displayed Customer interest by \$0.01 (proposed Rule 6.62P-O(g)(1)(D)(ii)), which is consistent with Complex QCC handling on other options exchanges;<sup>122</sup>
- the price of the QCC Order is worse than the best-priced Complex orders in the Consolidated Book or the prices of the best-priced Complex Orders in the Consolidated Book are crossed (proposed Rule 6.62P-O(g)(1)(D)(iii)), which detail provides additional protections against potentially erroneous executions and adds transparency and granularity to the proposed rule; or

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<sup>121</sup> See, e.g., MIAX Rule 515(h)(4) (which provides that each Complex QCC or “cQCC” is “automatically executed upon entry provided that, with respect to each option leg of the cQCC Order, the execution (i) is not at the same price as a Priority Customer Order on the Exchange’s Book; and (ii) is at or between the NBBO”).

<sup>122</sup> See, e.g., Cboe Rule 5.6(c)(2)(B)(iii) (requiring that the “execution price is better than the price of any complex order resting in the [Cboe Complex Order Book], unless the Complex QCC Order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order”).



- there is no NBO for a given leg (proposed Rule 6.62P-O(g)(1)(D)(iv)), which detail provides additional protections against potentially erroneous executions and adds transparency and granularity to the proposed rule.

This proposed rule text is designed to promote clarity and transparency in Exchange rules regarding the price requirements for a Complex QCC Order, which requirements to protect priority of resting interest are consistent with the rules of other options exchanges, as described above, and to provide additional safeguards against potentially erroneous executions of Complex QCCs.

Proposed Rule 6.62P-O(g)(1)(E) would specify rules governing QCC Orders entered from the Trading Floor, which can be entered only by Floor Brokers,<sup>123</sup> and is based on Commentary .01 to Rule 6.90-O without any substantive differences.<sup>124</sup> The Exchange proposes textual changes as compared to the current Rule that are not designed to change the substance of the Rule, but to instead promote clarity and transparency. The proposed rule would provide that while on the Trading Floor, only Floor Brokers can enter QCC Orders, and that Floor Brokers may not enter QCC Orders for their own account, the account of an associated person, or an account with respect to which it or an associated person thereof exercises investment discretion (each a “prohibited account”). As further proposed, when executing such orders, Floor Brokers would not be subject to Rule 6.47-O regarding “Crossing” orders. Floor Brokers must maintain books and records demonstrating that each QCC Order entered from the Floor was not entered for a prohibited account. Any QCC Order entered from the Floor that does not have a corresponding record required by this paragraph would be deemed to have been entered for a prohibited account in violation of this Rule.

Proposed Rule 6.62P-O(g)(1)(F) would specify rules governing QCC Orders entered off-Floor and that OTP Holders must maintain books and records

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<sup>123</sup> An options Floor Broker is “an individual (either an OTP Holder or OTP Firm or a nominee of an OTP Holder or OTP Firm) who is registered with the Exchange for the purpose, while on the Exchange Floor, of accepting and executing option orders.” See Rule 6.43-O(a).

<sup>124</sup> Commentary .01 to Rule 6.90-O provides: “Qualified Contingent Cross Orders can be entered into the NYSE Arca System from on the Floor of the Exchange only by Floor Brokers. Floor Brokers shall not enter such orders for their own account, the account of an associated person, or an account with respect to which it or an associated person thereof exercises investment discretion (each a ‘prohibited account’). When executing such orders, Floor Brokers shall not be subject to NYSE Arca Rule 6.47-O. Floor Brokers must maintain books and records demonstrating that each Qualified Contingent Cross Order entered from the Floor was not entered for a prohibited account. Any Qualified Contingent Cross Order entered from the Floor that does not have a corresponding record required by this Commentary .01 shall be deemed to have been entered for a prohibited account in violation of this Rule.”

demonstrating that each such order was so routed. This proposed rule is based on Commentary .02 to Rule 6.90-O without any substantive differences.<sup>125</sup> The Exchange proposes textual differences as compared to the current Rule that are not designed to change the substance of the Rule, but instead promote clarity and transparency.

In connection with adding QCC to proposed Rule 6.62P-O, the Exchange proposes to add the following preamble to Rule 6.90-O: “This Rule is not applicable to trading on Pillar.” This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rule 6.90-O would not be applicable to trading on Pillar.

*Orders Available Only in Open Outcry.* The Exchange proposes to add to Rule 6.62P-O(h) orders that are available only in open outcry, most of which are currently defined in Rule 6.62-O.

First, proposed Rule 6.62P-O(h)(1) would codify an existing order type, the Clear-the-Book (“CTB”) Order, which is currently described only in a Regulatory Bulletin.<sup>126</sup> The proposed definition would describe the CTB Order, which would be an order type available in open outcry that would interface with the Consolidated Book, and therefore with Pillar. As proposed, a CTB Order would be a Limit IOC Order that may be entered only by a Floor Broker, contemporaneous with executing an order in open outcry, that is approved by a Trading Official (the “TO Approval”). The CTB Order would be eligible to trade only with contra-side orders and quotes that were resting in the Consolidated Book prior to the TO Approval. In addition, proposed Rule 6.62P-O(h)(1)(A) - (C) would provide that:

- A CTB Order to buy (sell) would trade with contra-side orders and quotes with a display price below (above) the limit price of the CTB Order

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<sup>125</sup> Commentary .02 to Rule 6.90-O provides: “With respect to a Qualified Contingent Cross Order that was routed to the NYSE Arca System from off of the Floor, OTP Holders must maintain books and records demonstrating that each such order was routed to the system from off of the Floor. This provision would not apply to a Qualified Contingent Cross Order covered by Commentary .01 to this NYSE Arca Rule 6.90-O (i.e., a Qualified Contingent Cross Order routed to a Floor Broker for entry into the NYSE Arca System).” The Exchange does not propose to include the last sentence of this Commentary in the proposed Pillar rule because the Exchange does not believe it is necessary to specify that Floor Brokers that enter orders electronically are subject to rules relating to electronic order entry as opposed to rules governing open outcry.

<sup>126</sup> See NYSE Arca Options RB-16-04, dated February 19, 2016 (Rules of Priority and Order Protection in Open Outcry), available here: <https://www.nyse.com/publicdocs/nyse/markets/arca-options/rule-interpretations/2016/NYSE%20Arca%20Options%20RB%2016-04.pdf>.

(proposed Rule 6.62P-O(h)(1)(A));

- A CTB Order to buy (sell) would trade with contra-side orders and quotes that have a display price and working price equal to the limit price of the CTB Order only if there is displayed Customer sell (buy) interest at that price, in which case, the CTB Order to buy (sell) would trade with the displayed Customer interest to sell (buy) and any non-Customer interest to sell (buy) with a working time earlier than the latest-arriving displayed Customer interest to sell (buy) (proposed Rule 6.62P-O(h)(1)(B)); and
- Any unexecuted portion of the CTB Order would cancel after trading with all better-priced interest and eligible same-priced interest on the Consolidated Book (proposed Rule 6.62P-O(h)(1)(C)).

Currently, CTB Orders only trade with displayed Customer interest and any same-priced displayed non-Customer interest ranked ahead of such interest in time priority, but do not trade with better-priced displayed non-Customer interest. In Pillar, per Rule 6.62P-O(h)(1)(B), CTB Orders would trade with displayed non-Customer interest priced better than the latest-arriving displayed Customer interest (i.e., a CTB order buying with a \$1.00 limit would now trade with any displayed interest offered at \$0.99). Because Floor Brokers have an obligation to satisfy better-priced interest on the Consolidated Book, the Exchange believes this proposed change to automate such priority would make it easier for Floor Brokers to comply with Exchange priority rules. In addition, the Exchange believes that this proposed change would increase execution opportunities and achieve the goal of a CTB Order, which is to clear priority on the Consolidated Book at the time of the TO Approval.

In addition, proposed Rule 6.62P-O(h)(1)(D) would codify existing regulatory responsibilities of Floor Brokers utilizing CTB Orders to submit such orders in a timely manner after receiving TO Approval and would also provide that because CTB Orders are non-routable (and thus ineligible to clear Protected Quotations), Floor Brokers would still be obligated to route any other eligible orders (i.e., not the CTB Order) to better-priced interest on Away Markets per Rule 6.94-O.<sup>127</sup>

The Exchange also proposes to include in Rule 6.62P-O additional open outcry order types that are currently defined in Rule 6.62-O:

- Proposed Rule 6.62P-O(h)(2) would define “Facilitation Order” and is based on the Rule 6.62-O(j) definition of Facilitation Order without any differences.

<sup>127</sup>

See id. at p. 2-3 (describing regulatory responsibilities related to CTB Orders, including that it is the Floor Broker’s responsibility to comply with the terms of the Options Order Protection and Locked/Crossed Market Plan, including by sending ISOs to trade with Protected Quotes).

- Proposed Rule 6.62P-O(h)(3) would define “Mid-Point Crossing Order” and is based on the Rule 6.62-O(q) definition of Mid-Point Crossing Order without any differences.
- Proposed Rule 6.62P-O(h)(4) would define “Not Held Order” and is based on the Rule 6.62-O(f) definition of Not Held Order without any differences.
- Proposed Rule 6.62P-O(h)(5) would define “Single Stock Future (“SSF”)/Option Order” and is based on the Rule 6.62-O(i) definition of Single Stock Future (“SSF”)/Option Order without any differences.
- Proposed Rule 6.62P-O(h)(6)(A) would define a “Stock/Option Order” and is based on the Rule 6.62-O(h)(1) definition of Stock/Option Order without any differences.
- Proposed Rule 6.62P-O(h)(6)(B) and subparagraphs (i) and (ii) would define a “Stock/Complex Order” and is based on the Rule 6.62-O(h)(2) definition of Stock/Complex Order with its sub-paragraphs without any differences.

The Exchange proposes that after the transition to Pillar, the following open outcry order types, which are currently described in Rule 6.62-O but are not used by Floor Brokers, would not be added to proposed Rule 6.62P-O governing orders and modifiers: One cancels the other (OCO) Order and Stock Contingency Order.

*Additional Order Instructions and Modifiers.* The Exchange proposes to specify the additional order instructions and modifiers that would be available in Pillar in proposed Rule 6.62P-O(i).

*Proactive if Locked/Crossed Modifier.* Proposed Rule 6.62P-O(i)(1) would provide that a Limit Order that is displayed and eligible to route and designated with a Proactive if Locked/Crossed Modifier would route to an Away Market if the Away Market locks or crosses the display price of the order and that if any quantity of the routed order is returned unexecuted, the order would be displayed in the Consolidated Book. This would be new functionality for options trading on the Exchange and is based on the Proactive if Locked/Crossed Modifier available on the Exchange’s cash equity platform, as described in Rule 7.31-E(i)(1) without any differences. The Exchange believes that offering this as an optional modifier for Limit Orders would provide OTP Holders and OTP Firms with additional flexibility to designate a resting displayed order to route if it becomes locked or crossed by an Away Market.

*Self-Trade Prevention (“STP”) Modifier.* Self-Trade Prevention (“STP”) Modifiers are currently defined in Commentary .01 to Rule 6.76A-O and are

available only for Market Maker orders and quotes. On Pillar, the Exchange proposes to expand the availability of STP to all orders and quotes to offer this protection to trading interest of all OTP Holders and OTP Firms, not just Market Makers. The Exchange believes this expansion is appropriate because it would facilitate market participants' compliance and risk management by assisting them in avoiding unintentional wash-sale trading. Because STP Modifiers are an instruction that can be added to an order or quote, the Exchange proposes that for Pillar, STP Modifiers would be described in proposed Rule 6.62P-O(i)(2). This is based on the structure of the Exchange's cash equity rules, which also describe the STP Modifier in Rule 7.31-E(i), which is available to all market participants.

Proposed Rule 6.62P-O(i)(2) would provide that an Aggressing Order or Aggressing Quote to buy (sell) designated with one of the STP modifiers in proposed Rule 6.62P-O(i)(2) would be prevented from trading with a resting order or quote to sell (buy) also designated with an STP modifier from the same MPID, and, if specified, any sub-identifier of that MPID and that the STP modifier on the Aggressing Order or Aggressing Quote would control the interaction between two orders and/or quotes marked with STP modifiers. In addition, STP would not be applicable during an Auction or to Cross Orders or when a Complex Order legs out. This proposed rule text is based on Commentary .01 to Rule 6.76A with non-substantive differences to use Pillar terminology.

Proposed Rule 6.62P-O(i)(2) would further provide that if the condition for a Limit Order designated FOK, an AON Order, or an arriving order with an MTS modifier designated under proposed Rule 6.62P-O(i)(3)(B)(i) (described below) cannot be met because of STP modifiers, such order would either be cancelled or placed on the Consolidated Book, as applicable. This functionality would be new on Pillar and reflects that for order types that must trade a specified quantity (either in full or a specified minimum quantity) and could trade with multiple contra-side orders to meet that size requirement, such order types would not be compatible with applying STP, which examines a one-on-one relationship between two interacting orders. This proposed rule text provides clarity that if a condition of an order cannot be met because of STP modifiers, the order would either cancel (i.e., a Limit Order designated FOK), or be added to the Consolidated Book (i.e., an AON Order or an order with an MTS modifier), and then such resting orders would function as described in Rule 6.62P-O.

The proposed rule would further provide that Aggressing Orders or Aggressing Quotes would be processed as follows:

- Proposed Rule 6.62P-O(i)(2)(A) would describe STP Cancel Newest ("STPN") and provide that an Aggressing Order or Aggressing Quote to buy (sell) marked with the STPN modifier would not trade with resting interest to sell (buy) marked with any STP modifier from the same MPID; that the Aggressing Order or Aggressing Quote marked with the STPN modifier would be cancelled; and that the resting order or quote marked

with one of the STP modifiers would remain on the Consolidated Book. This proposed rule is based on Commentary .01(a) to Rule 6.76A-O with non-substantive differences to use Pillar terminology.

- Proposed Rule 6.62P-O(i)(2)(B) would describe STP Cancel Oldest (“STPO”) and provide that an Aggressing Order or Aggressing Quote to buy (sell) marked with the STPO modifier would not trade with resting interest to sell (buy) marked with any STP modifier from the same MPID; that the resting order or quote marked with the STP modifier would be cancelled; and that the Aggressing Order or Aggressing Quote marked with the STPO modifier would be placed on the Consolidated Book. This proposed rule is based on Commentary .01(b) to Rule 6.76A-O with non-substantive differences to use Pillar terminology.
- Proposed Rule 6.62P-O(i)(2)(C) would describe STP Cancel Both (“STPC”) and provide that an Aggressing Order or Aggressing Quote to buy (sell) marked with the STPC modifier would not trade with resting interest to sell (buy) marked with any STP modifier from the same MPID and that the entire size of both orders and/or quotes would be cancelled. This proposed rule is based on Commentary .01(c) to Rule 6.76A-O with non-substantive differences to use Pillar terminology.

*Minimum Trade Size Modifier.* The Exchange proposes to add the Minimum Trade Size (“MTS”) Modifier, which would be new functionality for options trading on Pillar that is based on the same functionality currently available for cash equity securities trading on Pillar, as described in Rule 7.31-E(i)(3). The Exchange proposes to provide this modifier for options trading to provide OTP Firms and OTP Holders with more features with respect to order handling. The proposed MTS Modifier is similar in concept to both FOK and AON, which are currently available for options trading. With the MTS Modifier, an OTP Holder or OTP Firm would have greater flexibility to designate a size smaller than the entire quantity (which is current FOK and AON functionality) as a condition for execution. The Exchange notes that the use of an MTS Modifier is not new or novel to options trading.<sup>128</sup>

As with the MTS Modifier for cash equity trading, the proposed MTS Modifier for options traded on Pillar would be available only for non-displayed orders. Accordingly, proposed Rule 6.62P-O(i)(3) would provide that a Limit IOC Order or Non-Displayed Limit Order may be designated with an MTS Modifier.<sup>129</sup>

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<sup>128</sup> See, e.g., Nasdaq Options 3, Section 7(a)(3)(B) (describing “Minimum Quantity Order” as “an order that requires that a specified minimum quantity of contracts be obtained, or the order is cancelled”).

<sup>129</sup> For cash equity trading, the MTS Modifier is also available for an MPL Order or Tracking Order, which are non-displayed order types available on the Exchange’s

Proposed Rule 6.62P-O(i)(3)(A) would provide that the quantity of the MTS Modifier may be less than the order quantity; however, an order would be rejected if it has an MTS Modifier quantity that is larger than the size of the order. This proposed rule is based on Rule 7.31-E(i)(3)(A) with differences only to reflect that the concept of a round lot is not applicable for options trading.

Proposed Rule 6.62P-O(i)(3)(B) would provide that one of the following instructions must be specified with respect to whether an order to buy (sell) with an MTS Modifier would trade on arrival with: (i) orders or quotes to sell (buy) in the Consolidated Book that in the aggregate meet such order's MTS; or (ii) only individual order(s) or quote(s) to sell (buy) in the Consolidated Book that each meets such order's MTS. This proposed rule is based on Rule 7.31-E(i)(3)(B) and sub-paragraphs (i) and (ii) with only non-substantive differences to use options trading terminology (e.g., Consolidated Book instead of NYSE Arca Book and reference to quotes). Otherwise, the functionality would be identical on both the options and cash equity trading platforms.

Proposed Rule 6.62P-O(i)(3)(C) would provide that an order with an MTS Modifier that is designated Day or GTC that cannot be executed immediately on arrival would not trade and would be ranked in the Consolidated Book. In such case, the order to buy (sell) with an MTS Modifier to buy (sell) that is ranked in the Consolidated Book would not be eligible to trade: (i) at a price equal to or above (below) any orders or quotes to sell (buy) that are displayed at a price equal to or below (above) the working price of such order with an MTS Modifier; or (ii) at a price above (below) any orders or quotes to sell (buy) that are not displayed and that have a working price below (above) the working price of such order with an MTS Modifier. This proposed rule is based on Rule 7.31-E(i)(3)(C) and sub-paragraphs (i) and (ii) with only non-substantive differences to use options trading terminology and to reflect the availability of the GTC time-in-force modifier for Non-Displayed Limit Orders. Otherwise, the functionality would be identical on both the options and cash equity trading platforms.

Proposed Rule 6.62P-O(i)(3)(D) would provide that an order with an MTS Modifier that is designated IOC and cannot be immediately executed would be cancelled. This proposed rule is based on Rule 7.31-E(i)(3)(D) without any differences and the functionality would be identical on both the options and cash equity trading platforms.

Proposed Rule 6.62P-O(i)(3)(E) would provide that a resting order to buy (sell) with an MTS Modifier would trade with individual orders and quotes to sell (buy) that each meet the MTS and that (i) if an Aggressing Order or Aggressing Quote to sell (buy) does not meet the MTS of the resting order to buy (sell) with an MTS

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cash equity trading platform that would not be available for options trading on Pillar. See Rule 7.31-E(i)(3).

Modifier, that Aggressing Order or Aggressing Quote would not trade with, and may trade, through such resting order with an MTS Modifier; and (ii) if a resting non-displayed order or quote to sell (buy) did not meet the MTS of a same-priced resting order or quote to buy (sell) with an MTS Modifier, a subsequently arriving order or quote to sell (buy) that meets the MTS would trade before such resting non-displayed order or quote to sell (buy) at that price. This proposed rule is based on Rule 7.31-E(i)(3)(E) and sub-paragraphs (i) and (ii) with only non-substantive differences to use options trading terminology (i.e., refers to an order trading with contra-side quotes). Otherwise, the proposed functionality would be identical on both the options and cash equity trading platforms.

Proposed Rule 6.62P-O(i)(3)(F) would provide that a resting order with an MTS Modifier would be cancelled if it is traded in part or reduced in size and the remaining quantity is less than such order's MTS. This proposed rule is based on Rule 7.31-E(i)(3)(F) without any differences and the functionality would be identical on both the options and cash equity trading platforms.

In connection with proposed Rule 6.62P-O, the Exchange proposes to add the following preamble to Rule 6.62-O: "This Rule is not applicable to trading on Pillar." This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rule 6.62-O would not be applicable to trading on Pillar.

#### Proposed Rule 6.37AP-O: Market Maker Quotations

Current Rule 6.37A-O describes Market Maker quoting obligations, including defining "quotations," describing the treatment of such quotations, and specifying Market Maker and LMM quoting obligations. Proposed Rule 6.37AP-O would set forth Market Maker quoting obligations under Pillar.

As with current functionality, on Pillar, the Exchange would provide Market Makers with the ability to designate bids and offers as quotations, which is unique to options trading and not applicable to cash equity trading. Currently, the Exchange offers designated "quotation" types to Market Makers, which are described in Rule 6.37A-O(a)(3).<sup>130</sup> On Pillar, as described above in connection with proposed Rules 6.62P-O(e)(1) and (2), the Exchange is proposing to offer quotation functionality for Market Makers that would be displayed, traded, repriced, or cancelled in the same manner as Non-Routable Limit Orders and ALO Orders. As such, Market Makers may designate these two "order" types as quotations and, if designated as a quotation, such bids and offers would be displayed, traded, repriced, or cancelled as described in proposed Rule 6.62P-O(e)(1) and (2), as discussed in detail above. In addition, such quotations would

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As described in Rule 6.37A-O(a)(3)(A) - (C), a Market Maker may designate a quote as Market Maker-Light Only Quotation ("MMLO"), Market Maker - Add Liquidity Only Quotation ("MMALO"), and Market Maker - Repricing Quotation ("MMRP").



be ranked and executed as described in proposed Rules 6.76P-O and 6.76AP-O, described above. Moreover, if designated as a quotation, such bids or offers would be identifiable to the Exchange as “quotations,” subject to the Market Maker and LMM requirements relating to quotations and the Exchange would be able to monitor a Market Maker’s compliance with quoting obligations because its bids or offers would be designated as quotations. If a Market Maker does not choose to designate a bid or offer as a quotation, such bid or offer would be processed as an “order” and would not count towards a Market Maker’s quoting obligations.<sup>131</sup>

- Rule 6.37AP-O(a) would be based on current Rule 6.37A-O(a) and would provide that a Market Maker may send quotations only in the issues included in its appointment. This functionality would not be new, and the Exchange proposes one terminology difference from the current Rule to use the term “send” rather than “enter,” which is a stylistic preference that does not alter the functionality.
- Proposed Rule 6.37AP-O(a)(1) would provide that the term “quote” or “quotation” means “a bid or offer sent by a Market Maker that is not sent as an order,” and that “[a] quotation sent by a Market Maker will replace a previously displayed same-side quotation that was sent from the same order/quote entry port of that Market Maker.”<sup>132</sup> This proposed Rule is similar to current Rule 6.37A-O(a)(1), which provides that “[t]he term ‘quote’ or ‘quotation’ means a bid or offer entered by a Market Maker that updates the Market Maker’s previous bid or offer, if any,” with two distinctions. First, the Exchange proposes textual differences to use the terms “sent” and “received” instead of “entered,” which is a stylistic preference that does not alter the functionality. Second, the Exchange proposes additional detail (consistent with current functionality) to make clear that quotations sent by a Market Maker would be replaced, i.e.,

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<sup>131</sup> For example, a Market Maker could choose to designate a Non-Routable Limit Order as either a quote or as an order, which is consistent with current Rule 6.37B-O, which provides that a Market Maker may enter all order types permitted to be entered by Users under the Rules to buy or sell options in all classes of options listed on the Exchange. Accordingly, the functionality set forth in proposed Rule 6.37AP-O(a)(2) herein is not materially different for Market Makers because, under current functionality, they can choose to send as Market Maker orders any order type described in current Rule 6.62-O, including, for example, RPNP, RALO, PNP-Blind Order, and PNP Light Order.

<sup>132</sup> See NYSE Arca Fee Schedule, Port Fees (setting forth fees for order/quote entry ports, which fees are currently \$450 per port per month for the first forty such ports and \$150 per port per month for each port in excess of forty (i.e., 41 and greater), available here: [https://www.nyse.com/publicdocs/nyse/markets/arca-options/NYSE\\_Arca\\_Options\\_Fee\\_Schedule.pdf](https://www.nyse.com/publicdocs/nyse/markets/arca-options/NYSE_Arca_Options_Fee_Schedule.pdf).

“updated,” as the term is used in the current rule, when a new same-side quote is sent via the same order/quote entry port.<sup>133</sup> Because LMMs would be Market Makers on Pillar, this functionality would also be available to LMMs.<sup>134</sup>

The NYSE Arca Fee Schedule makes clear that Market Makers can obtain upwards of forty ports for quote entry. Thus, the Exchange believes that establishing when a Market Maker’s previously displayed same-side quotation would be replaced (i.e., when sent via the same order/quote entry port) would add clarity and transparency to Exchange rules. In addition, because the Exchange proposes that a Market Maker may designate Non-Routable Limit Orders or ALO Orders as quotes, the Exchange proposes a difference from the current Rule to provide that a quote is a bid or offer not designated as an order.

- Proposed Rule 6.37AP-O(a)(2) would provide that a Market Maker may designate either a Non-Routable Limit Order or an ALO Order as a quote and such quotes would be processed as described in proposed Rule 6.62P-O(e).<sup>135</sup> The similarities and differences between the proposed Non-Routable Limit Orders and ALO Orders on Pillar compared to the existing quote types (i.e., MMLO, MMALO and MMRP) are described in more detail above.<sup>136</sup> Because proposed Rule 6.62P-O(e)(1) and (2), described above, would set forth the treatment of a Non-Routable Limit Order or an ALO Order designated as a quote, the Exchange is not proposing to

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<sup>133</sup> On the OX system, a Market Maker’s same-side quote is updated when a Market Maker uses the same OTP for quote entry. Therefore, on the OX system, a Market Maker (not acting as an LMM) that uses multiple OTPs could have more than one same-side quote in a series. As discussed supra, because the OX system utilizes a unique identifier for each LMM to send quotes, under current functionality, an LMM cannot have more than one same-side quote in an assigned series. See supra note 53.

<sup>134</sup> See proposed Rule 1.1 definition of Market Maker, which provides that for purposes of Exchange rules, the term Market Maker includes Lead Market Makers, unless the context otherwise indicates.

<sup>135</sup> See discussion supra regarding proposed Rule 6.62P-O(e)(1) and (2), Non-Routable Limit Order and ALO Orders, respectively, being available as quote types and how such orders compare to the existing MMLO, MMRP, and MMALO quotation functionality.

<sup>136</sup> The Exchange notes that it is not proposing the functionality set forth in current Rule 6.37A-O(a)(4)(C) that provides for the cancellation of a Market Maker’s quote on the opposite side of the market whenever that Market Maker’s same-side quotation is cancelled because such quotation would lock or cross another options exchange is not designated to reprice (i.e., as an MMRP). This current functionality is based on a system limitation that would not exist under Pillar.

include a (duplicative) section in proposed Rule 6.37AP-O regarding the treatment of such quotes.

- Proposed Rule 6.37AP-O(b) - (e) would be substantively identical to current Rule 6.37A-O(b) - (e) with non-substantive differences to change the term “shall” to “will,” which is a stylistic preference that would add consistency to Exchange rules. Proposed Commentary .01 to Rule 6.37AP-O would be substantively identical to Commentary .01 to Rule 6.37A-O, with non-substantive differences to streamline the rule text.

The Exchange also proposes a non-substantive change to paragraph (b) of Rule 6.65A-O (Limit-Up and Limit-Down During Extraordinary Market Volatility) to correct a cross reference to Market Maker quoting obligations as set forth in Rule 6.37AP-O(b) and (c). Current Rule 6.65A(b) erroneously cross-references Rule 6.37B-O(b) and (c).

In connection with proposed Rule 6.37AP-O, the Exchange proposes to add the following preamble to Rule 6.37A-O: “This Rule is not applicable to trading on Pillar.” This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rule 6.37A-O would not be applicable to trading on Pillar.

#### Proposed Rule 6.40P-O: Pre-Trade and Activity-Based Risk Controls

For the OX system, current Rule 6.40-O sets forth the activity-based Risk Limitation Mechanisms for orders and quotes, which are designed to help OTP Holders and OTP Firms effectively manage risk during periods of increased and significant trading activity. With the transition to Pillar, the Exchange proposes to incorporate new risk control functionality that is based on both existing activity-based risk controls for options and pre-trade risk controls that are available on the Exchange’s cash equity platform. Proposed Rule 6.40P-O would describe the activity-based controls with updated functionality under Pillar and would also describe new optional pre-trade risk controls that are based on pre-trade risk controls available on the Exchange’s cash equity platform, as described in Rule 7.19-E, with proposed differences to reference quotes and proposed new Pillar functionality. The Exchange believes that adding pre-trade risk controls (together with the enhanced activity-based controls) for options trading, as described below, would provide greater flexibility to OTP Holders and OTP Firms in establishing risk controls to align with their risk tolerance for both orders and quotes.

Proposed Rule 6.40P-O(a) would set forth the following definitions that would be used for purposes of the Rule:

- The term “Entering Firm” would mean an OTP Holder or OTP Firm (including those acting as Market Makers) (proposed Rule 6.40P-O(a)(1)). This proposed definition is based in part on the definition of “Entering Firm” in Rule 7.19-E(a)(1) and the Exchange believes that

the addition of this term would add clarity to the proposed rule by using a single, defined term to describe which entities, including Market Makers, could avail themselves of the proposed pre-trade risk controls.

- The term “Pre-Trade Risk Controls” would refer to two optional limits that an Entering Firm may utilize with respect to its trading activity on the Exchange (excluding interest represented in open outcry except CTB Orders (proposed Rule 6.40P-O(a)(2)). These controls would be the “Single Order Maximum Notional Value Risk Limit” and the “Single Order Maximum Quantity Risk Limit.” The proposed Pre-Trade Controls are based on the substantially identical risk controls available on the Exchange’s cash equity market, as described in Rules 7.19-E(a)(3) and (4), respectively, but differ in that the proposed rule would also apply to quotes, which are unique to options trading, and specifies the exclusion of interest represented in open outcry, excluding CTB Orders, as well as the treatment of orders designated GTC, which orders are available for options trading but are not offered on the Exchange’s cash equity market.
  - The term “Single Order Maximum Notional Value Risk Limit” would refer to a pre-established maximum dollar amount for a single order or quote to be applied one time (proposed Rule 6.40P-O(a)(2)(A)). This definition would also provide that orders designated GTC would be subject to this pre-trade risk control only once.
  - The term “Single Order Maximum Quantity Risk Limit” would refer to a pre-established maximum number of contracts that may be included in a single order or quote before it can be traded (proposed Rule 6.40P-O(a)(2)(B)). This definition would also provide that orders designated GTC would be subject to this pre-trade risk control only once.
- The term “Activity-Based Risk Controls” would refer to three activity-based risk limits that an Entering Firm may apply to its orders and quotes in an options class (excluding those represented in open outcry except CTB Orders) based on specified thresholds measured over the course of an Interval (to be defined below) (proposed Rule 6.40P-O(a)(3)). The proposed Activity-Based Risk Controls are based on the substantially identical risk controls set forth in current Rule 6.40-O(b)-(d), except that on Pillar, a Market Maker’s orders and quotes would be aggregated and applied towards each risk limit (as opposed to current functionality, where a Market Maker’s orders and quotes are counted separately). The Exchange believes that aggregating a Market Maker’s quotes and orders for purposes of calculating activity-based risk controls would better reflect the

aggregate risk that a Market Maker has with respect to its quotes and orders. The proposed rule would also add detail to make clear that orders and quotes represented in open outcry, except CTB Orders, would not be subject to these controls, which is consistent with current functionality.

- The term “Transaction-Based Risk Limit” would refer to a pre-established limit on the number of an Entering Firm’s orders and quotes executed in a specified class of options per Interval (proposed Rule 6.40P-O(a)(3)(A)). This risk control is based on the substantially identical risk control set forth in current Rule 6.40-O(b), with the difference described above that a Market Maker’s orders and quotes would be aggregated.
- The term “Volume-Based Risk Limit” would refer to a pre-established limit on the number of contracts of an Entering Firm’s orders and quotes that could be executed in a specified class of options per Interval (proposed Rule 6.40P-O(a)(3)(B)). This risk control is based on the substantially identical risk control set forth in current Rule 6.40-O(c), with the difference described above that a Market Maker’s orders and quotes would be aggregated.
- The term “Percentage-Based Risk Limit” would refer to a pre-established limit on the percentage of contracts executed in a specified class of options as measured against the full size of such Entering Firm’s orders and quotes executed per Interval (proposed Rule 6.40P-O(a)(3)(C)). The proposed definition would also provide that to determine whether an Entering Firm has breached the specified percentage limit, the Exchange would calculate the percent of each order or quote in a specified class of option that is executed during an Interval (each, a “percentage”), and sum up those percentages. As further proposed, this definition would state that this risk limit would be breached if the sum of the percentages exceeds the pre-established limit. This risk control is based on the substantially identical risk control set forth in current Rule 6.40-O(d), with the difference described above that a Market Maker’s orders and quotes would be aggregated.
- The term “Global Risk Control” would refer to a pre-established limit on the number of times an Entering Firm may breach its Activity-Based Risk Controls per Interval (proposed Rule 6.40P-O(a)(4)). This proposed definition is based on the substantially identical functionality set forth in current Rule 6.40-O(f).

- The term “Interval” would refer to the configurable time period during which the Exchange would determine if an Activity-Based Risk Control or the Global Risk Control has been breached (proposed Rule 6.40P-O(a)(5)). This proposed definition is consistent with current Rule 6.40-O, which contains references throughout to a “time period” during which the Exchange will determine whether a breach has occurred. The Exchange believes this proposed definition would add clarity and transparency to Exchange rules.

Proposed Rule 6.40P-O(b) would set forth how the Pre-Trade, Activity-Based and Global Risk Controls could be set or adjusted. Proposed Rule 6.40P-O(b)(1) would provide that these risk controls may be set before the beginning of a trading day and may be adjusted during the trading day. Proposed Rule 6.40P-O(b)(2) would provide that Entering Firms may set these risk controls at the MPID level or at one or more sub-IDs associated with that MPID, or both. Proposed Rule 6.40P-O(b) is based on Rule 7.19-E(b)(3)(A)-(B) but differs in that the proposed rule would incorporate the existing options-based Activity-Based and Global Risk Controls in addition to the (new for options trading) Pre-Trade Risk Controls currently available on the Exchange’s cash equity platform. The Exchange notes that the Activity-Based and Global Risk Controls are unique to the options market and, at this time, the Exchange’s cash equities platform does not offer analogous controls.

Proposed Rule 6.40P-O(c) would set forth the Automated Breach Actions that the Exchange would take if a designated risk limit is breached. Proposed Rule 6.40P-O(c)(1)(A)(i)-(ii) would set forth the automated breach actions for the Pre-Trade Risk Controls.

- Proposed Rule 6.40P-O(c)(1)(A)(i) would provide that a Limit Order or quote that breaches the designated limit of either a Single Order Maximum Notional Value Risk Limit or Single Order Maximum Quantity Risk Limit would be rejected.
- Proposed Rule 6.40P-O(c)(1)(A)(ii) would provide that a Market Order that breaches the designated limit of a Single Order Maximum Quantity Risk Limit would be rejected. The proposed rule would also provide that a Market Order that breaches the designated limit of a Single Order Notional Value Risk Limit would be rejected if the order arrived during continuous trading or canceled if the order was received during a pre-open state and the quantity remaining to trade after an Auction concludes

breaches the designated limit.<sup>137</sup>

Proposed Rule 6.40P-O(c)(1)(A)(i)-(ii) is based on Rule 7.19-E(c)(2) but differs in that it specifies the treatment of Limit Orders and Market Orders (the latter having different treatment based on when such orders arrive at the Exchange) and expands application of the check to include quotes. The Exchange proposes to process Market Orders differently because, until a series is opened, the Exchange is not able to calculate the Single Order Notional Value Risk Limit for a Market Order. Accordingly, this risk limit would be applied only after a series opens, at which point, a Market Order would be cancelled if it fails the risk limit.

Proposed Rule 6.40P-O(c)(2) would set forth the automated breach actions for the Activity-Based Risk Controls.

- Proposed Rule 6.40P-O(c)(2)(A) would first specify that an Entering Firm acting as a Market Maker would be required to apply one of the Activity-Based Risk Controls to all of its orders and quotes; whereas an Entering Firm that is not acting as a Market Maker would have the option, but would not be required, to apply one of the Activity-Based Risk Controls to its orders. The requirement that Market Makers utilize Activity-Based Risk Controls for all quotes mirrors the requirements set forth in Rule 6.40-O, Commentary .04(a); however, the proposed rule differs in that it likewise requires Market Makers to apply one of the Activity-Based Risk Controls to all of its orders. The Exchange believes that requiring that both Market Maker quotes and Market Maker orders be subject to one of the Activity-Based Controls would enhance Market Makers' ability to assess their total risk exposure on the Exchange. The proposed optionality of the Activity-Based Risk controls for orders sent by an Entering Firm not acting as a Market Maker mirrors current Rule 6.40-O, Commentary .04(b)).
- Proposed Rule 6.40P-O(c)(2)(B) would provide that to determine when an Activity-Based Risk Control has been breached, the Exchange would maintain Trade Counters that would be incremented every time an order or quote trades, including any leg of a Complex Order, and would aggregate the number of contracts traded during each such execution. As further proposed, an Entering Firm may opt to exclude any orders designated IOC or FOK from being considered by a Trade Counter. This is consistent with existing functionality set forth in Rule 6.40-O(a) and Commentary .07, with a proposed difference to allow an Entering Firm to also exclude orders designated FOK, which, like orders designated IOC, cancel if not executed on

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<sup>137</sup> The term "Auction" is defined in proposed Rule 6.64P-O(a)(1), described below in the discussion of proposed Rule 6.64P-O, to mean the opening or reopening of a series for trading either on a trade or quote.

arrival and is based on current functionality.<sup>138</sup> The Exchange believes that specifying that orders designated FOK could be excluded from being considered for a Trade Counter would add granularity and clarity to Exchange rules. In addition, as noted above, a Market Maker's quotes and orders in a given option class would be aggregated and therefore the Exchange proposes that there would not be separate Trade Counters for a Market Maker's quotes and orders.

- Proposed Rule 6.40P-O(c)(2)(C) would provide that each Entering Firm must select one of three Automated Breach Actions for the Exchange to take should the Entering Firm breach an Activity-Based Risk Control.
  - “Notification Only.” As set forth in proposed Rule 6.40P-O(c)(2)(C)(i), if this option is selected, the Exchange would continue to accept new order and quote messages and related instructions and would not cancel any unexecuted orders or quotes in the Consolidated Book. With the “Notification Only” action, the Exchange would provide such notifications, but would not take any other automated actions with respect to new or unexecuted orders. This proposed functionality is not currently available for options trading, but is available for breach of the Gross Credit Risk Limit on the Exchange's cash equity platform, as set forth in Rule 7.19-E(c)(3)(A)(i). The Exchange believes that making this Automated Breach Action available to Activity-Based Risk Controls, which are unique to options trading, would provide Entering Firms more control and flexibility over setting risk tolerance and, as such, over how Activity-Based Risk Controls are implemented.
  - “Block Only.” As set forth in proposed Rule 6.40P-O(c)(2)(C)(ii), if this option is selected, the Exchange would reject new order and quote messages and related instructions, provided that the Exchange would continue to process instructions from the Entering Firm to cancel one or more orders or quotes (including Auction-Only Orders) in full. The proposed rule would also provide that the Exchange would follow any instructions specified in paragraph (e) of the proposed Rule (and described below). This proposed functionality is not currently available for options

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<sup>138</sup> See Securities Exchange Act Release No. 81717 (September 25, 2017), 82 FR 45631 (September 29, 2017) (SR-NYSEArca-2017-96) (immediately effective filing to exclude IOC Orders from risk settings because such exclusion, among other things, would result in risk settings that may be better calibrated to suit the needs of certain market participants (i.e., those that routinely utilize IOC orders to access liquidity on the Exchange)).



trading under current Rule 6.40-O, but is available for breach of the Gross Credit Risk Limit on the Exchange's cash equity platform, as set forth in Rule 7.19-E(c)(3)(A)(ii). The Exchange believes that making this Automated Breach Action available to Activity-Based Risk Controls, which are unique to options trading, would provide Entering Firms more control and flexibility over setting risk tolerance and, as such, over how Activity-Based Risk Controls are implemented.

- "Cancel and Block." As set forth in proposed Rule 6.40P-O(c)(2)(C)(iii), if this option is selected, in addition to the Block Only actions described above, the Exchange would also cancel all unexecuted orders and quotes in the Consolidated Book other than Auction-Only Orders and orders designated GTC. This proposed Cancel and Block functionality is substantially similar to the automated breach action taken by the Exchange per current Rule 6.40-O(e) and Commentaries .01 and .02 thereto, except that under the current rules, this is default (not optional) functionality. Additionally, this proposed functionality is substantially identical to the Cancel and Block option set forth in Rule 7.19-E(c)(3)(A)(iii), which is available for breach of the Gross Credit Risk Limit on the Exchange's cash equity platform. The Exchange believes that making this Automated Breach Action available to respond to a breach of Activity-Based Risk Controls, which are unique to options trading, would provide Entering Firms more control and flexibility over setting risk tolerance and, as such, over how Activity-Based Risk Controls are implemented.
- Finally, proposed Rule 6.40P-O(c)(2)(D) would provide that if an Entering Firm breaches an Activity-Based Risk Control, the Automated Breach Action selected would be applied to its orders and quotes in the affected class of options. This proposed action is consistent with current Rule 6.40-O(e) and Commentaries .01 and .02 thereto, which provide that, upon a breach, the Exchange will cancel existing and suspend new orders and quotes trading in the affected class.

Proposed Rule 6.40P-O(c)(2)(E) would provide that the Exchange would specify by Trader Update any applicable minimum, maximum and/or default settings for the Activity-Based Risk Controls, subject to the following:

- For the Transaction-Based Risk Limit, the minimum setting would not be less than one and the maximum setting would not be more than 2,000 (proposed Rule 6.40P-O(c)(2)(E)(i)), which settings are identical to the Exchange-determined settings provided under current Rule 6.40-O, Commentary .03.

- For the Volume-Based Risk Limit, the minimum setting would not be less than one and the maximum setting would not be more than 500,000 (proposed Rule 6.40P-O(c)(2)(E)(ii)), which settings are identical to the Exchange-determined settings provided under current Rule 6.40-O, Commentary .03.
- For the Percentage-Based Risk Limit, the minimum setting would not be less than 50 and the maximum setting would not be more than 200,000 (proposed Rule 6.40P-O(c)(2)(E)(iii)), which maximum setting is the same as the minimum Exchange-determined setting set forth in current Rule 6.40-O, Commentary .03. The Exchange proposes to increase the minimum setting from less than one (in current rule) to not be less than 50 to better reflect actual practice, because under current Rules, there are no OTP Holders or OTP Firms that have set their Percentage-Based Risk Limits below 50.

Proposed Rule 6.40P-O(c)(2)(F) would provide that the Exchange would specify by Trader Update the Interval for the Activity-Based Risk Controls, subject to the following:

- The Interval would not be less than 100 milliseconds and would not be greater than 300,000 milliseconds, inclusive of the duration of any trading halt occurring within that time (proposed Rule 6.40P-O(c)(2)(F)(i)), which minimum setting is identical to the Exchange-determined minimum set forth in current Rule 6.40-O, Commentary .03. Although the current rule does not include a maximum time period, the Exchange proposes to include a maximum allowable Interval to promote clarity in Exchange rules of the longest time an Interval could be.
- For transactions occurring in the Core Open Auction, per Rule 6.64P-O, the applicable time period would be the lesser of (i) the time between the Core Open Auction of a series and the initial transaction or (ii) the Interval (proposed Rule 6.40P-O(c)(2)(F)(ii)), which proposed time period is identical to the timing provided under current Rule 6.40-O, Commentary .03.

Proposed Rule 6.40P-O(c)(3) would set forth the automated breach actions for the Global Risk Controls set by an Entering Firm.

- Proposed Rule 6.40P-O(c)(3)(A) would provide that if the Global Risk Control limit is breached, the Exchange would Cancel and Block, per proposed Rule 6.40P-O(c)(2)(C)(iii), which proposed functionality is substantively the same as the functionality provided under current Rule 6.40-O, Commentaries .01 (regarding cancellation of existing orders) and

.02 (regarding block/rejection of new orders).

- Proposed Rule 6.40P-O(c)(3)(B) would provide that if an Entering Firm breaches the Global Risk Control, the Automated Breach Action would be applied to all orders and quotes of the Entering Firm in all classes of options regardless of which class(es) of options caused the underlying breach of Activity-Based Risk Controls, which proposed functionality is substantively the same as the functionality provided (in the last sentence) of current Rule 6.40-O, Commentary .02 in the event of a breach of current Rule 6.40-O(f) (i.e., breach of global risk setting).
- Proposed Rule 6.40P-O(c)(3)(C) would provide that the Exchange would specify by Trader Update any applicable minimum, maximum and/or default settings for the Global Risk Controls, provided that the minimum setting would not be less than 25 and the maximum setting would not be more than 100. These proposed settings are based on the Exchange-determined setting provided under current rule 6.40-O, Commentary .03, except that the current rule allows for a minimum setting of one (1) whereas the proposed rule is increasing that minimum to twenty-five (25), which the Exchange believes would better reflect actual practice, because under current Rules, there are no OTP Holders or OTP Firms that have set their Global Risk Controls below 25.
- Proposed Rule 6.40P-O(c)(3)(D) would provide that the Exchange would specify by Trader Update the Interval for the Global Risk Controls, subject to the following:
  - The Interval would not be less than 100 milliseconds and would not be greater than 300,000 milliseconds, inclusive of the duration of any trading halt occurring within that time, per proposed Rule 6.40P-O(c)(3)(D)(i), which minimum setting is identical to the Exchange-determined minimum set forth in current Rule 6.40-O, Commentary .03. Although the current rule does not include a maximum time period, the Exchange proposes to include a maximum allowable Interval to allow an outside parameter by which the counters would be reset, which would promote transparency in Exchange rules regarding the maximum allowable Interval.
  - For transactions occurring in the Core Open Auction, per Rule 6.64P-O, the applicable time period is the lesser of (i) the time between the Core Open Auction of a series and the initial transaction or (ii) the Interval, per proposed Rule 6.40P-O(c)(3)(D)(ii), which proposed time period is identical to the timing provided under current Rule 6.40-O, Commentary .03.

Proposed Rule 6.40P-O(d) describes how an Entering Firm's ability to enter orders, quotes, and related instructions would be reinstated after a "Block Only" or "Cancel and Block" Automated Breach Action has been triggered. In such case, proposed Rule 6.40P-O(d) provides that the Exchange would not reinstate the Entering Firm's ability to enter orders and quotes and related instructions on the Exchange (other than instructions to cancel one or more orders or quotes (including Auction-Only Orders and orders designated GTC) in full) without the consent of the Entering Firm, which may be provided via automated contact if it was a breach of an Activity-Based Risk Control. As further proposed, an Entering Firm that breaches the Global Risk Control would not be reinstated unless the Entering Firm provides consent via non-automated contact with the Exchange. This proposed functionality is consistent with current Rule 6.40-O, Commentary .02 regarding the need for an Entering Firm to make automated or non-automated contact with the Exchange, as applicable, prior to being reinstated. Proposed Rule 6.40P-O(d) is also substantively the same as the more granular level of risk control under Pillar functionality available for cash equity trading per Rule 7.19-E(d), except that the proposed rule does not reference Clearing Firms, which feature would remain specific to cash-equity trading and not be applied to options trading.

Proposed Rule 6.40P-O(e) would set forth new "Kill Switch Action" functionality, which would allow an Entering Firm to direct the Exchange to take certain bulk cancel or block actions with respect to orders and quotes. In contrast to the Automated Breach Actions described above, which the Exchange would take automatically after the breach of a risk limit, the Exchange would not take any of the Kill Switch Actions without express direction from an Entering Firm. The Exchange believes that the proposed Kill Switch Action functionality would also provide OTP Holders and OTP Firms with greater flexibility to provide bulk instructions to the Exchange with respect to cancelling existing orders and quotes and blocking new orders and quotes.

Proposed Rule 6.40P-O(e) would specify that an Entering Firm could direct the Exchange to take one or more of the following actions with respect to orders and quotes (excluding those represented in open outcry except CTB Orders), at either an MPID, or if designated, sub-ID Level: (1) Cancel all Auction-Only Orders; (2) Cancel all orders designated GTC; (3) Cancel all unexecuted orders and quotes in the Consolidated Book other than Auction-Only Orders and orders designated GTC; or (4) Block the entry of any new order and quote messages and related instructions, provided that the Exchange would continue to accept instructions from Entering Firms to cancel one or more orders or quotes (including Auction-Only Orders and orders designated GTC) in full, and later, reverse that block. The proposed post-trade Kill Switch Actions are not currently available for options trading per Rule 6.40-O and are substantially identical to the Kill Switch Action available on the Exchange's cash equity platform pursuant to Rule 7.19-E(e), with a difference to address the handling of quotes as well as orders designated GTC, which are not available on the cash equity platform. The

Exchange believes that offering this functionality for options trading under Pillar would give Entering Firms more flexibility in setting risk controls for options trading (as noted above) and add consistency with the Exchange's risk control functionality available for cash equity trading. Providing "Kill Switch Action" functionality in Exchange rules is consistent with the rules of other options exchanges.<sup>139</sup>

Proposed Commentary .01 to Rule 6.40P-O would provide that the Pre-Trade, Activity-Based, and Global Risk Controls described in the proposed Rule 6.40P-O are meant to supplement, and not replace, the OTP Holder's or OTP Firm's own internal systems, monitoring, and procedures related to risk management and are not designed for compliance with Rule 15c3-5 under the Exchange Act.<sup>140</sup> Responsibility for compliance with all Exchange and SEC rules remains with the OTP Holder or OTP Firm. This proposed language is not included in existing Rule 6.40-O, and is based on Commentary .01 to Rule 7.19-E. The proposed rule makes clear that use of the proposed controls alone does not constitute compliance with Exchange rules or the Exchange Act.

In connection with proposed Rule 6.40P-O, the Exchange proposes to add the following preamble to Rule 6.40-O: "This Rule is not applicable to trading on Pillar." This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rule 6.40-O would not be applicable to trading on Pillar.

#### Proposed Rule 6.41P-O: Price Reasonability Checks - Orders and Quotes

The Exchange proposes to describe its Price Reasonability Checks for orders and quotes in proposed Rule 6.41P-O.<sup>141</sup> For the OX system, the concept of "Price Reasonability Checks" for Limit Orders are described in Rule 6.60-O(c) and the concept of price protection filters for quotes are described in Rule 6.61-O. The proposed "Price Reasonability Checks" on Pillar would be applicable to both orders and quotes and are designed to provide similar price protections as the current price checks for Limit Orders and price protection filters for quotes on the OX system, with differences as described in more detail below. The Exchange believes that applying the same Price Reasonability Checks to both orders and quotes and describing them in a single rule would make the Exchange's rules

<sup>139</sup> See, e.g., Cboe Rule 5.34(c)(6) (describing the optional "Kill Switch" functionality, which allows a Cboe participant to instruct Cboe to simultaneously cancel or reject all orders or quotes (or a subset thereof) as well as to instruct Cboe to block all orders or quotes (or a subset thereof), which block instructions will remain in effect until such participant contacts Cboe's trade desk to remove the block).

<sup>140</sup> 17 CFR 240.15c3-5.

<sup>141</sup> Current Rule 6.41-O is held as Reserved. The Exchange proposes to renumber the proposed rule with the "P" modifier and remove reference to "Reserved."

easier to navigate, while continuing to provide price protection features for both orders and quotes. The Exchange proposes to locate the rule text for the proposed Price Reasonability Checks in Rule 6.41P-O to immediately follow Rule 6.40P-O regarding the Pre-Trade and Activity-Based Controls, as this placement would group the risk controls together and make Exchange rules easier to navigate.

Proposed Rule 6.41P-O(a)(1)-(3) would set forth the circumstances under which the proposed Price Reasonability Checks would apply. Proposed Rule 6.41P-O(a) would provide that the Exchange would apply the Price Reasonability Checks, as defined in proposed paragraphs (b) and (c), to all Limit Orders and quotes (excluding those represented in open outcry except CTB Orders), during continuous trading on each trading day, subject to the following:

- Proposed Rule 6.41P-O(a)(1) would provide that a Limit Order or quote received during a pre-open state would be subject to the proposed Price Reasonability Checks after an Auction concludes; that a Limit Order or quote that was resting on the Consolidated Book before a trading halt would be subject to the proposed Price Reasonability Checks again after the Trading Halt Auction; and that a put option message to buy would be subject to the Arbitrage Check regardless of when it arrives. This proposed rule is based on current Rule 6.60-O(c), which provides that the Price Reasonability Checks (for orders) are applied when a series opens or reopens for trading, and is similar to Rule 6.61-O(a)(1), which provides that Market Maker quote protection will be applied when an NBBO is available. NBBO protection is available when a series is opened for trading. Proposed Rule 6.41P-O(a)(1) includes additional detail and granularity regarding when the proposed Price Reasonability Checks would be applied under Pillar. The proposed Rule also adds new functionality that a put option message to buy would be subject to the Arbitrage Check even if a series is not open for trading. The Exchange believes that it is appropriate to apply this check to put option messages to buy at any time because the check is not dependent on an external reference price.
- Proposed Rule 6.41P-O(a)(2) would provide that if the calculation of the Price Reasonability Check is not consistent with the MPV for the series, it would be rounded down to the nearest price within the applicable MPV, which is consistent with current functionality. The Exchange believes this proposed rule would promote clarity and transparency in Exchange rules regarding how the Price Reasonability Check would be calculated.
- Proposed Rule 6.41P-O(a)(3) would provide that the proposed Price Reasonability Checks would not apply to (i) any options series for which the underlying security has a non-standard cash or stock deliverable as

part of a corporate action; (ii) any options series for which the underlying security is identified as over-the-counter (“OTC”); (iii) any option series on an index; and (iv) any option series for which the Exchange determines it is necessary to exclude underlying securities in the interests of maintaining a fair and orderly market, which the Exchange would announce by Trader Update. Proposed Rule 6.41P-O(a)(3) is based on current Commentary .01 to Rule 6.60-O (orders) and 6.61-O (quotes), with a non-substantive difference that the proposed rule no longer references Binary Return Derivatives (“ByRDs”) because ByRDs are no longer traded on the Exchange.

Proposed Rule 6.41P-O(b) would set forth the “Arbitrage Checks” for buy orders or quotes, which subset of Price Reasonability Checks are based on the principle that an option order or quote 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.

- Proposed Rule 6.41P-O(b)(1) relates to “puts” and would provide that order or quote messages to buy for put options would be rejected if the price of the order or quote is equal to or greater than the strike price of the option, which is substantively identical to current Rules 6.60-O(c)(1)(A) (for orders) and 6.61-O(a)(3) (for quotes).
- Proposed Rule 6.41P-O(b)(2) relates to “calls” and would provide that order or quote messages to buy for call options would be rejected or canceled (if resting) if the price of the order or quote is equal to or greater than the last sale price of the underlying security on the Primary Market, plus a specified threshold to be determined by the Exchange and announced by Trader Update. This proposed rule is substantially similar to current Rules 6.60-O(c)(1)(B) (for orders) and 6.61-O(a)(2)(B) (for quotes), with several differences. First, because the Exchange is monitoring last sales from the Primary Market, the Exchange proposes that the Exchange-specified threshold for the Checks would be based on the last sale on the Primary Market rather than on the Consolidated Last Sale.<sup>142</sup> The Exchange believes that the last sale on the Primary Market would be indicative of the price of the underlying security and that by using the last sale of the Primary Market rather than the Consolidated Last

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<sup>142</sup> Per proposed Rule 1.1., the term “Primary Market” with respect to options traded on the Exchange means the principal market in which the underlying security is traded. The Exchange also notes a difference in that the proposed Rule refers to a “specified threshold,” whereas current Rule 6.60-O(c)(1)(B) refers to a “specified dollar amount,” which difference is designed to give the Exchange more flexibility in applying the Arbitrage Check to use a percentage-based threshold.

Sale, the Pillar system would need to ingest and process less data, thereby improving efficiency and performance of the system. The Exchange believes this proposed difference would not compromise the price protection feature of the proposed Arbitrage Checks. Second, current Rule 6.61-O(a)(2)(A) and (C) specifies which price would be used for Market Maker bids made before the underlying security is open or during a trading halt, pause, or suspension of the underlying security. Because on Pillar the proposed Arbitrage Checks for calls (for orders and quotes) would be applied only once a series has opened or reopened for trading, the Exchange no longer needs to specify prices other than the last sale on the Primary Market for purposes of calculating the Arbitrage Check for calls. The Exchange proposes to reflect this difference from currently functionality in Rule 6.41P-O(b)(2).

Proposed Rule 6.41P-O(c) would set forth the “Intrinsic Value Checks” for orders or quotes to sell, which are designed to protect sellers of calls and puts from presumptively erroneous executions based on the “Intrinsic Value” of an option.

- Proposed Rule 6.41P-O(c)(1)-(2) would set forth how the Intrinsic Value of an option would be determined. Proposed Rule 6.41P-O(c)(1) would provide that the Intrinsic Value for a put option is equal to the strike price minus the last sale price of the underlying security on the Primary Market. Proposed Rule 6.41P-O(c)(2) would provide that the Intrinsic Value for a call option is equal to the last sale price of the underlying security on the Primary Market minus the strike price. Proposed Rule 6.41P-O(c)(1)-(2) is based on how the intrinsic value is calculated in current Rule 6.60-O(c)(2) for orders, with two differences. First, the proposed “Intrinsic Value Checks” would also apply to quotes, which would be new on Pillar and would provide Market Makers with additional protection for quotes to sell. Second, the Intrinsic Value of an option would be based on the last sale on the Primary Market rather than on the Consolidated Last Sale for the same reasons discussed above, that it would enhance performance without compromising the price protection feature of the Intrinsic Value Checks.
- Proposed Rule 6.41P-O(c)(3) would provide that ISOs to sell would not be subject to the Intrinsic Value Check, which carve out is substantively identical to current Rule 6.60-O(c)(2).
- Proposed Rule 6.41P-O(c)(4) would describe the application of the Intrinsic Value Checks to puts and calls to sell.
  - Proposed Rule 6.41P-O(c)(4)(A) would provide that orders or quotes to sell for both puts and calls would be rejected or canceled



(if resting) if the price of the order or quote is equal to or lower than its Intrinsic Value, minus a specified threshold to be determined by the Exchange and announced by Trader Update.

- Proposed Rule 6.41P-O(c)(4)(B) would provide that the Exchange-determined threshold percentage (per paragraph (c)(4)(A)) would be based on the NBB, provided that, immediately following an Auction, it would be based on the Auction Price, or, if none, the lower Auction Collar price, or, if none, the NBB.<sup>143</sup> This proposed threshold percentage is similar to how the Reference Price would be determined for Trading Collars, as described above pursuant to proposed Rule 6.64P-O(a)(4). As further proposed, Rule 6.41P-O(c)(4)(B) would provide that for purposes of determining the Intrinsic Value, the Exchange would not use an adjusted NBBO. The Exchange further proposes that the Intrinsic Value Check for sell orders and quotes would not be applied if the Intrinsic Value cannot be calculated.

Proposed Rule 6.41P-O(c)(4)(A)-(B) is substantially similar to current Rule 6.60-O(a)(2)(A), which describes the application of the Intrinsic Value check for orders, with the following differences:

- The proposed rule would extend this price protection to quotes, providing Market Makers with additional protection mechanisms;
- The proposed rule would provide additional detail regarding how the specified threshold percentage would be determined immediately following an Auction;
- The proposed rule would establish that an unadjusted NBBO would not be used to calculate the Intrinsic Value; and
- The proposed rule includes text providing that if the Intrinsic Value cannot be calculated, the Check would not be applied.

The Exchange believes that these additions would both add granularity to the rule and enhance the functionality for calculating and applying the Intrinsic Value. For the same reasons described above in connection with Limit Order Price Protection and Trading Collars, the Exchange believes that using an unadjusted NBBO would serve price protection purposes by using a more conservative view of the NBBO.

Proposed Rule 6.41P-O(d) would provide the Automated Breach Action to be

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<sup>143</sup> See discussion *infra*, regarding proposed Rule 6.64P-O(a) and proposed definitions for the terms “Auction,” “Auction Price,” “Auction Collar,” “pre-open state,” and “Trading Halt Auction.”

applied when a Market Maker's order or quote fails one of the Price Reasonability Checks. As proposed, if a Market Maker's order or quote message is rejected or cancelled (if resting) pursuant to proposed paragraph (b) (Arbitrage Checks) or (c) (Intrinsic Value Checks) of proposed Rule 6.41P-O, the Exchange would Cancel and Block orders and quotes in the affected class of options as described in Rule 6.40P-O(c)(2)(C)(iii) (as described above in section "Proposed Rule 6.40P-O").

Proposed Rule 6.41P-O(d)(1) would provide that a breach of proposed Rule 6.41P-O(d) would count towards a Market Maker's Global Risk Control limit per Rule 6.40P-O(a)(4) (as described above in section "Proposed Rule 6.40P-O"). Proposed Rule 6.41P-O(d)(2) concerns how a Market Maker would be reinstated following an automated breach action. As proposed, the Exchange would not reinstate the Market Maker's ability to enter orders and quotes and related instructions on the Exchange in that class of options (other than instructions to cancel one or more orders/quotes (including Auction-Only Orders and orders designated GTC) in full) without the consent of the Market Maker, which may be provided via automated contact.

Rule 6.41P-O(d) is substantially similar to current Rule 6.61-O(b), except that the proposed rule applies to both the orders and quotes of a Market Maker (not just quotes) and provides the additional functionality that a breach of the Price Reasonability Checks would count towards a Market Maker's Global Risk Control limit under proposed Rule 6.40P-O(c)(3), which functionality would be new under Pillar. The Exchange believes that the proposed new functionality would provide OTP Holders and OTP Firms greater control and flexibility over setting risk tolerance and exposure for both orders and quotes. In connection with proposed Rule 6.41P-O, the Exchange proposes to add the following preamble to Rules 6.60-O and 6.61-O: "This Rule is not applicable to trading on Pillar." This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rules 6.60-O and 6.61-O would not be applicable to trading on Pillar.

#### Proposed Rule 6.64P-O: Auction Process

Current Rule 6.64-O, OX Opening Process, sets forth the opening process currently used on the Exchange's OX system for opening trading in a series each day and reopening trading in a series following a trading halt. Current Rule 6.64-O(a) defines the term "Trading Auction" as the process by which trading is initiated in a specified options class that may be employed at the opening of the Exchange each business day or to re-open trading after a trading halt, and that Trading Auctions will be conducted automatically by the OX system. Current Rules 6.64-O (b) and (c) describe the manner for the automated Trading Auctions and provide that, once the primary market for the underlying security disseminates a quote and a trade that is at or within the quote, the OX System then conducts an Auction Process ("current Auction Process") whereby the OX System determines a single price at which a series may be opened by looking to the price

at which the greatest number of contracts can trade at or between the NBBO disseminated by OPRA.<sup>144</sup>

As described in Rule 6.64-O(b)(D), the Exchange will not conduct the current Auction Process to open a series if the bid-ask differential for that series is not within an acceptable range, i.e., is not within the bid-ask differential guidelines established in Rule 6.37-O(b)(4).<sup>145</sup> If a series does not open for trading, market and limit orders entered in advance of the current Auction Process remain in the Consolidated Book and will not be routed, even if another exchange opens that series for trading and such resting orders become Marketable against the ABBO.<sup>146</sup>

The Exchange proposes that new Rule 6.64P-O would set forth the automated process for both opening and reopening trading in a series on the Exchange on Pillar. The Exchange proposes to specify that current Rule 6.64-O would not be applicable to trading on Pillar. With the transition to Pillar, the fundamental process of how an option series would be opened (or reopened) on the Exchange would not materially change because the Exchange would continue to assess whether a series can be opened based on whether the bid-ask differential for a series is within a specified range. However, with the availability of Pillar technology, the Exchange proposes differences to the proposed auction process that are designed to provide additional opportunities for an options series to open or reopen for trading even if the bid-ask differential is wider than the specified guidelines. While this proposed functionality would be new for options trading on the Exchange, it is not novel for an options exchange to provide additional opportunities for a series to open after a specified period of time in a wide market.<sup>147</sup> In addition, the Exchange proposes to specify minimum time periods

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<sup>144</sup> If the same number of contracts can trade at multiple prices, the opening price is the price at which the greatest number of contracts can trade that is at or nearest to the midpoint of the NBBO disseminated by OPRA; unless one such price is equal to the price of any resting Limit Order(s) in which case the opening price is the same price as the Limit Order(s) with the greatest size and, if the same size, the highest price and if there is a tie between price levels and no Limit Orders exist at either of the prices, the Exchange uses the higher price. See Rule 6.64-O(c).

<sup>145</sup> Because Rule 6.64-O(b)(D) cross-references the bid-ask differential requirement of Rule 6.37-O (b)(4), which relates to the obligations of Market Makers in appointed classes, the Exchange will not open a series for trading if the NBBO disseminated by OPRA in a series is not within such bid-ask differentials.

<sup>146</sup> The term “Marketable” is defined in proposed Rule 1.1 to mean for a Limit Order, an order that can be immediately executed or routed and Market Orders are always considered marketable.”

<sup>147</sup> For example, Cboe recently amended Cboe Rule 5.31 relating to its opening process to provide for a “forced opening” process that is used if an option class is unable to open because it does not meet the applicable bid-ask differential. In

to allow a Market Maker(s) to quote in an assigned series before the series is opened or reopened. With the proposed Auction Process, described further below, the Exchange endeavors to attract the highest quality quote for each series at the open to attract order flow for the auction. While the Exchange does not require Market Makers assigned to a series to quote before a series can be opened (or reopened), the Exchange believes that providing time for such Market Makers to do so would provide both better and more consistent prices on executions to OTP Holders and OTP Firms in an Auction and a smoother transition to continuous trading. In addition, the Exchange believes that the proposed changes would enhance the opening/reopening process on the Exchange by providing a transparent and deterministic process for the Exchange to open additional series for trading.

Further, the Exchange proposes additional enhancements (and detail them in the rule) that are based on existing Pillar functionality for the Exchange's cash equity platform's electronic auctions relating to how orders and quotes would be processed if they arrive during the period when the Exchange is processing an Auction and how the Exchange would process orders and quotes when it transitions to continuous trading following an Auction. Because the Exchange would be using Pillar terminology, the Exchange proposes to structure proposed Rule 6.64P-O based in part on Rule 7.35-E, which is the Exchange's cash equity rule governing auctions (relating to separate sections describing definitions, order processing during an Auction Processing Period, and transition to continuous trading) and NYSE Rule 7.35, which is NYSE's rule governing auctions (relating to separate sections describing definitions, Auction Ranking, Auction Imbalance Information, order processing during an Auction Processing Period, and transition to continuous trading). In addition, the Exchange proposes to include in Rule 6.64P-O how the Exchange would process orders and quotes during a trading halt, which is structured based in part on Rule 7.18-E(b) and (c), which describe how the Exchange processes new and existing orders during a trading halt on its cash equity market. This text would be new and is designed to provide granularity and transparency in Exchange rules.

*Definitions.* Proposed Rule 6.64P-O(a) would provide that the Rule would be applicable to all series that trade on the Exchange other than Flex Options.<sup>148</sup>

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such case, if the "Composite Market" is not crossed and there is no non-zero offer, within a specified time period, Cboe will open the series without a trade. See Securities Exchange Act Release No. 90967 (January 22, 2021), 86 FR 7249 (January 28, 2021) (SR-Cboe-2021-005) (Notice of filing and immediate effectiveness of proposed rule change to amend Cboe's opening process for simple orders).

<sup>148</sup> With the transition to Pillar, the Exchange is not making any changes to how Flex Options trade. Rule 5.31-O provides that Flex Options transactions may be effected during normal Exchange options trading hours on any business day and there will be no trading rotations in Flex Options. Rule 5.33-O sets forth the

Proposed Rule 6.64P-O(a) would set forth the definitions that would be used for purposes of Rule 6-O Options Trading and applicable to trading on Pillar. Certain of the proposed definitions are the same as (or similar to) auction-related definitions used on the Exchange's cash equity platform, per Rule 7.35-E (Auctions), with differences noted herein. To the extent that a definition from Rule 7.35-E is not utilized in proposed Rule 6.64P-O, the Exchange has determined that such definition(s) is either inapplicable to the opening process for options trading or that the relevant, analogous concept(s) is covered elsewhere in the proposed rule.

- Proposed Rule 6.64P-O(a)(1) would define the term "Auction" to mean the opening or reopening of a series for trading either with or without a trade. This proposed definition is based in part on current Rule 6.64-O(a), which defines the term "Trading Auction" to be a process by which trading is initiated in a specified options class that may be employed at the opening of the Exchange each business day or to re-open trading after a trading halt.<sup>149</sup> On Pillar, the Exchange proposes that the term "Auction" would refer to the point in the process where the Exchange determines that a series can be opened or reopened either with or without a trade. After an Auction concludes, the series then transitions to continuous trading.

Proposed Rule 6.64P-O(a)(1)(A) would provide that a "Core Open Auction" means the Auction that opens trading after the beginning of Core Trading Hours and proposed Rule 6.64P-O(a)(1)(B) would provide that a "Trading Halt Auction" means the Auction that reopens trading following a trading halt. These are Pillar terms that would be new to options trading and are based on the same terms currently used in Rule 7.35-E(c) and (e) for the same purposes.

- Proposed Rule 6.64P-O(a)(2) would define the term "Auction Collar" to mean the price collar thresholds for the Indicative Match Price (defined below) for an Auction. As further proposed, the upper Auction Collar would be the offer of the Legal Width Quote (defined below) and the lower Auction Collar would be the bid of the Legal Width Quote, provided that if the bid of the Legal Width Quote is zero, the lower Auction Collar would be one MPV above zero for the series. The proposed rule would further provide that if there is no Legal Width Quote, the Auction Collars would be published in the Auction Imbalance

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procedures for trading Flex Options. The opening process for Electronic Complex Orders is set forth in Rule 6.91-O.

<sup>149</sup> See also Rule 6.64-O(d) (providing that a Trading Auction to reopen an option class after a trading halt is conducted in the same manner as a Trading Auction to open each option class at the start of each trading day, i.e., as described in Rule 6.64-O(a) - (c)).

Information (defined below) as zero.

The proposed terminology of “Auction Collar” would be new for options trading and is based on the same term used in Rule 7.35-E(a)(10) for trading cash equity securities. As proposed, the Auction Collars would be set at the Legal Width Quote (described below) and would prevent an Auction trade from occurring at a price outside of the Legal Width Quote. The Exchange believes that the concept of Auction Collars is similar to the current requirement that the Exchange will not open a series if the bid-ask differential is not within the bid-ask differential guidelines established under Rule 6.37-O(b)(4).<sup>150</sup> Thus, the proposed Auction Collars (based on a Legal Width Quote) would use Pillar terminology to prevent an Auction that results in a trade from being priced outside the bid-ask differential applicable to Auctions on Pillar.<sup>151</sup>

Proposed Rule 6.64P-O(a)(3) would define the term “Auction Imbalance Information” to mean the information that the Exchange disseminates about an Auction via its proprietary data feeds and includes the Auction Collars, Auction Indicator, Book Clearing Price, Far Clearing Price, Indicative Match Price, Matched Volume, Market Imbalance, and Total Imbalance.<sup>152</sup> With Pillar, the Exchange proposes to disseminate Auction Imbalance Information for its options market in the same manner that such information is disseminated for its cash equity market. The Exchange currently makes certain auction imbalance information available on its proprietary data feed and the Exchange believes that enhancing this information by disseminating the proposed Auction Collars, Auction Indicator, Book Clearing Price, and Far Clearing Price, which would be new for options trading on Pillar, would promote transparency. Accordingly, this proposed definition would be new and is based on the same term used in Rule 7.35-E(a)(4), with differences to reflect the options-specific content that would be included in Auction Imbalance Information for options trading. In addition, the Exchange proposes that the Auction Imbalance Information would reflect the orders and quotes

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<sup>150</sup> See Rule 6.64-O(b)(D) and (E). The Exchange notes that in common parlance bid-ask differentials are known as “legal-width quotes.”

<sup>151</sup> See also Cboe Rule 5.31(a) (defining the “Opening Collar” as the price range that establishes limits at or inside of which Cboe determines the opening trade price for a series).

<sup>152</sup> On the Exchange’s cash equity market, Auctions have an “Auction Imbalance Freeze,” which is a period in advance of the scheduled Auction. The Exchange does not currently provide for an analogous period to open or reopen options trading and does not propose to include such a period for options trading on Pillar. Accordingly, the Exchange does not propose terms based on “Auction Imbalance Freeze,” as described in Rule 7.35-E(a)(3), for options trading on Pillar.

eligible to participate in an Auction, which contribute to price discovery. As such, proposed Rule 6.64P-O(a)(3) would further provide that Auction Imbalance Information would be based on all orders and quotes (including the non-displayed quantity of Reserve Orders) eligible to participate in an Auction, excluding IO Orders.<sup>153</sup> The Exchange believes that specifying that non-displayed quantity of Reserve Orders would be included in the Auction Imbalance Information is consistent with current functionality that the full quantity of Reserve Orders are eligible to participate in the current Auction Process.

Proposed Rule 6.64P-O(a)(3)(A) would define the term “Auction Indicator” to mean the indicator that provides a status update of whether an Auction cannot be conducted because either (i) there is no Legal Width Quote, or (ii) a Market Maker quote has not been received during the parameters of the Opening MMQ Timer(s) (defined below). The Exchange currently disseminates an Auction Indicator on its cash equity market and proposes similar functionality for options trading on the Exchange.<sup>154</sup> This proposed definition would be new for options trading and uses Pillar terminology based on Rule 7.35-E(a)(13) and would provide transparency of when an Auction could not be conducted.<sup>155</sup> While the Exchange’s cash equity rule is written from the standpoint of when an auction *can* be conducted, the proposed rule is written from the standpoint of when an auction *cannot* be conducted. The Exchange believes this difference is appropriate because, for options trading, the proposed Auction (and its Auction Indicator) are impacted by the absence of necessary information (i.e., a Legal Width Quote or a Market Maker quote), rather than an auction in the cash equity market, where the determining factor of whether to conduct an auction is the quality (not the presence of) of information (i.e., the Imbalance).

Proposed Rule 6.64P-O(a)(3)(B) would define the term “Book Clearing Price” to mean the price at which all contracts could be traded in an Auction if not subject to the Auction Collar and states that the Book Clearing Price would be zero if a sell (buy) Imbalance cannot be filled by any buy (sell) interest. The Exchange proposes that the manner that the Book Clearing Price would be calculated for options trading would be the

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<sup>153</sup> This is consistent with the order information included in Auction Imbalance Information for cash equity trading. See Rule 7.35-E(a)(7) and 7.35-E(a)(8). The Exchange proposes to exclude IO Orders because they are conditional offsetting orders that would not contribute to price discovery in the Auction Process.

<sup>154</sup> See Rule 7.35-E(a)(13).

<sup>155</sup> Consistent with the proposed rule, Rule 6.64-O(b)(D) provides that the Exchange will not conduct the current Auction Process if the bid-ask differential for a series is not within an acceptable range.

same as how it is calculated for cash equity trading. Accordingly, this proposed definition and functionality would be new for options trading and is based on the definition of “Book Clearing Price” set forth in Rule 7.35-E(a)(11), with differences to reflect options trading terminology (i.e., reference contracts instead of buy (sell) orders).

Proposed Rule 6.64P-O(a)(3)(C) would define the term “Far Clearing Price” to mean the price at which Auction-Only Orders could be traded in an Auction within the Auction Collar. The Exchange proposes that the manner that the Far Clearing Price would be calculated for options trading would be the same as how it is calculated for cash equity trading.

Accordingly, this proposed definition and functionality would be new for options trading and is based on the definition of “Far Clearing Price” set forth in Rule 7.35-E(a)(12).

Proposed Rule 6.64P-O(a)(3)(D) would define the term “Imbalance” to mean the number of buy (sell) contracts that cannot be matched with sell (buy) contracts at the Indicative Match Price at any given time. The Exchange proposes that the manner that the Imbalance would be calculated for options trading would be the same as how it is calculated for cash equity trading, which is consistent with current functionality that calculates the imbalance based on all interest eligible to participate in an auction. Accordingly, this proposed definition would be new rule text for options trading and is based on the definition of “Imbalance” set forth in Rule 7.35-E(a)(7), except that, unlike for cash equities, the proposed definition would not reference the non-displayed quantity of Reserve Orders. As discussed above, the Exchange believes that providing an overarching description of how the non-displayed quantity of Reserve Orders would be included in Auction Imbalance Information is more appropriately included in the proposed (more expansive) definition of Auction Imbalance Information (per proposed Rule 6.64P-O(a)(3)) to reflect the Auction-eligible interest that contribute to price discovery.<sup>156</sup> In addition, the proposed rule differs from Rule 7.35-E(a)(7) to reflect options trading terminology (i.e., contracts instead of shares).

Proposed Rule 6.64P-O(a)(3)(D)(i) would define the term “Total Imbalance” to mean the Imbalance of all buy (sell) contracts at the Indicative Match Price for all orders and quotes eligible to trade in an Auction. The Exchange proposes that the manner that the Total Imbalance would be calculated for options trading would be the same as how it is calculated for cash equity trading and is consistent with current functionality. Accordingly, this proposed definition would be new and is based on the definition of “Total Imbalance” set forth in Rule 7.35-

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<sup>156</sup> See supra note 143 (regarding consistency of proposed Rule 6.64P-O(a)(3) regarding Auction Imbalance Information with Rule 7.35-E(a)(7) and 7.35-E(a)(8)).



E(a)(7)(A), except that the proposed definition does not include the superfluous modifier “net” in reference to Total Imbalance and includes options trading terminology (i.e., contracts instead of shares).

Proposed Rule 6.64P-O(a)(3)(D)(ii) would define the term “Market Imbalance” to mean the Imbalance of any remaining buy (sell) Market Orders and MOO Orders that are not matched for trading in the Auction. The Exchange proposes that the manner that the Market Imbalance would be calculated for options trading would be the same as how it is calculated for cash equity trading, which differs from current options functionality.<sup>157</sup> Accordingly, this proposed definition and functionality would be new and is based on the definition of “Market Imbalance” set forth in Rule 7.35-E(a)(7)(B), with a difference to add reference to MOO Orders (as defined in proposed Rule 6.62P-O(c)(2)).<sup>158</sup>

- Proposed Rule 6.64P-O(a)(4) would define the term “Auction Price” to mean the price at which an Auction that results in a trade is conducted. The Exchange proposes that this term would have the same meaning as the same term as used on NYSE, as described in NYSE Rule 7.35(a)(6), with a difference to add the phrase “that results in a trade” to be clear that an Auction Price is for an Auction that results in a trade. This would be a new term for options trading and is designed to add clarity and transparency to Exchange rules as this term would be used as a reference price in proposed Rules 6.62P-O(a)(3)(B) and 6.41P-O(c)(4)(B).<sup>159</sup>
- Proposed Rule 6.64P-O(a)(5) would define the term “Auction Process” to mean the process that begins when the Exchange receives an Auction Trigger (defined below) for a series and ends when the Auction is conducted. This would be a new term for options trading and is designed to add clarity and transparency to Exchange rules and address all steps in the process that culminates in an Auction, as described in proposed Rule

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<sup>157</sup> On the OX system, the market imbalance is the difference between quantities of buy and sell market orders.

<sup>158</sup> Rule 7.35-E(a)(7)(B) does not separately reference MOO Orders because Rule 7.35-E(a) provides that, unless otherwise specified, the term “Market Orders” in Rule 7.35-E includes MOO Orders (for the Core Open Auction and Trading Halt Auction). The Exchange proposes that for options trading, the terms Market Order and MOO Order both be referenced in proposed Rule 6.64P-O.

<sup>159</sup> See also Cboe Rule 5.31(a) (defining the “Opening Trade Price” as the price at which Cboe executes opening trades in a series). The Exchange notes that the term “Auction Price” is distinguished from the proposed term of “Indicative Match Price,” as the latter term is the content included in the Auction Imbalance Information in advance of an Auction, and the Auction Price is the price of an Auction that results in a trade.

## 6.64P-O(d).

- Proposed Rule 6.64P-O(a)(6) would define the term “Auction Processing Period” to mean the period during which the Auction is being processed. The Exchange proposes that this new term would have the same meaning as the same term on its cash equity market. The Auction Processing Period is at the end of the Auction Process and is the period when the actual Auction is conducted and the Exchange transitions from a pre-open state (described below) to continuous trading. The end of the Auction Processing Period is the end of the Auction and, depending on the orders and quotes in the Consolidated Book, it concludes either with or without a trade. Accordingly, this proposed definition is substantively identical to the definition of “Auction Processing Period” set forth in Rule 7.35-E(a)(2).
- Proposed Rule 6.64P-O(a)(7) would define the term “Auction Trigger” to mean the information disseminated by the Primary Market in the underlying security that triggers the Auction Process for a series to begin. For a Core Open Auction, the proposed Auction Trigger would be when the Primary Market first disseminates at or after 9:30 a.m. Eastern Time both a two-sided quote and a trade of any size that is at or within the quote per proposed Rule 6.64P-O(a)(7)(A). For a Trading Halt Auction, the proposed Auction Trigger would be when the Primary Market disseminates at the end of a trading halt or pause a resume message, a two-sided quote, and a trade of any size that is at or within the quote, per proposed Rule 6.64P-O(a)(7)(B). This proposed term is new and is not used on the cash equity platform. This proposed functionality, however, is not new and is based on how the Exchange currently opens or reopens a series for trading, as set forth in the last sentence of current Rule 6.64-O(b).<sup>160</sup> The proposed rule adds detail not found in the current rule by referring to a “two-sided quote” rather than a “quote,” without any changes to functionality. The Exchange also proposes a difference that an opening trade on the Primary Market may be “of any size,” which would make clear that an odd-lot transaction on the Primary Market could be used as an Auction Trigger, which would be new on Pillar. The Exchange believes that because it requires both a quote and a trade from the Primary Market before it can open/reopen trading in the overlying option, and because a Primary Market that has disseminated a quote for an underlying security is open for trading, allowing odd-lot sized trades to be included in the trigger would increase the opportunities to open/reopen trading options that overlay low-volume securities that have opened for trading on the Primary Market and would reduce the circumstances needed to manually

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<sup>160</sup> Rule 6.64-O(b) provides, in relevant part, that the related option series will be opened automatically “once the primary market for the underlying security disseminates a quote and a trade that is at or within the quote.”

trigger an Auction for a series.

- Proposed Rule 6.64P-O(a)(8) would define the term “Calculated NBBO” to mean the highest bid and lowest offer among all Market Maker quotes and the ABBO during the Auction Process. The Exchange proposes to use the term “Calculated NBBO” to specify which bids and offers the Exchange would consider for purposes of determining whether to proceed with an Auction on Pillar, as described in greater detail below. The Exchange believes the proposed term provides more clarity than referencing an “NBBO disseminated by OPRA” and is consistent with the proposed definition of ABBO, which by its terms is disseminated by OPRA.<sup>161</sup>
- Proposed Rule 6.64P-O(a)(9) would define the term “Indicative Match Price” to mean the price at which the maximum number of contracts can be traded in an Auction, including the non-displayed quantity of Reserve Orders, and excluding IO Orders, subject to the Auction Collars. This functionality is consistent with the current process for establishing a single opening price, as described in Rule 6.64-O(b)(A), but the proposed rule adds more granularity and uses Pillar terminology.<sup>162</sup> In addition, the term “Indicative Match Price” refers to the same functionality as the OX system’s reference to the term “reference price” in its imbalance information. This proposed definition is based on the Pillar definition of “Indicative Match Price” set forth in Rule 7.35-E(a)(8), with differences to refer solely to “price” as opposed to “best price” because proposed Rule 6.64P-O(a)(9)(A), described below, would provide specificity of how such price would be determined, and to reflect options trading terminology (i.e., contracts instead of shares). Proposed Rule 6.64P-O(a)(9) would further provide that if there is no Legal Width Quote, the Indicative Match Price included in the Auction Imbalance Information would be calculated without Auction Collars. This would be a new feature applicable only to options trading and an Indicative Match Price without Auction Collars would be accompanied with an Auction Indicator that the Auction cannot

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<sup>161</sup> The Exchange notes that the information used to calculate the proposed Calculated NBBO is consistent with the information that the Exchange receives from OPRA in advance of the Exchange opening or reopening trading (i.e., Market Maker rotational quotes from the Exchange and ABBO) and is similar to Cboe’s definition of “Composite Market,” as described in Cboe Rule 5.31(a), which includes Cboe Market Maker quotes and BBOs of other options exchanges.

<sup>162</sup> See Rule 6.64-O(b)(A), (c) (describing process for determining single opening price).

be conducted because there is no Legal Width Quote.<sup>163</sup>

Proposed Rule 6.64P-O(a)(9)(A) would provide that if there is more than one price level at which the maximum number of contracts can be traded within the Auction Collars, the Indicative Match Price would be the price closest to the midpoint of the Legal Width Quote, rounded to the nearest MPV for the series, provided that the Indicative Match Price would not be lower (higher) than the highest (lowest) price of a Limit Order to buy (sell) ranked Priority 2 - Display Orders that is eligible to participate in the Auction. This functionality is similar to the current process for establishing a single opening price, as described in Rule 6.64-O(c), which provides that when the same number of contracts can trade at multiple prices, the opening price is the price at which the greatest number of contracts can trade that is at or nearest to the midpoint of the NBBO disseminated by OPRA. The proposed rule text uses Pillar terminology based on Rule 7.35-E(a)(8)(A) and adds more granularity, such as describing that the Exchange would round to the nearest MPV in the series, which is consistent with current functionality. The Exchange also proposes a difference compared to the cash equity rules to reflect that when there is more than one price level at which the maximum number of contracts can trade, the Indicative Match Price for options trading would be the price closest to the midpoint of the Legal Width Quote rather than (for cash equities) the price closest to an auction reference price. The Exchange believes that reference to the term Legal Width Quote reflects the proposed use of this term in the Auction Process rather than referring to the NBBO disseminated by OPRA.

Proposed Rule 6.64P-O(a)(9)(B) would provide that an Indicative Match Price that is higher (lower) than the upper (lower) Auction Collar would be adjusted to the upper (lower) Auction Collar and orders eligible to participate in the Auction would trade at the collared Indicative Match Price. Proposed Rule 6.64P-O(a)(9)(B)(i) would provide that Limit Orders to buy (sell) with a limit price above (below) the upper (lower) Auction Collar would be included in the Auction Imbalance Information at the collared Indicative Match Price and would be eligible to trade at the Indicative Match Price. This proposed rule text provides granularity that, consistent with current functionality, orders willing to buy (sell) at a higher (lower) price than the Auction Price would participate in an Auction trade, which, by definition, would be required to be at or between the Auction Collars. Proposed Rule 6.64P-O(a)(9)(B)(ii) would provide that Limit Orders and quotes to buy (sell) with a limit price below (above) the lower (upper) Auction Collar would not be included in the Auction

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<sup>163</sup> This would be new functionality because currently, if there is no legal width NBBO, the Exchange does not disseminate imbalance information and does not calculate an indicative match price.

Imbalance Information and would not participate in an Auction. The Exchange proposes that the manner that orders and quotes priced outside of the Auction Collar would be included (or not) in the Indicative Match Price would be the same as how it is determined for cash equity trading. Accordingly, this proposed rule text is new for options trading (but the functionality is consistent with current functionality) and uses Pillar terminology based on Rules 7.35-E(a)(10)(A), (B), and (C) that is designed to add granularity to the proposed rule, and with a difference to reflect when the proposed rule would be applicable to quotes.

Proposed Rule 6.64P-O(a)(9)(C) would provide that if the Matched Volume (defined below) for an Auction consists of only buy and sell Market Orders, the Indicative Match Price would be the midpoint of the Legal Width Quote, rounded to the MPV for the series, or, if, the Legal Width Quote is locked, then the locked price. This proposed rule text is new and uses Pillar terminology based on Rule 7.35-E(a)(8)(C), with differences to reflect that options trading on Pillar would be based on a Legal Width Quote (as defined herein) to determine the Indicative Match Price when there are only Market Orders eligible to trade in an Auction. This proposed rule is designed to provide granularity of how the Indicative Match Price would be calculated if there are only Market Orders.

Proposed Rule 6.64P-O(a)(9)(D) would provide that if there is no Matched Volume, including if there are Market Orders on only one side of the Market, the Indicative Match Price and Total Imbalance for the Auction Imbalance Information would be zero. This proposed rule text is new and uses Pillar terminology based on Rule 7.35-E(a)(8)(D) and (E) with differences to reflect that on options, the Indicative Match Price would be zero in both circumstances. This proposed Rule is designed to provide granularity regarding how the Indicative Match Price and Total Imbalance for the Auction Imbalance Information would be calculated if there is no Matched Volume.

- Proposed Rule 6.64P-O(a)(10) would define a “Legal Width Quote” as a Calculated NBBO that: (A) may be locked, but not crossed; (B) does not contain a zero offer; and (C) has a spread between the Calculated NBBO for each option contract that does not exceed a maximum differential that is determined by the Exchange on a class by class basis and announced by Trader Update (as discussed further below, provided that a Trading Official may establish differences other than the above for one or more series or classes of options.<sup>164</sup>

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<sup>164</sup> See Rule 6.37-O(c) (Unusual Conditions - Opening Auction) (providing that “[i]f the interest of maintaining a fair and orderly market so requires, a Trading Official may declare that unusual market conditions exist in a particular issue and allow Market Makers in that issue to make auction bids and offers with spread

Requiring that the Legal Width Quote not be crossed is consistent with current Rule 6.64-O(b)(E), which requires an uncrossed NBBO disseminated by OPRA before a series can be opened (or reopened).<sup>165</sup> The Exchange believes that the additional detail in proposed Rules 6.64P-O(a)(10)(A) and (B) regarding how to determine a Legal Width Quote provides clarity and granularity as to when a Calculated NBBO would be eligible to be considered a Legal Width Quote. In addition, requiring that the Calculated NBBO must not exceed a maximum differential before an Auction can proceed is based on the current OX Opening Process, which requires the bid-ask differential for a series to be in an acceptable range.<sup>166</sup> However, rather than specify maximum bid-ask differentials in proposed Rule 6.64P-O, the Exchange believes it is appropriate to instead retain flexibility to set the maximum differentials so that the Exchange may consider the different market models and characteristics of different classes, as well as modify amounts in response to then-current market conditions.<sup>167</sup> The proposed Rule would allow the Exchange to modify these bid-ask differentials at any time as it deems necessary and appropriate, which discretion the Exchange has today on the OX system.<sup>168</sup> In addition, allowing the Exchange to announce the maximum

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differentials of up to two times, or in exceptional circumstances, up to three times, the legal limits permitted under Rule 6.37-O”).

- <sup>165</sup> The proposed calculation of a Legal Width Quote is also similar to how Cboe determines whether to perform a “Forced Opening,” because Cboe requires a Composite Market that is not crossed with a non-zero offer. See Cboe Rule 5.31(e)(4).
- <sup>166</sup> See Rule 6.64-O(b)(D) (providing that “[t]he OX System will not conduct an Auction Process if the bid-ask differential for that series is not within an acceptable range,” which “acceptable range shall mean within the bid-ask differential guidelines established pursuant to Rule 6.37-O(b)(4)”).
- <sup>167</sup> For example, Cboe recently amended Cboe Rule 5.31 relating to its opening process to amend the definition of “Maximum Composite Width” (i.e., the amount that the “Composite Width” of a series may generally not be greater than for the series to open), which term is used similarly to how the Exchange proposes to use the term “Legal Width Quote,” to delete the specified amounts for the Maximum Composite Width and to instead provide that Cboe may determine such amounts “on a class and Composite bid basis, which amount [Cboe] may modify during the opening auction process” and disseminate “to all subscribers of [Cboe’s] data feeds that delivery opening auction updates”). See Securities Exchange Act Release No. 90967 (January 22, 2021), 86 FR 7249 (January 28, 2021) (SR-Cboe-2021-005) (Notice of filing and immediate effectiveness of proposed rule change to remove specified spread differentials from Rule 5.31).
- <sup>168</sup> See supra note 163 (regarding authority conferred on Trading Officials, per Rule 6.37-O(c), to make auction bids and offers with spread differentials of up to two

differentials by Trader Update (as opposed to by Rule) is consistent with the rules of several options exchanges that are able to change the amounts of valid opening widths by notice or circular and not by rule change.<sup>169</sup>

The Exchange believes that the proposed definition relating to “Legal Width Quote” would promote clarity and transparency in Exchange rules regarding which quotes - both Market Maker quotes on the Exchange and the ABBO, i.e., the Calculated NBBO - that the Exchange would use to determine if there is a Legal Width Quote and provide direction that to be a Legal Quote Width, a Calculated NBBO may not exceed a maximum differential.

The Exchange also proposes to make a conforming change to Rule 6.37-O(c) to update the title from “Unusual Conditions - Opening Auction” to be “Unusual Conditions - Auctions,” which would align with the proposed definition of “Auctions” in proposed Rule 6.64P-O(a), which includes both opening and reopening auctions. This proposed change also promotes clarity, consistent with current functionality that Rule 6.37-O(c) is also applicable to reopenings. In addition, the Exchange proposes to amend Rule 6.37-O(c), which authorizes a Trading Official to widen the bid-ask differentials in the event of unusual conditions, to add a cross-reference to extend such authority to proposed Rule 6.64P-O(a)(9) (regarding the Legal Width Quote spreads). This proposed amendment would ensure that the existing procedures for auctions in the event of unusual conditions, as specified in Rule 6.37-O(c), would continue to be available for option symbols that have transitioned to Pillar (and subject to new Rule 6.64P-O(a)(10)).

- Proposed Rule 6.64P-O(a)(11) would define the term “Matched Volume” to mean the number of buy and sell contracts that can be matched at the Indicative Match Price, excluding IO Orders. The concept of Matched

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times, or in exceptional circumstances, up to three times, the legal limits, “[i]f the interest of maintaining a fair and orderly market so requires”).

<sup>169</sup> See, e.g., Cboe Rule 5.31(a) (definition of Maximum Composite Width); Cboe EDGX Options Exchange, Inc. (“EDGX”) Rule 21.7(a) (same); BZX Rule 21.7(a) (same); Cboe C2 Exchange Inc. (“C2”) Rule 6.11(a) (same); see also Nasdaq Options Market (“NOM”) Options 3, Section 8(a)(6) (defining “Valid Width NBBO” as “the combination of all away market quotes and any combination of NOM-registered Market Maker orders and quotes received over the QUO or SQF Protocols within a specified bid/ask differential as established and published by the Exchange” and allowing the Valid Width NBBO to be “configurable by underlying, and tables with valid width differentials will be posted by Nasdaq on its website”) and MIAX Rule 503(f)(2) (which permits MIAX to determine by circular an acceptable range in which openings are permissible if there is no valid width national best bid or offer (“NBBO”)).

Volume on Pillar is consistent with the OX system's concept of "paired quantity" in its imbalance information. This proposed rule text uses Pillar terminology based on the definition of "Matched Volume" set forth in Rule 7.35-E(a)(9), with a non-substantive difference to reference (option) contracts instead of shares and to be clear that the Matched Volume would not include IO Orders. The Exchange believes this proposed definition promotes granularity in Exchange rules.

- Proposed Rule 6.64P-O(a)(12) would define the term "pre-open state" to mean the period before a series is opened or reopened for trading and would provide that during the pre-open state, the Exchange would accept Auction-Only Orders, quotes, and orders designated Day or GTC, including orders ranked under the proposed category of "Priority 3 - Non-Display Orders" that are not eligible to participate in an Auction.<sup>170</sup> This proposed text is consistent with current Rule 6.64-O(b), which provides that the Exchange will accept market and limit orders for inclusion in the opening auction process and would add further granularity regarding which interest would be accepted by the Exchange (even if not eligible for an Auction) prior to the opening or reopening of each option series and during which time period. The proposed rule would further provide that the pre-open state for the Core Open Auction would begin at 6:00 a.m. Eastern Time and would end when the Auction Processing Period begins, which is similar to current functionality, which allows order and quote entry to begin at 5:30 a.m. Eastern Time. The Exchange believes that moving the start time to 6:00 a.m. Eastern Time would not materially impact the ability of OTP Holders to enter orders or quotes during the pre-open state. As further proposed, at the beginning of the pre-open state before the Core Open Auction, orders designated GTC that remain from the prior trading day will be included in the Consolidated Book, which is consistent with current functionality. The proposed rule would also provide that the pre-open state for a Trading Halt Auction would begin at the beginning of the trading halt and would end when the Auction Processing Period begins. This proposed definition of a pre-open state would be new for Pillar and is designed to distinguish the pre-open state (for a Core Open Auction or a Trading Halt Auction) from both the Auction Processing Period and the period when a given series opens for trading, which would add granularity to Exchange rules. As noted above, this proposed definition of pre-open state would also be used in proposed Rules 6.40P-O, 6.41P-O, and 6.62P-O.

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<sup>170</sup> The Exchange notes that Cboe refers to a similar period as the "Queuing Period." See Cboe Rule 5.31(b). Similar to Cboe's Queuing Period, the proposed term of "pre-open state" means the period when the Exchange accepts orders and quotes but has not yet opened/reopened a series for continuous trading. The proposed "Auction Process," defined above, is part of the pre-open state, but does not begin until the Exchange receives an Auction Trigger, as defined above.



- Proposed Rule 6.64P-O(a)(13) would define the term “Rotational Quote” to mean the highest Market Maker bid and lowest Market Maker offer on the Exchange when the Auction Process begins and would provide that during the Auction Process, the Exchange would update the price and size of the Rotational Quote and that such Rotational Quote can be locked or crossed. The Exchange further proposes that, if there are no Market Maker quotes, the Rotational Quote would be published with a zero price and size. The Exchange notes that, although not specified in the current rule, it currently disseminates a “rotational quote” to OPRA when it is in the process of opening or reopening a series, i.e., a quote that is comprised only of Market Maker quotes and does not include orders. The Exchange proposes a difference on Pillar because currently, if the Market Maker Quotes are crossed, the Exchange flips the bid and offer prices. In Pillar, the Exchange would publish a Rotational Quote with the actual bid and offer prices, even if crossed, which would provide OTP Firms and OTP Holders with a more accurate view of whether a Rotational Quote is crossed. This proposed definition is new, uses Pillar terminology, and adds granularity to Exchange rules by codifying existing (albeit slightly modified) functionality.

*Auction Ranking.* Proposed Rule 6.64P-O(b) would describe the ranking for Auctions and would provide that orders and quotes on the side of the Imbalance are not guaranteed to participate in the Auction and would be ranked in price-time priority under proposed Rule 6.76P-O, consistent with the priority ranking associated with each order or quote, provided that: (1) Limit Orders, quotes, and LOO Orders would be ranked based on their limit price and not the price at which they would participate in the Auction; (2) MOO Orders would be ranked under the proposed category of “Priority 1 - Market Orders”; (3) LOO Orders would be ranked under the proposed category of “Priority 2 - Display Orders”; and (4) IO Orders would be ranked based on time among IO Orders, subject to eligibility to participate at the Indicative Match Price based on their limit price.<sup>171</sup>

This proposed rule is based in part on current Rule 6.64-O(b)(B), which provides that “[o]rders and quotes in the system will be matched up with one another based on price-time priority, provided, however, that orders will have priority over Market Maker quotes at the same price.” The Exchange proposes a difference in Pillar that orders in the same priority category as quotes would not have priority over Market Maker quotes at the same price, which distinction is an artifact of the Exchange’s existing system limitation. Instead, the Exchange proposes that orders and Market Maker quotes in the same priority category would be ranked

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<sup>171</sup> Unlike the Exchange’s cash equity rules, the Exchange proposes to describe Auction Ranking in a separate section of proposed Rule 6.64P-O, which is a stylistic choice similar to NYSE Rule 7.35(b), which also separates the concept of Auction Ranking from definitions.

based on time, as proposed in Rule 6.76P-O. This equal ranking of orders and quotes is consistent with how other options markets handle orders and quotes during the opening process.<sup>172</sup> Because the Exchange proposes that orders and quotes in an options Auction would be processed in the same manner as on its cash equity platform, including that orders on the side of the Imbalance would not be guaranteed to participate in an Auction, the proposed rule text in this regard is based in part on Rule 7.35-E(a)(6)(A) - (D), with differences to reflect that options trading includes quotes and to be clear that IO Orders would be ranked based on working time among IO Orders, subject to such orders' eligibility to participate at the Indicative Match Price based on their limit price.<sup>173</sup>

*Auction Imbalance Information.* Proposed Rule 6.64P-O(c) would provide that Auction Imbalance Information would be updated at least every second until the Auction is conducted, unless there is no change to the information and would further provide that the Exchange would begin disseminating Auction Imbalance Information at the following times: (1) Core Open Auction Imbalance Information would begin at 8:00 a.m. Eastern Time; and (2) Trading Halt Auction Imbalance Information would begin at the beginning of the trading halt. Because the Exchange proposes to disseminate Auction Imbalance Information for its options market in the same manner that such information is disseminated for its cash equity market, this proposed rule text, which is new, is based in part on Rule 7.35-E(a)(4)(A) and (C).

*Auction Process.* Proposed Rule 6.64P-O(d) would set forth the Exchange's proposed Auction Process on Pillar. Similar to current OX system functionality, which requires that the bid-ask differential for a given series be within an acceptable range before conducting an auction, under Pillar, a series would not be opened or reopened on a trade if there is no Legal Width Quote, which concept, as described above, incorporates (almost identical) bid-ask differentials.<sup>174</sup> As described further below, the Exchange proposes that for Pillar, a series should (ideally) also have Market Maker quotes and, as such, proposes to provide time for Market Makers assigned to a series to quote within the specified bid-ask differentials, and if Market Makers do not quote within those time frames, determine whether to open or reopen a series based on the ABBO. The Exchange

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<sup>172</sup> See Cboe Rule 5.31(e)(3)(i) (providing that Cboe "prioritizes orders and quotes in the following order: market orders, limit orders and quotes with prices better than the Opening Trade Price, and orders and quotes at the Opening Trade Price").

<sup>173</sup> See discussion supra, regarding proposed Rule 6.62P-O(c)(3) and how IO Orders would function. The Exchange notes that, unlike on the cash equity platform, IO Orders would not be limited to participating solely in Trading Halt Auctions and may likewise participate in Core Open Auctions as well.

<sup>174</sup> See supra note 144 (describing Rule 6.64-O(b)(D), which provides that the Exchange will not conduct its current Auction Process if the bid-ask differential for a series is not "within an acceptable range").

notes that this proposed process is consistent with that used on other options exchanges.<sup>175</sup>

Proposed Rule 6.64P-O(d)(1) describes the process for disseminating the Rotational Quote and would provide that when the Exchange receives the Auction Trigger for a series, the Exchange would send a Rotational Quote to both OPRA and proprietary data feeds indicating that the Exchange is in the process of transitioning from a pre-open state to continuous trading for that series. This proposed rule is consistent with current functionality and is designed to promote granularity.

Proposed Rule 6.64P-O(d)(2) would provide that once a Rotational Quote has been sent, the Exchange would conduct an Auction provided there is both a Legal Width Quote and, if applicable, a Market Maker quote with a non-zero offer in the series (which would be subject to the proposed requirements relating to Market Maker quotes, including the proposed new Opening MMQ Timer(s), as discussed further below per proposed Rule 6.64P-O(d)(3)). The proposed rule would further provide that the Exchange would wait a minimum of two milliseconds after disseminating the Rotational Quote before an Auction could be conducted, which delay would be new and is designed to enhance market quality by promoting price-forming displayed liquidity to the benefit of all market participants. Because the Rotational Quote is intended to provide notice that the Exchange will begin transitioning from a pre-open state, the Exchange believes this short delay will provide market participants with an opportunity to participate in the Auction Process. This proposed rule text is designed to provide transparency and determinism in Exchange rules regarding the earliest potential time that a series could be opened (after the Exchange receives an Auction Trigger), and subject to the series meeting all other requirements for opening or reopening discussed herein.

Subject to the requirements specified in proposed Rule 6.64P-O(d)(2), proposed Rule 6.64P-O(d)(2)(A) would provide that if there is Matched Volume that can trade at or within the Auction Collars, the Auction would result in a trade at the Indicative Match Price. Proposed Rule 6.64P-O(d)(2)(B) would provide that if there is no Matched Volume that can trade at or within the Auction Collars, the Auction would not result in a trade and the Exchange would transition to continuous trading as described in proposed Rule 6.64P-O(f) below. This

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<sup>175</sup> See, e.g., Nasdaq PHLX (“PHLX”) Section 8(d), Options Opening Process (providing that the Opening Process begins when (a) a “valid width” (i.e., a bid/ask differential that is compliant with PHLX Rule 1014(c)(i)(A)(1)(a)) specialist quote is submitted, (b) valid width quotes from at least two PHLX market participants have been submitted within 30 seconds of the opening trade or quote in the underlying security from the primary exchange, or (c) after 30 seconds of the opening trade or quote in the underlying security from the primary exchange, one PHLX market participant has submitted a valid width quote).

proposed rule text is new, uses Pillar terminology, and is designed to provide transparency of when an Auction would result in a trade.

Proposed Rule 6.64P-O(d)(3) would specify the parameters of the Opening MMQ Timers, which are designed to encourage (but would not require) Market Makers to submit Legal-Width Quotes in connection with the automated opening or reopening of a series. On the OX system, the Exchange does not impose on Market Makers assigned to a series any special obligations in connection with the opening process. On Pillar, the Exchange will likewise not impose on such Market Makers any additional obligations at the open.<sup>176</sup> The Exchange believes that, rather than layer additional requirements on the Market Making community, it would be more beneficial to all market participants to employ alternative methods to help ensure an orderly transition to continuous trading. As such, the Exchange believes that the proposed so-called “waterfall” approach to opening, would offer a number of checks that are intended to provide adequate opportunity for a greater number of Market Makers to provide their liquidity interest and help ensure increased liquidity at a level commensurate with which the market is accustomed during continuous trading on the Exchange. In short, although the Exchange does not require a Market Maker assigned to a series to quote on the Exchange in order to open or reopen a series for trading, the Exchange believes that providing Market Makers assigned to a series the opportunity to do so would promote a fair and orderly Auction process and facilitate a fair and orderly transition to continuous trading.<sup>177</sup> Accordingly, the Exchange proposes a new process for Auctions on Pillar that would provide time for Market Makers assigned to a series to quote within the specified bid-ask differentials before a series would be opened or reopened for trading.

Overall, the Exchange believes that the proposed waterfall approach of setting minimum time periods for a Market Maker assigned to a series to quote within the specified bid-ask differential before opening a series, even if there is a Legal Width Quote, would appropriately balance the benefits of increasing the opportunities for Market Makers assigned to a series to enter quotations within the specified bid-ask differential, with a timely series opening or reopening when there is a Legal Width Quote even when it does not include Market Makers assigned to the series.

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<sup>176</sup> Although the Exchange does not require that Market Makers assigned to a series quote at the open, once a series is opened for trading, Market Makers are nonetheless required to continuously fulfill their obligations to engage in a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market.

<sup>177</sup> Currently, neither Market Makers nor LMMs are obligated to provide a quote before a series is opened or reopened, which is why the proposed Pillar options Auction rule is designed to provide Market Makers with time to submit their quotes so a series can be opened.

In addition, the Exchange proposes to expand opportunities for its designated liquidity providers -- i.e., Market Makers -- to enter the market. As described in more detail below, the Exchange proposes different time lengths depending on the number of Market Makers assigned to a series. For example, if there are no Market Makers assigned to a series, there is no need to wait to open or reopen a series if there is a Legal Width Quote based upon the disseminated ABBO. If there is one Market Maker assigned to the series, the Exchange will delay opening (even if there is a Legal Width Quote based upon the ABBO) to give the Market Maker additional opportunity to provide liquidity. Furthermore, if there is more than one Market Maker assigned to a series, the Exchange designates longer periods to provide time for multiple Market Makers assigned to the series the chance to quote within the specified bid-ask differentials. The Exchange believes that providing additional opportunity for its liquidity providers to enter the market would result in deeper liquidity -- which market participants have come to expect in options with multiple assigned Market Makers, and a more stable trading environment.

The Exchange does not believe that the proposed waterfall approach would result in an undue burden on competition. Market Makers are encouraged but not required to quote in their assigned series at the open, thus they are not subject to additional obligations. The Exchange believes that encouraging, rather than requiring, participation of such Market Makers at the open, may increase the availability of Legal Width Quotes in more series, thereby allowing more series to open. Improving the validity of the opening price benefits all market participants and also benefits the reputation of the Exchange as being a venue that provides accurate price discovery.

As part of the Auction Process the Exchange proposes to utilize "Opening MMQ Timers," which will be 30 seconds unless otherwise specified by Trader Update. As proposed, once the Auction Process begins, the Exchange would begin one or more Opening MMQ Timer for the Market Maker(s) assigned to a series to (opt to) submit a quote with a non-zero offer.<sup>178</sup> The Opening MMQ Timers are designed to provide transparency in Exchange rules of the circumstances of when the Exchange would wait to open or reopen a series for trading if the assigned Market Maker(s) has not submitted a quote within the specified time periods, as follows:

- Proposed Rule 6.64P-O(d)(3)(A) would provide that if there are no Market Makers assigned to a series, the Exchange would conduct an Auction in

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A Market Maker may send quotations only in the issues included in its appointment, i.e., in series to which such Market Maker is assigned. See proposed Rule 6.37AP-O(a). See also proposed Rule 6.37AP-O(b) and (c) (setting forth continuous quoting obligations of LMMs and Market Makers, respectively, which obligations are identical to those set forth in Rule 6.37A-O(b) and (c)).

that series based solely on a Legal Width Quote, without waiting for the Opening MMQ Timer to end. As set forth in proposed Rule 6.64P-O(d)(2)(A) and (B), if there is Matched Volume, this Auction would result in a trade, otherwise, the series would transition to continuous trading as described in proposed Rule 6.64P-O(f) below.

- Proposed Rule 6.64P-O(d)(3)(B) would provide that if there is only one Market Maker assigned to a series:
  - The Exchange would conduct the Auction, without waiting for the Opening MMQ Timer to end, as soon as there is both a Legal Width Quote and the assigned Market Maker has submitted a quote with a non-zero offer (proposed Rule 6.64P-O(d)(3)(B)(i)). As set forth in proposed Rule 6.64P-O(d)(2)(A) and (B), if there is Matched Volume, this Auction would result in a trade, otherwise, the series would transition to continuous trading as described in proposed Rule 6.64P-O(f) below.
  - If the Market Maker assigned to the series has not submitted a quote with a non-zero offer by the end of the Opening MMQ Timer and there is a Legal Width Quote, the Exchange would conduct the Auction (proposed Rule 6.64P-O(d)(3)(B)(ii)). As set forth in proposed Rule 6.64P-O(d)(2)(A) and (B), if there is Matched Volume, this Auction would result in a trade, otherwise, the series would transition to continuous trading as described in proposed Rule 6.64P-O(f) below.
- Proposed Rule 6.64P-O(d)(3)(C) would provide that if there are two or more Market Makers assigned to a series:
  - The Exchange would conduct the Auction, without waiting for the Opening MMQ Timer to end, as soon as there is both a Legal Width Quote and at least two assigned Market Makers have submitted a quote with a non-zero offer (proposed Rule 6.64P-O(d)(3)(C)(i)). As set forth in proposed Rule 6.64P-O(d)(2)(A) and (B), if there is Matched Volume, this Auction would result in a trade, otherwise, the series would transition to continuous trading as described in proposed Rule 6.64P-O(f) below.
  - If at least two Market Makers assigned to a series have not submitted a quote with a non-zero offer by the end of the Opening MMQ Timer, the Exchange would begin a second Opening MMQ Timer (of the same length) and during the second Opening MMQ Timer, the Exchange would conduct the Auction, if there is both a Legal Width Quote and at least one Market Maker assigned to the series has submitted a quote with a non-zero offer (proposed Rule

6.64P-O(d)(3)(C)(ii)). In such case, the Exchange would not wait for the second Opening MMQ Timer to end. Because the Exchange does not require a Market Maker assigned to a series to quote before conducting an Auction, to reduce the potential delay in opening or reopening a series, the Exchange believes that during the second Opening MMQ Timer, it is appropriate to wait for only one Market Maker, instead of two, to quote. As set forth in proposed Rule 6.64P-O(d)(2)(A) and (B), if there is Matched Volume, this Auction would result in a trade, otherwise, the series would transition to continuous trading as described in proposed Rule 6.64P-O(f) below.

- If no Market Maker assigned to a series has submitted a quote with a non-zero offer by the end of the second Opening MMQ Timer and there is a Legal Width Quote, the Exchange would conduct the Auction (proposed Rule 6.64P-O(d)(3)(C)(iii)). As set forth in proposed Rule 6.64P-O(d)(2)(A) and (B), if there is Matched Volume, this Auction would result in a trade, otherwise, the series would transition to continuous trading as described in proposed Rule 6.64P-O(f) below.

As noted above, the proposed Auction Process is designed to attract the highest quality quote for each series at the open to attract order flow from any resting interest best quality quotes at the open of each series. As such, the Exchange believes it is reasonable to require more than one Opening MMQ Timer (with a maximum run time of one minute -- 30 seconds x 2) to run when there are at least two Market Markers because it allows the Exchange time to attract the best quote from these market participants, which in turn should attract order flow to the Exchange at the open (i.e., the Exchange can leverage the highest bid and lowest offer from the various Market Makers that submit quotes). The Exchange believes that if a Legal Width Quote is not obtained in the first 30-second Opening MMQ Timer, it is to the benefit of all market participants to begin a second Opening MMQ Timer to allow the bid-ask differential to tighten before a series is opened.

Proposed Rule 6.64P-O(d)(4) would provide that, unless otherwise specified by Trader Update, that for the first ninety seconds of the Auction Process (inclusive of the 30-second Opening MMQ Timer(s)), if there is no Legal Width Quote, the Exchange would not conduct an Auction, even if there is Matched Volume, i.e., the series would not transition to continuous trading. This proposed rule text provides transparency that, in the absence of a Legal Width Quote, the Exchange would not conduct an Auction that results in a trade even if there is Matched Volume. In such case, because there is Matched Volume, the Exchange could not open that series and would wait for a Legal Width Quote before conducting the Auction. Consistent with proposed Rule 6.64P-O(d)(3)(A), if at any time during this ninety-second period there is a Legal Width Quote, the Exchange would

proceed immediately with an Auction and would not wait for the ninety-second period to end (subject to any applicable Opening MMQ Timer(s)). In other words, if there is a Legal Width Quote available 20 seconds after the Auction Trigger (for example), the requirements specified in proposed Rule 6.64P-O(d)(3) would need to be met before the series could be opened or reopened.

The Exchange proposes new functionality for Pillar to allow the Exchange to open a series without a trade after ninety seconds have elapsed without a Legal Width Quote, i.e., transition to continuous trading as described in proposed Rule 6.64P-O(f), when there is a Calculated NBBO that is wider than the Legal Width Quote. This option to open or reopen a series would not be available if there is Matched Volume. As proposed, ninety seconds after the Auction Process begins:

- Proposed Rule 6.64P-O(d)(4)(A) would provide that if there is no Matched Volume and the Calculated NBBO is wider than the Legal Width Quote, is not crossed, and does not contain a zero offer, the Exchange would transition to continuous trading as described below in paragraph (f) of this Rule (as described below, a trade could occur during the transition to continuous trading, but there would not be a trade resulting from Matched Volume in the Auction). As further proposed, in such case, the Auction would not be intended to end with a trade, but it may result in a trade (even if there is no Legal Width Quote) if orders or quotes arrive when the Exchange is evaluating the status of orders and quotes, but before the Auction Processing Period begins.<sup>179</sup> The Exchange believes this proposed rule would facilitate the opening or reopening of a series so that it can begin continuous trading when there is a Calculated NBBO in a series that is wider than the Legal Width Quote and is not crossed and does not contain a zero offer.<sup>180</sup>
- Proposed Rule 6.64P-O(d)(4)(A)(i) would provide that any time a series is opened or reopened when there is no Legal Width Quote, i.e., the Auction would end without a trade, Market Orders and MOO Orders would not

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<sup>179</sup> The Exchange expects this to be a rare race condition that would result when the Exchange receives orders and quotes at virtually the same time that it is evaluating whether it can open a series on a quote based on a wide Calculated NBBO (and before the Auction Processing Period begins) and that, as a result of that race condition, those new orders or quotes are marketable against contra-side interest, i.e., results in Matched Volume for the Auction, at the same time that the Exchange concludes, based on interest that had previously been received, that it can proceed with an Auction in the absence of a Legal Width Quote. In such case, the Auction could result in a trade.

<sup>180</sup> Such opening is similar to Cboe's "Forced Opening" process because it allows a series to open without a trade after a specified time period when the market is wider than the specified bid-ask differentials. See Cboe Rule 5.31(e)(4).



participate in the Auction and would be cancelled before the Exchange transitions to continuous trading, which would protect such orders from trading at unintended prices.

- Proposed Rule 6.64P-O(d)(4)(B) would provide that if the Exchange still cannot conduct an Auction as provided under paragraph (A) (above), the Exchange would continue to evaluate both the Calculated NBBO and interest on the Consolidated Book until the earlier of: (i) a Legal Width Quote is established and an Auction can be conducted; (ii) the series can be opened as provided for in proposed Rule 6.64P-O(d)(4)(A); (iii) the series is halted; or (iv) the end of Core Trading Hours. The proposed rule provides transparency that the Exchange would continue to look for an opportunity to open or reopen a series based on changes to the Calculated NBBO or orders and quotes on the Consolidated Book.

Proposed Rule 6.64P-O(d)(5) would provide that the Exchange may deviate from the standard manner of the Auction Process, including adjusting the timing of the Auction Process in any option series or opening or reopening a series when there is no Legal Width Quote, when it believes it is necessary in the interests of a fair and orderly market. This proposed rule is based on Rule 6.64-O(b)(F) and, consistent with current functionality, is designed to provide the Exchange with flexibility to open a series even if there is no Legal Width Quote.<sup>181</sup> For example, a Floor Broker may have a two-sided open outcry order. If the series is not opened, that trade could not be consummated. Accordingly, this proposed rule would allow the Exchange to open a series for trading to facilitate open outcry trading.

*Order Processing during an Auction Processing Period.* As described above, the Auction Processing Period is the abbreviated time period (i.e., generally measured in less than a second) when the Exchange conducts the Auction and therefore transitions a series from a pre-open state to continuous trading. For example, if there is a Legal Width Quote, Market Maker quotes, and Matched Volume, the Auction Processing Period is when that Matched Volume will trade at the Indicative Match Price. New orders and quotes received during the Auction Processing Period would not be eligible to participate in that Auction trade. Because the Exchange would be using the same Pillar auction functionality for options trading that is used for its cash equity market, the Exchange proposes that proposed Rule 6.64P-O(e) would be based on Rule 7.35-E(g) and sub-paragraphs (1) and (2), with differences only to reference quotes in addition to orders. The proposed rule promotes granularity and transparency of how orders and quotes that arrive during the Auction Processing Period would be processed.

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<sup>181</sup> See Rule 6.64-O(b)(F) (providing that “[t]he Exchange may deviate from the standard manner of the Auction Process, including adjusting the timing of the Auction Process in any option class, when it believes it is necessary in the interests of a fair and orderly market”).

Accordingly, as proposed, new order and quote messages received during the Auction Processing Period would be accepted but would not be processed until after such Auction Processing Period. As with Rule 7.35-E(g), for purposes of proposed Rule 6.64P-O(e) and (f), an “order instruction” would likewise refer to a request to cancel, cancel and replace, or modify an order or quote.

As further proposed, during the Auction Processing Period, order instructions would be processed as follows:

- An order instruction that arrives during the Auction Processing Period would not be processed until after the Auction Processing Period if it relates to an order or quote that was received before the Auction Processing Period. Any subsequent order instructions relating to such order would be rejected (proposed Rule 6.64P-O(e)(1)).
- An order instruction that arrives during the Auction Processing Period would be processed on arrival if it relates to an order that was received during the Auction Processing Period (proposed Rule 6.64P-O(e)(2)).

*Transition to Continuous Trading.* After the Auction Processing Period concludes, i.e., once the Auction concludes either with or without a trade, the Exchange transitions to continuous trading. During this transition, the way in which orders, quotes, and order instructions are processed would differ depending on when such messages arrived at the Exchange. Proposed Rule 6.64P-O(f) would describe how the Exchange would transition to continuous trading after the Auction Processing Period concludes, which would detail new functionality for options trading under Pillar, and is based on how the Exchange transitions to continuous trading on its cash equity market following an Auction, as described in Rule 7.35-E(h). The Exchange believes that the proposed rule provides granularity regarding how orders and quotes would be processed in connection with the transition to continuous trading for options trading.<sup>182</sup> As proposed, the transition to continuous trading would proceed as follows.

Proposed Rule 6.64P-O(f)(1) would provide that orders that are no longer eligible to trade would be cancelled. This proposed rule text is based on Pillar terminology used in Rule 7.35-E(h)(1). For options trading, the only orders that would no longer be eligible to trade after the Auction Processing Period concludes would be Auction-Only Orders and such orders would cancel (rather than “expire”).

Proposed Rule 6.64P-O(f)(2) would provide that order instructions would be processed as follows:

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<sup>182</sup> See, e.g., Cboe Rule 5.31(f) (describing Cboe’s process for orders and quotes not executed in its opening process).

- An order instruction that relates to an order or quote that was received before the Auction Processing Period or that has already transitioned to continuous trading and that arrives during either the transition to continuous trading or the Auction Processing Period under paragraph (e)(1) of this Rule would be processed in time sequence with the processing of orders and quotes as specified in paragraphs (f)(3)(A) or (B) of this Rule. In addition, any subsequent order instructions relating to such order or quote would be rejected (proposed Rule 6.64P-O(f)(2)(A)). This proposed rule text is based on Rule 7.35-E(h)(2)(A), except that it does not include reference to order instructions received during an Auction Imbalance Freeze, which, as discussed above, is a concept on the cash equity platform that is not applicable to options trading. This proposed rule text provides transparency regarding how order instructions that arrived during the Auction Processing Period would be processed if they relate to orders or quotes that were received before the Auction Processing Period.<sup>183</sup>
- An order instruction that arrives during the transition to continuous trading would be processed on arrival if it relates to an order or quote that was entered during either the Auction Processing Period or the transition to continuous trading and such order or quote has not yet transitioned to continuous trading (proposed Rule 6.64P-O(f)(2)(B)). This proposed rule text is based on Rule 7.35-E(h)(2)(B) without any substantive differences.

Proposed Rule 6.64P-O(f)(3) would set forth how orders and quotes would be processed during the transition to continuous trading following an Auction. The proposed process for transitioning to continuous trading is consistent with current functionality (with differences described below) relating to draining the queue of unexecuted orders and quotes following the current Auction Process. The Exchange believes that the proposed rule provides granularity of this process as compared to the current Rule. Specifically, the Exchange proposes that it would process Auction-eligible orders and quotes that were received before the Auction Processing Period and orders ranked under the proposed category of “Priority 3-Non-Display Orders” (which interest was not eligible to participate in an Auction) received before a trading halt as follows:

- Proposed Rule 6.64P-O(f)(3)(A)(i) would provide that Limit Orders and quotes would be subject to the Limit Order Price Check, Arbitrage Check, and Intrinsic Value Check, as applicable. This proposed rule differs from current functionality, whereby risk checks are applied before an Auction. This proposed rule text is consistent with the proposed rule changes, described above, regarding when the Limit Order Price Check,

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See id. (unexecuted orders and quotes will be entered into the Cboe book in time sequence).

Arbitrage Check, and Intrinsic Value Check (per proposed Rules 6.62P-O(a)(3) and 6.41P-O, respectively) would be applied to orders and quotes that were received during a pre-open state. The Exchange proposes to apply these checks to orders and quotes before they become eligible for trading or routing during continuous trading.

- Proposed Rule 6.64P-O(f)(3)(A)(ii) would provide that Limit Orders and Market Orders would be assigned a Trading Collar. This proposed rule is consistent with the proposed changes to Trading Collars on Pillar, described above (per Rule 6.62P-O(a)(4)), that an order received during a pre-open state would be assigned a Trading Collar after an Auction concludes, or that an order would be reassigned a Trading Collar after a halt.
- Proposed Rule 6.64P-O(f)(3)(A)(iii) would provide that orders eligible to route that are marketable against Away Market Protected Quotations would route based on the ranking of such orders as set forth in Rule 6.76P-O(c). This proposed rule is consistent with current functionality and uses Pillar terminology based on Rule 7.35-E(h)(3)(A)(ii)(a), with differences to use the term “Away Market Protected Quotations” instead of “protected quotations on Away Markets” and to cross reference proposed Rule 6.76P-O(c).<sup>184</sup> As with current functionality, routable orders would be routed to Away Markets to avoid either trading through or locking or crossing an Away Market Protected Quotation.
- Proposed Rule 6.64P-O(f)(3)(A)(iv) would provide that after routing eligible orders, orders and quotes not eligible to route that are marketable against Away Market Protected Quotations would cancel. This functionality would be new for options trading (such orders and quotes would currently reprice) and this proposed rule is based on Rule 7.35-E(h)(3)(A)(ii)(b), with differences to use the term “Away Market Protected Quotations” instead of “protected quotations on Away Markets.” By cancelling non-routable orders and quotes marketable against Away Market Protected Quotations, the Exchange would avoid locking or crossing such Away Market Protected Quotations.
- Proposed Rule 6.64P-O(f)(3)(A)(v) would provide that once there are no more unexecuted orders marketable against Away Market Protected Quotations, orders and quotes that are marketable against other orders and quotes in the Consolidated Book would trade or be repriced. This proposed rule is based on Rule 7.35-E(h)(3)(A)(ii)(c), with a difference that an order could be repriced based on this assessment, which would be

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<sup>184</sup> See supra note 113 (citing definitions of “Protected Bid,” “Protected Offer,” and “Quotation” set forth in Rule 6.92-O(a)(15) and (16) and of “Away Market” as set forth in proposed Rule 1.1).

unique to options trading because as described above, an ALO Order that would be marketable against a contra-side order or quote on the Consolidated Book cannot take liquidity and in such case, the Exchange would reprice an ALO Order that is marketable as provided for in proposed Rule 6.62P-O(e)(2).<sup>185</sup> The Exchange further notes that, similar to the Exchange's cash equity market, the Exchange could transition to continuous trading without the Auction resulting in a trade, but that a trade(s) may occur during the transition to continuous trading, which trade(s) would be published to OPRA before the Exchange publishes a quote to OPRA.<sup>186</sup> The Exchange would not consider a trade that occurs during the transition to continuous trading to be an Auction that results in a trade.<sup>187</sup>

- Proposed Rule 6.64P-O(f)(3)(A)(vi) would provide that Market Orders received during a pre-open state would be subject to the validation specified in proposed Rule 6.62P-O(a)(1)(C). The Exchange notes that because such Market Orders would already have been received by the Exchange, if such orders fail one of those validations, they would be cancelled instead of rejected. This would be new rule text as compared to the Exchange's cash equity rules to reflect the validations that would be applicable to Market Orders for options trading on Pillar and would add transparency and granularity to Exchange rules.
- Proposed Rule 6.64P-O(f)(3)(A)(vii) would provide that the display quantity of Reserve Orders would be replenished. This proposed rule is based on Rule 7.35-E(h)(3)(A)(ii)(d), without any substantive differences. This proposed rule is based on current functionality and provides granularity in Exchange rules.

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<sup>185</sup> As described above, the Exchange proposes a difference on Pillar because ALO Orders would be eligible to participate in an Auction. Currently, ALOs will be rejected if entered outside of Core Trading Hours or during a trading halt or, if resting, will be cancelled in the event of a trading halt. See discussion supra regarding Rule 6.62-O(t).

<sup>186</sup> For example, the Exchange may determine that, as described in proposed Rule 6.64P-O(d)(4)(A), if there is no Matched Volume but there is a Calculated NBBO that meets the requirements specified in that Rule, it can conduct an Auction without a trade and transition to continuous trading pursuant to proposed Rule 6.64P-O(f). In such case, there would not be an Auction that results in a trade, but a trade(s) could occur among orders and quotes that trade during the transition to continuous trading.

<sup>187</sup> OPRA does not distinguish between a trade that results from an opening auction and a trade that occurs during the transition to continuous trading. By contrast, the Exchange's proprietary data feed would distinguish a trade that resulted from an Auction from a trade that occurred during the transition to continuous trading.

- Proposed Rule 6.64P-O(f)(3)(A)(viii) would describe the last step in this process regarding Auction-eligible interest received before the Auction Processing Period and orders ranked under the proposed category of “Priority 3 - Non-Display Orders” received before a trading halt. Specifically, the Exchange would send a quote to OPRA and proprietary data feeds representing the highest-priced bid and lowest-priced offer of any remaining, unexecuted Auction-eligible orders and quotes that were received before the Auction Processing Period. This proposed rule is consistent with current options functionality and is also based on current cash equity functionality, as set forth in Rule 7.35-E(h)(3)(A)(ii). Although the functionality would be the same for both markets, for options traded on the Exchange, the Exchange proposes to describe this aspect of the process in sequence, and reference both orders and quotes. The Exchange notes that this quote sent to OPRA would be different than the Rotational Quote sent at the beginning of the Auction Process because it could be comprised of both orders and quotes. At a high level, this represents current functionality because after a series opens, the Exchange disseminates its best bid and offer of its quotes and orders to OPRA.

Proposed Rule 6.64P-O(f)(3)(B) would provide that next, orders ranked under the proposed category of “Priority 3 - Non-Display Orders” that were received during a pre-open state would be assigned a new working time, in time sequence relative to one another based on original entry time, and would be subject to the Limit Order Price Check, Arbitrage Check, and Intrinsic Value Check, as applicable, and if not cancelled, would be traded or repriced. This proposed functionality would be new for Pillar and applicable only for options traded on the Exchange. Even though orders ranked Priority 3 - Non-Display Orders would not be eligible to trade in an Auction (other than the reserve interest of Reserve Orders), the Exchange proposes to accept such orders during a pre-open state. These orders would transition to continuous trading after any unexecuted Auction-eligible interest transitions to continuous trading, as described above in proposed Rule 6.64P-O(f)(3)(A)(i) - (viii). The Exchange believes that waiting to process non-displayed orders in this sequence would ensure that there is an NBBO against which such orders could be priced, as described in proposed Rule 6.62P-O(d) (regarding Orders with a Conditional or Undisplayed Price and/or Size) above.

Proposed Rule 6.64P-O(f)(3)(C) would provide that next, orders and quotes that were received during the Auction Processing Period would be assigned a new working time in time sequence relative to one another, based on original entry time and would be subject to the Limit Order Price Check, Pre-Trade Risk Controls, Arbitrage Check, Intrinsic Value Check, and validations specified in proposed Rule 6.62P-O(a)(1)(A), as applicable to certain Market Orders, and if not cancelled would be processed consistent with the terms of the order or quote. This proposed rule text is designed to reflect that orders and quotes received

during the Auction Processing Period would not be subjected to these price/risk validations until after the Exchange has transitioned to continuous trading, and that if such interest fails these validations, those orders or quotes would be cancelled instead of rejected. This proposed rule text is based on Rule 7.35-E(h)(3)(B), with differences to reflect the price/risk validations that would be applicable to orders and quotes for options trading.

Proposed Rule 6.64P-O(f)(3)(D) would further provide that when transitioning to continuous trading:

- The display price and working price of orders and quotes would be adjusted based on the contra-side interest in the Consolidated Book or ABBO, as provided for in Rule 6.62P-O (proposed Rule 6.64P-O(f)(3)(D)(i)). This proposed rule is based on Rule 7.35-E(h)(3)(C), with differences to reflect that, for options trading, the display price or working price of an order may be adjusted based either on contra-side interest on the Consolidated Book (e.g., for ALO Orders) or the ABBO (as opposed to the PBBO or NBBO for cash equities trading).
- The display price and working price of a Day ISO would be adjusted in the same manner as a Non-Routable Limit Order until the Day ISO is either traded in full or displayed at its limit price and the display price and working price of a Day ISO ALO would be adjusted in the same manner as an ALO Order until the Day ISO ALO is either traded in full or displayed at its limit price (proposed Rule 6.64P-O(f)(3)(D)(ii)). This proposed rule is new for options trading because, as described above, the Exchange would be offering Day ISO and Day ISO ALO for options trading for the first time with the transition to Pillar. The rule text is based in part on Rule 7.35-E(h)(3)(D), with differences to reflect how a Day ISO ALO would be processed on options as compared to how similarly-named orders trade on the Exchange's cash equity market, as described in more detail above in connection with proposed Rule 6.62P-O(e)(3).

Proposed Rule 6.64P-O(g) would describe order processing during a trading halt. The proposed rule is based in part on Rule 7.18-E(c), with differences to reflect how options would trade on Pillar as described below. The proposed Rule is designed to provide granularity in Exchange rules about how new and existing orders, quotes, and order instructions would be processed during a trading halt. As proposed, the Exchange would process new and existing orders and quotes in a series during a trading halt as follows:

- Cancel any unexecuted quantity of orders for which the 500-millisecond Trading Collar timer has started and all resting Market Maker quotes (proposed Rule 6.64P-O(g)(1)). This proposed rule would be unique for options traded on the Exchange. The Exchange proposes to cancel resting Market Maker quotes when a trading halt is triggered, which represents

current functionality, and as noted below, would accept new Market Maker quotes during a trading halt, which would be the basis for the Rotational Quote that would be published for a Trading Halt Auction. The Exchange also proposes to cancel any unexecuted quantity of orders for which the 500-millisecond Trading Collar has started because such timer would have ended during a trading halt, and therefore such orders were subject to cancellation already. This would be new functionality on Pillar and reflects the proposed new Trading Collar behavior that orders would be priced at their collar for only 500 milliseconds and then would cancel.

- Re-price all other resting orders on the Consolidated Book to their limit price. This would be new functionality on Pillar for options trading; currently, during a halt, resting orders do not reprice to their limit price.<sup>188</sup> The repricing of a Non-Routable Limit Order, ALO Order, or Day ISO ALO to its limit price during a trading halt would not be counted toward the (limited) number of times such order may be repriced, and any subsequent repricing of such order during the transition to continuous trading would be permitted as the additional (uncounted) repricing event as provided for in proposed Rules 6.62P-O(e)(1)(B) and (e)(2)(C) (proposed Rule 6.64P-O(g)(2)). As described above, once resting, a Non-Routable Limit Order, ALO Order, or Day ISO ALO that was repriced on arrival is eligible to be repriced only one additional time. This proposed rule provides transparency that the repricing of such orders to their limit price during a trading halt would not count towards that “one” additional repricing, but that any subsequent repricing after the Auction concludes would count.
- Accept and process all cancellations (proposed Rule 6.64P-O(g)(3)). This proposed rule is based on Rule 7.18-E(c)(4), without any differences, and is consistent with current functionality.
- Reject incoming Limit Orders designated IOC or FOK (proposed Rule 6.64P-O(g)(4)). This proposed rule is based on Rule 7.18-E(c)(5), with a difference to add orders designated FOK and not include non-displayed orders and is consistent with current functionality.
- Accept all other incoming order and quote messages and instructions until the Auction Processing Period for the Trading Halt Auction ends, at which point, paragraph (e) of proposed Rule 6.64P-O would govern the entry of incoming orders, quotes, and order instructions (proposed Rule 6.64P-O(g)(5)). This proposed rule is based on Rule 7.18-E(c)(6), with differences to cross reference the options rule relating to the transition to continuous trading and is consistent with current functionality.

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<sup>188</sup> On its cash equities market, for trading halts in Exchange-listed securities, the Exchange reprices resting orders to their limit price. See Rule 7.18-E(c)(3).



- Disseminate a zero bid and zero offer quote to OPRA and proprietary data feeds (proposed Rule 6.64P-O(g)(6)). This proposed rule is based on current functionality and is designed to promote clarity and transparency in Exchange rules that when a trading halt begins, the Exchange will “zero” out the Exchange’s BBO.

Finally, proposed Rule 6.64P-O(h) would provide that whenever, in the judgment of the Exchange, the interests of a fair and orderly market so require, the Exchange may adjust the timing of or suspend the Auctions set forth in this Rule with prior notice to OTP Holders and OTP Firms. This proposed rule is based on Rule 7.35-E(i), with a difference to reference OTP Holders instead of ETP Holders and also reference OTP Holders and OTP Firms.

In connection with proposed Rule 6.64P-O, the Exchange proposes to add the following preamble to Rule 6.64-O: “This Rule is not applicable to trading on Pillar.” This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rule 6.64-O would not be applicable to trading on Pillar.

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As discussed above, because of the technology changes associated with the migration to the Pillar trading platform, subject to approval of this proposed rule change, 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 rulebook pending the full migration of Pillar will reduce confusion because it will ensure that the rules governing trading on the OX system will continue to be available pending the full migration to Pillar.

(b) Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),<sup>189</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>190</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 and a national market system because the proposed rules would promote transparency in Exchange rules by using consistent terminology

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<sup>189</sup> 15 U.S.C. 78f(b).

<sup>190</sup> 15 U.S.C. 78f(b)(5).

governing trading on both the Exchange's cash equity and options trading platforms, thereby ensuring that members, regulators, and the public can more easily navigate the Exchange's rulebook and better understand how options trading is conducted on the Exchange.

Generally, the Exchange believes that 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 and a national market system by providing transparency of which rules would govern trading once a symbol has been migrated to the Pillar platform. The Exchange similarly believes that adding a preamble to those current rules that would not be applicable to trading on Pillar would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would promote transparency regarding which rules would govern trading on the Exchange during and after the transition to Pillar.

In addition, the Exchange believes that incorporating functionality currently available on the Exchange's cash equity market for options trading would remove impediments to and perfect the mechanism of a free and open market and a national market system because the Exchange would be able to offer consistent functionality across both its options and cash equity trading platforms, adapted as applicable for options trading. Accordingly, with the transition to Pillar, the Exchange will be able to offer additional features to its OTP Holders and OTP Firms that are currently available only on the Exchange's cash equity platform. For similar reasons, the Exchange believes that using Pillar terminology for the proposed new rules would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would promote consistency in the Exchange's rules across both its options and cash equity platforms.

#### *Definitions and Applicability*

The Exchange believes that the proposed amendments to Rule 1.1, including copying certain definitions from Rule 6.1-O and Rule 6.1A-O to Rule 1.1, would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed changes are designed to promote clarity and transparency in Exchange rules by consolidating into Rule 1.1 definitions relating to both cash equity and options trading and specifying, where applicable, the differences in definitions for each trading platform. The Exchange believes that the proposed changes to eliminate definitions no longer applicable to options trading and to modify the text of certain existing definitions relating to options trading that are being copied to Rule 1.1, would further remove impediments to and perfect the mechanism of a free and open market and a national market system because it would ensure that the definitions used in Exchange rules are updated to accurately reflect functionality and are internally consistent. In particular, the Exchange believes that the proposed updates to

definitions being copied to proposed Rule 1.1. from Rules 6.1-O(b) and 6.1A-O would add further granularity, clarity and transparency to Exchange rules making them easier for the investing public to navigate. The Exchange believes that new terms it proposes to include in Rule 1.1 for options trading (i.e., MPID, ABBO) would promote clarity and transparency in Exchange rules.<sup>191</sup> Finally, the Exchange believes that organizing Rule 1.1 alphabetically and eliminating subparagraph numbering would make the proposed rules easier to navigate.

The Exchange further believes that proposed new Rule 6.1P-O relating to applicability would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed rule would include those elements of current Rule 6.1-O that would remain applicable to options trading and eliminates duplicative text that would no longer be necessary after the transition to Pillar. The Exchange further notes that proposed Rule 6.1P-O is similar to NYSE American Rule 900.1NY.

#### *Order Ranking and Display*

The Exchange believes that proposed new Rule 6.76P-O would remove impediments to and perfect the mechanism of a free and open market and a national market system because the Exchange is not proposing substantive changes to how the Exchange would rank and display orders and quotes on Pillar as compared to the OX system. Rather, the proposed revisions to the Exchange's options trading rules would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed changes are designed to simplify the structure of the Exchange's options rules and use consistent Pillar terminology for both cash equity and options trading, without changing the underlying functionality for options trading. For example, the Exchange believes the proposed definitions set forth in Rule 6.76P-O, i.e., display price, limit price, working price, working time, and Aggressing Order/Aggressing Quote, would promote transparency in Exchange rules and make them easier to navigate because these proposed definitions would be used in other proposed Pillar options trading rules. The Exchange notes that these proposed definitions are consistent with the definitions set forth in Rule 7.36-E for cash equity trading with terminology differences only as necessary to address functionality associated with options trading that are not applicable to cash equity trading, e.g., reference to quotes.

The Exchange further believes that copying descriptions of order type behavior, which are currently set forth in Rule 6.76-O, to proposed Rule 6.62P-O, and therefore not include such detail in proposed Rule 6.76P-O, 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 rulebook. The Exchange notes that this proposed structure is consistent with the

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<sup>191</sup> See supra note 19 (regarding Cboe Rule 1.1. defined term "ABBO").

Exchange's cash equity rules, which similarly set forth information relating to an order type's ranking in Rule 7.31-E.

Moreover, the Exchange is not proposing any functional changes to how it would rank and display orders and quotes on Pillar as compared to the OX system, except (as noted herein) with regard to the treatment of reduced quote sizes which would be handled the same as orders with reduced size under Pillar, which would add consistency and transparency to Exchange rules.<sup>192</sup> The Exchange believes that using new terminology to describe ranking and display, including the proposed priority categories of Priority 1 - Market Orders, Priority 2 - Display Orders, and Priority 3- Non-Display Orders, would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed rule would provide more granularity and use Pillar terminology to describe functionality that is consistent with the OX system functionality currently referred to as the "Display Order Process" and the "Working Order Process" in Rule 6.76-O.

#### *Order Execution and Routing*

The Exchange believes that proposed new Rule 6.76AP-O would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed rule would set forth a price-time priority model for Pillar that is substantively the same as the Exchange's current price-time priority model as set forth in Rule 6.76A-O. The proposed differences as compared to Rule 6.76A-O are designed to use Pillar terminology that is based in part on Rule 7.37-E, if applicable, without changing the functionality that is currently available for options trading.

The Exchange believes that the proposed modifications to the LMM Guarantee would remove impediments to and perfect the mechanism of a free and open market and a national market system because it provides clarity of how multiple quotes from an LMM would be allocated (i.e., only the first quote in time priority would be eligible for the LMM Guarantee and trade at an execution price equal to the NBBO). The Exchange similarly believes that eliminating Directed Order Market Makers and Directed Orders would remove impediments to and perfect the mechanism of a free and open market and a national market system because these features are not currently used on the Exchange, and therefore eliminating Directed Orders and Directed Order Market Makers would streamline the Exchange's rules. The Exchange notes that the remaining differences in proposed Rule 6.76AP-O relating to the LMM Guarantee are designed to promote clarity and transparency in Exchange rules and would not introduce new functionality.

The Exchange believes that the structure and content of the rule text in proposed Rule 6.76AP-O promotes transparency by using consistent Pillar terminology.

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See supra note 47 (regarding existing handling of quotes with reduced size).

The Exchange also believes that adding more detail regarding current functionality in new Rule 6.76AP-O, as described above, would promote transparency by providing notice of when orders would be executed or routed by the Exchange.

### *Orders and Modifiers*

The Exchange believes that proposed new Rule 6.62P-O would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would use existing Pillar terminology to describe the order types and modifiers that would be available on the Exchange's options Pillar trading system. As noted above, the Exchange proposes to offer order types and modifiers that are either based on existing order types available on the OX system as described in Rule 6.62-O, or orders and modifiers available on the Exchange's cash equity trading platform, as described in Rule 7.31-E, with differences as applicable to reflect differences in options trading from cash equity trading. The Exchange believes that structuring proposed Rule 6.62P-O based on the structure of Rule 7.31-E would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would promote transparency and consistency in the Exchange's rulebook.

In addition to the terminology changes to describe the order types and modifiers that are currently available on the Exchange, the Exchange further believes that the order types and modifiers proposed for options trading on Pillar that either differ from order types and modifiers available on the OX system or that would be new would remove impediments to and perfect the mechanism of a free and open market and national market system because:

- Market Orders on Pillar would function similarly to how Market Orders function under current options trading rules, including being subject to Trading Collars. However, the proposed functionality would expand the circumstances under which Market Orders may be rejected, which functionality is designed to ensure that Market Orders do not execute either when there is no prevailing market in a series, which can occur if there is no NBO, no NBB and an NBO higher than \$0.50, or an absence of contra-side Market Maker quotations or the ABBO. In addition, the proposed functionality would provide that if the displayed prices are too wide to assure a fair and orderly execution of a Market Order, such Market Order would be rejected. The Exchange believes that the proposed "wide-spread" check for Market Orders is consistent with similar price protections on other options exchanges and is designed to prevent a Market Order trading at a price that could be considered a Catastrophic Error.<sup>193</sup> The Exchange believes that the proposed rule describing Market

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<sup>193</sup> See supra note 62 (citing Cboe's Market Order NBBO Width Protection, which similarly looks to the midpoint of the NBBO in applying this protection).

Orders would promote transparency by providing notice of when a Market Order would be subject to such validations.

- The Exchange is not proposing any new or different behavior for Limit Orders than is currently available for options trading on the Exchange, other than the application of Limit Order Price Protection and Trading Collars, which would differ on Pillar. The Exchange believes using Pillar terminology based on Rule 7.31-E(a)(2) to describe Limit Orders would promote consistency and clarity in Exchange rules.
- The proposed Limit Order Price Protection functionality is based in part on the existing “Limit Order Filter” for orders and price protection filters for quotes because an order or quote would be rejected if it is priced a specified percentage away from the contra-side NBB or NBO. The proposed Limit Order Price Protection functionality is also based in part on the functionality available on the Exchange’s cash equity trading platform, and therefore is not novel. The Exchange believes that using the same mechanism for both orders and quotes would simplify the operation of the Exchange and achieve similar results as the current rules, which is to reject an order or quote that is priced too far away from the prevailing market. The Exchange believes that re-applying Limit Order Price Protection after an Auction concludes would ensure that Limit Orders and quotes continue to be priced consistent with the prevailing market, and that using an Auction Price (if available, and if not available, Auction Collars, and if not available, the NBBO) to assess Limit Orders and quotes after an Auction concludes would ensure that the Exchange would be applying the most recent price in a series in assessing whether such orders or quotes should be cancelled. The Exchange further believes that the proposed Specified Thresholds for determining whether to reject a Limit Order or quote would remove impediments to and perfect the mechanism of a free and open market and a national market system because they are designed to be tailored to the applicable Reference Price, and thus more granular than the current thresholds.

The proposed Trading Collar functionality is based in part on how trading collars currently function on the Exchange because the proposed functionality would create a ceiling or floor price at which an order could be traded or routed. The Exchange believes that the proposed differences for Trading Collars on Pillar, including applying the same Trading Collar logic to both Limit Orders and Market Orders, applying them once per trading day (unless there is a trading halt), tailoring the specified thresholds to be within the current parameters for determining whether a trade would be an Obvious Error or Catastrophic Error, and canceling orders that have been displayed at their Trading Collar for 500 milliseconds, would remove impediments to and perfect the mechanism of a free and open market and a national market system because they are

designed to provide a deterministic price protection mechanism for orders. In addition, the proposed Pillar Trading Collar functionality is designed to simplify the process by applying a static ceiling price (for buy orders) or floor price (for sell orders) at which such order could be traded or routed that would be applicable to the order until it is traded or cancelled. The Exchange believes that the proposal to explicitly add reference to Cross Orders being excluded from Trading Collars would add granularity to the proposed rule functionality. The Exchange believes that the proposed functionality would provide greater determinism to an OTP Holder or OTP Firm of the Trading Collar that would be applicable to its orders and when such orders may be cancelled if it reaches its Trading Collar.

- The Exchange is not proposing any new or different Time-in-Force modifiers than are currently available for options trading on the Exchange. The Exchange believes using Pillar terminology based on Rule 7.31-E(b) to describe the time-in-force modifiers would promote consistency and clarity in Exchange rules.
- Auction-Only Orders, and specifically, the proposed MOO and LOO Orders, would operate no differently than how “Opening-Only Orders” currently function on the OX system. However, rather than refer to Opening-Only Orders, the Exchange proposes to use Pillar terminology that is based on Rule 7.31-E(c) terminology. The Exchange further believes that offering its IO Order type for Auctions on the options trading platform --both for Core Open Auctions and Trading Halt Auctions-- would provide OTP Holders and OTP Firms with new, optional functionality to offset an Imbalance in an Auction. The proposed availability of the IO Order on the options platform would be more expansive than is currently available on the Exchange’s cash equity platform, which (unlike options) does not account for quotes in determining an Imbalance and which limits the use of IO Orders solely to Trading Halt Auctions. The Exchange believes this proposed functionality would afford OTP Holders and OTP Firms with greater flexibility for all Auctions on Pillar.
- The Exchange would continue to offer Reserve Orders, AON Orders, Stop Orders, and Stop Limit Orders, which are currently available on the OX system. The proposed differences to Reserve Orders for options trading would harmonize with how Reserve Orders function on the Exchange’s cash equity market, with changes as applicable to address options trading (e.g., no round lot/odd lot concept for options trading). The proposal that the reserve interest of a Reserve Order could never have a working price that is more aggressive than the working price of the display quantity of the Reserve Order would remove impediments to and perfect the mechanism of a free and open market and a national market system because it is designed to ensure that the reserve interest of a Reserve Order

to buy (sell) would never trade at a price higher (lower) than the working price of the display quantity of the Reserve Order. The proposed changes to AON Orders would provide greater execution opportunities for such orders by allowing them to be integrated in the Consolidated Book and once resting, trade with incoming orders and quotes. The changes are also based on how orders with an MTS Modifier, which are also conditional orders, function on the Exchange's cash equity market. The Exchange believes it is appropriate to opt not to support Market Orders designated as AON on Pillar because such functionality was not used often on the OX system, indicating a lack of market participant interest in this functionality. The proposed differences for Stop Orders and Stop Limit Orders are designed to promote transparency by providing clarity of circumstances when either order may be rejected on arrival (in the case of Stop Limit Orders) or elected and make clear that, once elected, such orders are subject to the price protection and risk checks applicable to Market Orders and Limit Orders, respectively. Finally, the Exchange believes that offering Non-Displayed Limit Orders for options trading on Pillar, which are available on the Exchange's cash equity platform, would provide additional, optional trading functionality for OTP Holders and OTP Firms. The Exchange notes that the proposed Non-Displayed Limit Order would function similarly to how a PNP Blind Order that locks or crosses the contra-side NBBO would be processed because in such circumstances, a PNP Blind Order is not displayed. A Non-Displayed Limit Order would differ from a PNP Blind Order only because it would never be displayed, even if its limit price doesn't lock or cross the contra-side NBBO.

- The Exchange believes that the proposed orders (and quotes) with instructions not to route (i.e., Non-Routable Limit Order, ALO Order, and ISOs) would streamline the offerings available for options trading on the Exchange by making the functionality the same for both orders and quotes and consolidating the description of non-routable orders and quotes in proposed Rule 6.62P-O(e), thereby adding clarity and transparency. The Exchange believes that using Pillar terminology, including order type names (for orders and quotes), based on the terminology used for cash equity trading would promote clarity and consistency across the Exchange's cash equity and options trading platforms.

The Exchange believes that the proposed Non-Routable Limit Order is not novel because it is based on how the PNP, RPNP, and MMRP orders and quotes currently function on the OX system, including the continued availability of the option to designate a non-routable order either to cancel



or reprice if it is marketable against an ABBO.<sup>194</sup> As such, the Exchange believes that the proposed non-routable order/quote types would continue to provide OTP Holders and OTP Firms with the core functionality associated with existing non-routable order/quote types, including that the proposed rules would provide for the ability to either reprice or cancel such orders/quotes. The Exchange believes that providing additional options to cancel a resting Non-Routable Limit Order or ALO Order rather than reprice an additional time would provide additional choice to market participants. And the Exchange believes that not offering this second cancellation designation to Market Makers would assist Market Makers in maintaining quotes in their assigned series by reducing the potential to interfere with a Market Maker's ability to maintain their continuous quoting obligations.

Similarly, the proposed ALO Order is not novel because it is based in part on how the RALO and MMALO orders and quotes currently function on the OX system, including the continued availability of the option to cancel an ALO Order if it would lock or cross the ABBO.<sup>195</sup> As such, the Exchange believes that the proposed non-routable order/quote types would continue to provide OTP Holders and OTP Firms with the core functionality associated with existing non-routable order/quote types that would not be offered under Pillar, including that the proposed rules would provide for non-routable functionality and the ability to either reprice or cancel such orders/quotes. The Exchange believes the proposed functionality to allow an ALO Order (which can never be a liquidity taker) to lock non-displayed interest (which is consistent with the treatment of ALO Orders on the Exchange's cash equity platform) or to reprice if such order crosses non-displayed interest, would reduce potential repricing or cancellation events for an incoming ALO Order and would likewise reduce potential information leakage about non-displayed interest in the Consolidated Book. Further, the Exchange believes the proposed functionality to reprice an ALO Order when its limit price crosses non-displayed interest on the Consolidated Book, to have a working price and display price equal to the best-priced non-displayed interest on the Exchange, would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would ensure that an ALO Order never trades as a liquidity-taker, thereby eliminating the potential for an ALO Order to cross non-displayed interest on the Consolidated Book. And the Exchange believes that not offering

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<sup>194</sup> As discussed supra, the proposed Non-Routable Limit Order functionality is also consistent with the treatment of Market Makers quotes not designated as MMRP (i.e., such quotes cancel if locking or crosses the NBBO). See supra note 91.

<sup>195</sup> As discussed supra, the proposed ALO Order functionality is also consistent with the treatment of Market Makers quotes not designated as MMALO (i.e., such quotes cancel if locking or crosses the NBBO). See supra note 91.

the second cancellation designation to Market Makers that designated an ALO Order as a quote would assist Market Makers in maintaining quotes in their assigned series by reducing the potential to interfere with a Market Maker's ability to maintain their continuous quoting obligations.

Finally, the proposed IOC ISO is not novel for options trading on the Exchange and the Exchange believes that the proposed Pillar terminology to describe the same functionality would promote transparency. The proposed Day ISO and Day ISO ALO functionality would be new for options trading and are based in part on how such order types function in the Exchange's cash equity market. In addition, the proposed Day ISO functionality is consistent with existing Rule 6.95-O(b)(3), which currently provides an exception to locking or crossing an Away Market Protected Quotation if the OTP Holder or OTP Firm simultaneously routed an ISO to execute against the full displayed size of any locked or crossed Protected Bid or Protected Offer. The Exchange notes that this exception is not necessary for IOC ISOs because such orders would never be displayed at a price that would lock or cross a Protected Quotation; they cancel if they cannot trade. Accordingly, this existing exception in the Exchange's rules contemplates an ISO that would be displayed, which would mean it would need a time-in-force modifier of "Day." In addition, Day ISOs are available for options trading on other options exchanges, and therefore are not novel.<sup>196</sup>

- The Exchange believes that the proposed additional detail defining Complex Orders to define the "legs" and "components" of such orders would promote transparency in Exchange rules.
- On Pillar, the only electronically-entered crossing orders would be QCC Orders, which is consistent with current functionality. The Exchange believes that the proposed differences to how QCC Orders would function, including using Pillar terminology and consolidating rule text relating to QCC Orders in proposed Rule 6.62P-O, would promote transparency and clarity in Exchange rules. The proposed description of Complex QCC Orders is designed to distinguish such orders from single-leg QCC Orders and to promote clarity and transparency in Exchange rules regarding the price requirements for a Complex QCC Order. Further, Complex QCC are available for trading on other options exchanges, and therefore are not novel.<sup>197</sup>

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<sup>196</sup> See supra notes 114, 115 (citing to availability of Day ISO orders on Nasdaq and Cboe).

<sup>197</sup> See supra notes 117, 120 and 121 (citing Complex QCC Order type, as offered on MIAX and Cboe).

- The Exchange believes that moving the descriptions of orders available only in open outcry from Rule 6.62-O to proposed Rule 6.62P-O(h) would ensure that these order types remain in the rulebook after the transition to Pillar is complete. For CTB Orders, the Exchange believes that, because Floor Brokers have an existing obligation to satisfy better-priced interest on the Consolidated Book, the proposed change to automate such priority on Pillar (i.e., to allow CTB Orders to satisfy any displayed interest (including non-Customer interest) at better prices than the latest-arriving displayed Customer interest) would not only make it easier for Floor Brokers to comply with Exchange priority rules, but would also increase execution opportunities and achieve the goal of a CTB Order. The Exchange also believes that codifying this order type and the associated regulatory obligations would add clarity and transparency in Exchange rules.
- The proposed Proactive if Locked/Crossed Modifier, STP Modifier, and MTS Modifier are not novel and are based on the Exchange's current cash equity modifiers of the same name. The Exchange believes that extending the availability of these existing modifiers to options trading would provide OTP Holders and OTP Firms with additional, optional functionality that is not novel and is based on existing Exchange rules. Further, such proposed optional functionality would afford OTP Holders and OTP Firms with greater flexibility in specifying how their trading interest should be handled. For example, the proposed MTS Modifier works similarly to the existing (and proposed) AON functionality, but provides the OTP Holder or OTP Firm with the alternative to designate a portion smaller than the full quantity as the minimum trade size. The Exchange further believes that extending the availability of STP Modifiers to all orders and quotes, and not just those of Market Makers, would provide additional protections for OTP Holders and OTP Firms and facilitate their compliance and risk management by assisting them in avoiding unintentional wash-sale trading.

#### *Market Maker Quotations*

The Exchange believes that proposed Rule 6.37AP-O would remove impediments to and perfect the mechanism of a free and open market and a national market system because it is based on current Rule 6.37A-O, with such changes as necessary to clarify functionality and to use Pillar terminology. The Exchange believes that the proposed detail (consistent with current functionality) to make clear that same-side quotations sent by a Market Maker over the same order/quote entry port would be replaced would add clarity and transparency to Exchange rules.<sup>198</sup> The Exchange believes that consolidating into one rule functionality for

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<sup>198</sup> See supra note 131 (citing NYSE Arca Fee Schedule, Port Fees, and the ability for Market Makers to pay for upwards of forty order/quote entry ports per month).

orders and quotes, such that Non-Routable Limit Orders and ALO Orders may be designated as quotes per proposed Rule 6.37AP-O, would obviate the need to separately describe the same functionality in two rules and therefore streamline the Exchange's rules and promote transparency and consistency. As noted above, the Exchange believes that the quoting functionality available in the proposed Non-Routable Limit Order and ALO Order would continue to provide Market Makers with the core functionality associated with existing quote types, including that the proposed rules would provide for the ability to either reprice or cancel such quotes.

*Pre-Trade and Activity-Based Risk Controls*

The Exchange believes that the proposed Rule 6.40P-O, setting forth pre-trade and activity-based risk controls, would remove impediments to and perfect the mechanism of a free and open market and a national market system and promote just and equitable principles of trade because the proposed functionality would incorporate existing activity-based risk controls, without any substantive differences, and augment them with additional pre-trade risk controls and related functionality that are based on the pre-trade risk controls currently available on the Exchange's cash equity trading platform. The Exchange believes that the proposed differences are designed to provide greater flexibility to OTP Holders and OTP Firms in how to set risk controls for both orders and quotes. The Exchange believes that using Pillar terminology based on the cash equity rules, including using the term "Entering Firm" to mean OTP Holders and OTP Firms, including Market Makers, would promote transparency in Exchange rules. In addition, the proposed Single Order Maximum Notional Value Risk Limit and Single Order Maximum Quantity Risk Limit checks would provide Entering Firms with additional risk protection mechanisms on an individual order or quote basis. Moreover, the Exchange believes that aggregating a Market Maker's quotes and orders for purposes of calculating activity-based risk controls would better reflect the aggregate risk that a Market Maker has with respect to its quotes and orders. The Exchange further believes that the proposed Automated Breach Actions would provide Entering Firms with additional flexibility in how they could set their risk mechanisms and the automated responses if a risk mechanism is breached. The proposed Kill Switch Action functionality would also provide OTP Holders and OTP Firms with greater flexibility to provide bulk instructions to the Exchange with respect to cancelling existing orders and quotes and blocking new orders and quotes. Further, as noted herein, providing "Kill Switch Action" functionality in Exchange rules is consistent with the rules of other options exchanges.<sup>199</sup>

*Price Reasonability Checks - Orders and Quotes*

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<sup>199</sup> See supra note 138 (citing optional "Kill Switch" functionality available on Cboe).

The Exchange believes that the proposed Rule 6.41P-O, setting forth Price Reasonability Checks, would remove impediments to and perfect the mechanism of a free and open market and a national market system because they are based on existing functionality, with differences designed to use Pillar terminology and promote consistency and transparency in Exchange rules. Specifically, on Pillar, the Exchange proposes to apply the same types of Price Reasonability Checks to both orders and quotes, and therefore proposes to describe those checks in a single rule - proposed Rule 6.41P-O. The proposed rule would add an Intrinsic Value Check for quotes under Pillar (in addition to orders) and this check would enhance existing price protection features for quotes and provide Market Makers greater control and flexibility over setting risk tolerance and exposure for their quotes. The proposed rule also provides specificity regarding when the Price Reasonability Checks would be applied to an order or quote, which would promote transparency and clarity in Exchange rules. In addition, the Exchange believes that by utilizing the last sale on the Primary Market (rather than the Consolidated Last Sale) for the Price Reasonability Checks, the Pillar system would need to ingest and process less data, thereby improving efficiency and performance of the system without compromising the price protection features.

#### *Auction Process*

With the proposed Auction Process, the Exchange endeavors to attract the highest quality quote for each series at the open to attract order flow for the auction. While the Exchange does not require Market Makers assigned to a series to quote before a series can be opened (or reopened) -- which is consistent with the current rule -- the Exchange believes that providing time for such Market Makers to do so would promote a fair and orderly market by providing both better and more consistent prices on executions to OTP Holders and OTP Firms in an Auction and facilitate a fair and orderly transition to continuous trading.

The Exchange believes that proposed Rule 6.64P-O would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed rule maintains the fundamentals of an auction process that is tailored for options trading while at the same time enhancing the process by incorporating certain Pillar auction functionality that is currently available on the Exchange's cash equity platform, as described in Rule 7.35-E. For example, the Exchange proposes to augment the imbalance information that would be disseminated in advance of an Auction to include fields available on the Exchange's cash equity market (e.g., Book Clearing Price, Far Clearing Price, Auction Collars, and Auction Indicators), yet tailor such information to be specific to options trading (e.g., Auction Collars based on a Legal Width Quote and how the Auction Indicator would be determined). The Exchange believes that the proposed additional Auction Imbalance Information would promote transparency to market participants in advance of an Auction. The Exchange also proposes to transition to continuous trading following an Auction in a manner similar to how the Exchange's cash equity market transitions to continuous

trading following a cash equity Trading Halt Auction, including how orders and quotes that are received during an Auction Processing Period would be processed, which the Exchange believes would promote consistency across the Exchange's options and cash equity trading platforms. The proposed rule describing how orders and quotes that are received during the Auction Processing Period would be handled, and how unexecuted quotes and orders would be transitioned to continuous trading would provide granularity regarding the process, thereby providing transparency in Exchange rules. Because the Exchange would be harnessing Pillar technology to support Auctions for options trading, the Exchange believes that structuring proposed Rule 6.64P-O based on Rule 7.35-E (and NYSE Rule 7.35, in part, as well) would promote transparency in the Exchange's trading rules.

The Exchange further believes that the proposed Auction Process for options trading on Pillar would remove impediments to and perfect the mechanism of a free and open market and a national market system. The proposed process maintains the core functionality of the current options auction process, including that orders are matched based on price-time priority and that an Auction would not be conducted if the bid-ask differential is not within an acceptable range. As proposed, the Auction Process on Pillar would begin with the proposed Rotational Quote, which would provide notice not only of when the process would begin, but also whether Market Makers on the Exchange have quoted in a series. Similar to the current rule, the Exchange would require a "Calculated NBBO," which is calculated using information consistent with the information the Exchange receives from OPRA before the Exchange opens a series, to meet specified requirements, including that it not be crossed, not have a zero offer, and that it not exceed a maximum differential that is determined by the Exchange on a class by class basis and announced by Trader Update, i.e., be a "Legal Width Quote" before a series can be opened with a trade.<sup>200</sup> Allowing the Exchange the flexibility to determine the maximum differential for the Calculated NBBO for a Legal Width Quote is consistent with functionality and accompanying discretion available on other options exchanges and allows the Exchange to consider the different market models and characteristics of different classes, as well as modify amounts in response to then-current market conditions.<sup>201</sup> In addition, the proposed discretion to modify acceptable bid-ask differential is also consistent with discretion Exchange has today on the OX system.<sup>202</sup> In addition, the Exchange believes that the proposed Auction Trigger, which would begin the Auction Process, is consistent with the current trigger for starting an auction. The Exchange believes that the proposed difference to allow the trade on the Primary

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<sup>200</sup> As noted herein, the concept of a Calculated NBBO is consistent with similar concepts utilized on other options exchanges and is therefore not new or novel. See, e.g., Cboe Rule 5.31(a) (regarding used of "Composite Market" concept).

<sup>201</sup> See supra notes 166, 168.

<sup>202</sup> See supra note 163.

Market to be odd-lot sized (in addition to having a quote from the Primary Market, which means that the underlying security would be open on the Primary Market), would allow for series overlaying low-volume securities to open automatically and reduce the need to manually trigger an Auction in a series.

As with the current rule, on Pillar, Market Makers are not obligated to quote in their assigned series for an Auction. However, the Exchange believes that providing Market Maker(s) assigned to a series the opportunity to quote within the bid-ask differential before opening a series for trading would promote fair and orderly Auctions and facilitate a fair and orderly transition to continuous trading. In particular, rather than layer additional quoting requirements on the Market Making community, the Exchange believes it would be more beneficial to all market participants to employ alternative methods to help ensure an orderly transition to continuous trading. As such, the Exchange believes that the proposed so-called “waterfall” approach to opening, would offer a number of checks that are intended to provide adequate opportunity for a greater number of Market Makers to provide their liquidity interest and help ensure increased liquidity at a level commensurate with which the market is accustomed during continuous trading on the Exchange. In short, although the Exchange does not require a Market Maker assigned to a series to quote on the Exchange in order to open or reopen a series for trading, the Exchange believes that providing Market Makers assigned to a series the opportunity to do so would promote a fair and orderly Auction process and facilitate a fair and orderly transition to continuous trading.<sup>203</sup>

Accordingly, the Exchange proposes a difference on Pillar to provide time for Market Maker(s) assigned to a series to enter quotes within the specified bid-ask differentials before a series could be opened or reopened for trading. The proposed Opening MMQ Timer(s) would each be 30 seconds. The proposed rule provides transparency of how many Market Makers assigned to a series would be required to quote in a series and in what time periods. As noted above, the proposed Auction Process is designed to attract the highest quality quote for each series at the open to attract order flow from any resting interest best quality quotes at the open of each series. As such, the Exchange believes it is reasonable to require more than one Opening MMQ Timer (with a maximum run time of one minute -- 30 seconds x 2) to run when there are at least two Market Markers because it allows the Exchange time to attract the best quote from these market participants, which in turn should attract order flow to the Exchange at the open (i.e., the Exchange can leverage the highest bid and lowest offer from the various Market Makers that submit quotes). The Exchange believes that if a Legal Width

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<sup>203</sup> As noted, infra, although the Exchange does not require that Market Makers assigned to a series quote at the open, once a series is opened for trading, Market Makers are nonetheless required to continuously fulfill their obligations to engage in a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market

Quote is not obtained in the first 30-second Opening MMQ Timer, it is to the benefit of all market participants to begin a second Opening MMQ Timer to allow the bid-ask differential to tighten before a series is opened. If Market Makers do not quote within those specified time periods, but at the end of the Opening MMQ Timer(s) there is a Legal Width Quote based on the ABBO, the Exchange would open or reopen that series for trading. The Exchange believes that the proposed waterfall approach (i.e., setting minimum time periods for a Market Maker assigned to a series to quote within the specified bid-ask differential before opening a series, even if there is a Legal Width Quote) would appropriately balance the benefits of increasing the opportunities for Market Makers assigned to a series to enter quotations within the specified bid-ask differential, with a timely series opening or reopening when there is a Legal Width Quote even when it does not include quotes of Market Makers assigned to the series. In addition, the Exchange believes that expanding the opportunities for Market Makers to enter the market would result in deeper liquidity -- which market participants have come to expect in options with multiple assigned Market Makers, and a more stable trading environment.

The Exchange believes that the proposed rule would promote transparency in Exchange rules of when the Exchange could open or reopen a series, including circumstances of when the Exchange would wait to provide Market Makers time to submit a two-sided quotation in a series and when the Exchange would proceed with opening or reopening a series based on a Legal Width Quote even if there are no Market Maker quotes in that series.

The proposed rule would also provide transparency of when the Exchange would open or reopen a series for trading when the Calculated NBBO is wider than the Legal Width Quote for the series. The Exchange believes that the proposed process is designed to provide additional opportunities for a series to open or reopen not currently available on the OX system, while at the same time preserving the existing requirement that a series would not open on a trade if there is no Legal Width Quote. The proposed functionality to provide additional opportunities to open or reopen a series when the market is wider than the specified bid-ask differentials is not novel, and the Exchange believes that this proposed rule would allow for more automated Auctions on the Exchange for series that may already be opened on another exchange.<sup>204</sup>

Finally, the proposed rule describing how existing and new orders would be processed during a trading halt is designed to provide additional granularity in Exchange rules. Certain of the proposed functionality is based on current processes. The Exchange believes that the proposed differences in order/quote handling would remove impediments to and perfect the mechanism of a free and open market because they align with the proposed differences in behavior for specified orders and quotes on Pillar. For example, the Exchange believes that

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<sup>204</sup>

See, e.g., Cboe Rule 5.31.



repricing resting non-routable orders and quotes during a trading halt to their limit price would be consistent with how such orders would be processed in an Auction if they arrived during a pre-open state. The proposed differences also reflect that on Pillar, ALO Orders would be eligible to participate in an Auction. In addition, the Exchange believes that canceling orders that are subject to the Trading Collar 500 millisecond timer would be consistent with the intent of such functionality, which is to cancel such collared orders after a specified time period.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange operates in a competitive market and regularly competes with other options exchanges for order flow. The Exchange believes that the transition to Pillar would promote competition among options exchanges by offering a low-latency, deterministic trading platform. The proposed rule changes would support that inter-market competition by allowing the Exchange to offer additional functionality to its OTP Holders and OTP Firms, thereby potentially attracting additional order flow to the Exchange. Otherwise, the proposed changes are not designed to address any competitive issues, but rather to amend the Exchange's rules relating to options trading to support the transition to Pillar. 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 and quotes. Rather, the Exchange believes that the proposed rule changes would promote consistent use of terminology to support both options and cash equity trading on the Exchange, making the Exchange's rules easier to navigate. The Exchange does not believe that the proposed rule changes would raise any intra-market competition as the proposed rule changes would be applicable to all OTP Holders and OTP Firms, and reflects the Exchange's existing price-time priority model, including existing LMM Guarantee.

The Exchange does not believe that the proposed waterfall approach would result in an undue burden on intra-market competition. It would apply equally to all similarly-situated Market Makers regarding their assigned series. Market Makers are encouraged but not required to quote in their assigned series at the open, thus they are not subject to additional obligations. The Exchange believes that encouraging, rather than requiring, participation of such Market Makers at the open, may increase the availability of Legal Width Quotes in more series, thereby allowing more series to open. Improving the validity of the opening price benefits all market participants and also benefits the reputation of the Exchange as being a venue that provides accurate price discovery. With respect to inter-market competition, the Exchange notes that most options markets do not require Market Makers to quote during the opening.<sup>205</sup>

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<sup>205</sup> See, e.g., Cboe and its affiliated exchanges.

5. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has neither solicited nor received written comments on the proposed rule change.

6. Extension of Time Period for Commission Action

The Exchange does not consent at this time to an extension of any time period for Commission action.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The Exchange believes that Amendment No. 3 qualifies for accelerated effectiveness in accordance with Section 19(b)(2) of the Act. The Exchange’s proposal to adopt new Rules 6.1P-O, 6.37AP-O, 6.40P-O, 6.41P-O, 6.62P-O, 6.64P-O, 6.76P-O, and 6.76AP-O and to make amendments to Rules 1.1, 6.1-O, 6.1A-O, 6.37-O, 6.65A-O, and 6.96-O to reflect the implementation of the Exchange’s Pillar trading technology on its options market (the “original filing”), was published in the Federal Register on August 24, 2021 and Amendment No. 1, which replaced and superseded the original filing in its entirety, was published in the Federal Register on October 7, 2021. Amendment No. 2, which replaced and superseded each of the original filing and Amendment No. 1 in its entirety was filed on December 16, 2021. As of the date of this Amendment No. 3, no comments regarding the original filing, as modified by Amendment Nos. 1 and 2, were submitted.

Amendment No. 3, which supersedes and replaces each of Amendment Nos. 1 and 2 in its entirety, provides more background information regarding the proposed rule changes, makes clarifying changes to certain proposed rules without any substantive differences as compared to the original filing, and makes the following substantive changes from the original filing: (1) added definition of Away Market BBO (ABBO) to replace the term Away Market NBBO; (2) revises the description of a Market Maker quotation, as described in proposed Rule 6.37A-O(a)(1); (3) revises how the Specified Threshold would be calculated for Limit Order Price Protection in proposed Rule 6.62P-O(a)(3)(A) to include prices equal to the Reference Price; (4) revises how a Trading Collar would be assigned, as described in proposed Rule 6.62P-O(4)(A) and (B), to provide that a Trading Collar would be reassigned to an order after a trading halt, and makes related changes to proposed Rule 6.64P-O(f)(3)(A)(ii); (5) revises proposed Rule 6.62P-O(g) to reorganize and streamline the proposed rule, to specify that a Cross Order is a Qualified Contingent Cross Order and to describe the order type in paragraph (g)(1)(A) and to add proposed Complex QCC Orders; (6) revises proposed Rule 6.62P-O(h)(1) to specify that a Clear-the-Book Order would be entered

contemporaneous with executing an order in open outcry; (7) revises proposed Rule 6.62P-O(i)(2) to specify which order with an MTS modifier would not be subject to self-trade prevention modifiers; (8) revises proposed Rule 6.62P-O to remove the proposed Non-Display Remove Modifier; (9) revises proposed Rule 6.64P-O(a) to add a definition for the term “Auction Price” and to modify the definition of “Legal Quote Width”; (10) revises proposed Rule 6.64P-O(g)(2) to provide that during a trading halt, any unexecuted quantity of an order for which the 500-millisecond Trading Collar timer has started would be cancelled; (11) revises proposed Rule 6.64P-O(d)(3) and (4) to reduce the length of the proposed Opening MMQ Timers (from one minute to 30 seconds) and reduce the time before commencing opening of a series when there is a Calculated NBBO that is wider than the Legal Width Quote in a series (from five minutes to 90 seconds), both of which measures would shorten the time the Exchange would wait before automatically opening a series in the specified circumstances; and (12) revises proposed Rule 6.76AP-O(a)(1)(A) to provide that only the first LMM quote in time priority would be eligible for the LMM Guarantee.

The Exchange believes that there is good cause for the Commission to accelerate effectiveness because the changes set forth in Amendment No 2 are intended provide greater clarity and specificity to the proposed rule text as well as additional information for the basis of the proposal. With respect to the proposed changes in Amendment No. 3 to provide additional background information and to make clarifying changes, the Exchange believes such changes are non-substantive (i.e., they do not alter the functionality of the proposed rule changes) and would add granularity to the proposal. Similarly, with respect to the substantive changes in Amendment No. 3 (as enumerated above), such proposed changes would improve the original filing by including additional details about, or modifications to, functionality already described in the original filing (i.e., adding a definition of “ABBO” and “Auction Price”; revising the description of a Market Maker quotation; describing proposed Complex QCC Orders; specifying the treatment of unexecuted orders at the open during a trading halt; clarifying the procedures for entering CTB Orders; and specifying and clarifying the operation of: the Limit Order Protection Filter, Trading Collars, the LMM Guarantee, orders with the an MTS modifier vis a vis and the self-trade prevention modifier, and single-leg QCC Orders). The Exchange believes that the proposal to modify Rule 6.64P-O(d)(3) and (4) to reduce the length of both the MMQ Timers and the time before commencing opening of a series would promote a fair and orderly market as it would reduce the time the Exchange would wait before opening a series, but would also allow the Exchange time to attract the best quote from Market Makers assigned in the series, which in turn should attract order to the Exchange at the open (i.e., the Exchange can leverage the highest bid and lowest offer from the various Market Makers that submit quotes). Thus, the Exchange believes the changes proposed in Amendment No. 3 would make it easier for market participants to navigate and comprehend the proposed rule changes for options trading under Pillar.

In addition, the Exchange believes that Amendment No. 3 is non-controversial, does not pose an undue burden on competition, and does not raise any novel issues because the proposed changes (other than the added description of Complex QCC Orders) would add clarity and provide additional explanations related to the proposed rule changes. The Exchange believes that the proposed description of Complex QCC Orders, which orders are not new or novel, is necessary to permit fair competition among the options exchanges and to establish more uniform auction rules on the various options exchanges.<sup>206</sup>

The Exchange believe that the changes proposed in Amendment No. 3 would not significantly affect the protection of investors or the public interest but would instead provide greater clarity to the original filing and provide greater transparency about the application of the rule changes being adopted for options trading under Pillar.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

Exhibit 1 – Form of Notice of Proposed Rule Change for Federal Register

Exhibit 4 – Proposed Rule Text Marked to Show Changes to Exhibit 5 Made in Amendment No. 3

Exhibit 5 – Text of Proposed Rule Change

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<sup>206</sup> See, e.g., Cboe Rule 5.6(c) (setting forth operation of Complex QCC Orders) and MIAX Rule 515(h)(4) (same).

## SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No. SR-NYSEARCA-2021-47, Amendment No. 3)

[Date]

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change for New Rules 6.1P-O, 6.37AP-O, 6.40P-O, 6.41P-O, 6.62P-O, 6.64P-O, 6.76P-O, and 6.76AP-O and Amendments to Rules 1.1, 6.1-O, and 6.1A-O

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> notice is hereby given that, on January 19, 2022, NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”) 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 new Rules 6.1P-O (Applicability), 6.37AP-O (Market Maker Quotations), 6.40P-O (Pre-Trade and Activity-Based Risk Controls), 6.41P-O (Price Reasonability Checks - Orders and Quotes), 6.62P-O (Orders and Modifiers), 6.64P-O (Auction Process), 6.76P-O (Order Ranking and Display), and 6.76AP-O (Order Execution and Routing) and proposes amendments to Rules 1.1 (Definitions), 6.1-O (Applicability, Definitions and References), 6.1A-O (Definitions and References - OX),

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

6.37-O (Obligations of Market Makers), 6.65A-O (Limit-Up and Limit-Down During Extraordinary Market Volatility), and 6.96-O (Operation of Routing Broker) to reflect the implementation of the Exchange's Pillar trading technology on its options market. This Amendment No. 3 supersedes and replaces Amendment No. 2 to the original filing in its entirety.<sup>4</sup> The proposed change is available on the Exchange's website 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.

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<sup>4</sup> On September 28, 2021, the Exchange filed Amendment No. 1 to SR-NYSEArca-2021-47, which replaced and superseded the original filing in its entirety. See Securities Exchange Act Release No. 93193 (September 29, 2021), 86 FR 55926 (October 7, 2021) (SR-NYSEArca-2021-47) (Notice of Amendment No. 1, which replaced original filing in its entirety, and Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change, as Modified by Amendment No. 1). On December 16, 2021, the Exchange filed Amendment No. 2 to SR-NYSEArca-2021-47, which replaced and superseded in its entirety both Amendment No. 1 and the original filing.

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

1. Purpose

**Background**

The Exchange plans to transition its options trading platform to its Pillar technology platform. The Exchange’s and its national securities exchange affiliates’<sup>5</sup> (together with the Exchange, the “NYSE Exchanges”) cash equity markets are currently operating on Pillar. For this transition, the Exchange proposes to use the same Pillar technology already in operation for its cash equity market. In doing so, the Exchange will be able to offer not only common specifications for connecting to both of its cash equity and equity options markets, but also common trading functions. This Amendment No. 3 supersedes and replaces Amendment No. 2 to the original filing in its entirety.<sup>6</sup>

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<sup>5</sup> The Exchange’s national securities exchange affiliates are the New York Stock Exchange LLC (“NYSE”), NYSE American LLC (“NYSE American”), NYSE National, Inc. (“NYSE National”), and NYSE Chicago, Inc. (“NYSE Chicago”).

<sup>6</sup> This Amendment No. 3 provides more background information regarding the proposed rule changes, makes clarifying changes to certain proposed rules without any substantive differences as compared to the original filing, and makes the following substantive changes from the original filing: (1) added definition of Away Market BBO (ABBO) to replace the term Away Market NBBO; (2) revises the description of a Market Maker quotation, as described in proposed Rule 6.37A-O(a)(1); (3) revises how the Specified Threshold would be calculated for Limit Order Price Protection in proposed Rule 6.62P-O(a)(3)(A) to include prices equal to the Reference Price; (4) revises how a Trading Collar would be assigned, as described in proposed Rule 6.62P-O(4)(A) and (B), to provide that a Trading Collar would be reassigned to an order after a trading halt, and makes related changes to proposed Rule 6.64P-O(f)(3)(A)(ii); (5) revises proposed Rule 6.62P-O(g) to reorganize and streamline the proposed rule to specify that a Cross Order is a Qualified Contingent Cross Order and to describe the order type in paragraph (g)(1)(A) and to add proposed Complex QCC Orders; (6) revises proposed Rule 6.62P-O(h)(1) to specify that a Clear-the-Book Order would be entered contemporaneous with executing an order in open outcry; (7) revises proposed Rule 6.62P-O(i)(2) to specify which order with a Minimum Trade Size modifier would not be subject to self-trade prevention modifiers; (8) revises proposed Rule

The Exchange plans to roll out the new technology platform over a period of time based on a range of underlying symbols, anticipated for the first quarter of 2022. As was the case for the other NYSE Exchanges that have transitioned to Pillar, the Exchange anticipates a three-week roll-out period and will announce by Trader Update<sup>7</sup> when underlying symbols will be transitioning to the Pillar trading platform. With this transition, certain rules would continue to be applicable to options overlying symbols trading on the current trading platform - the OX system,<sup>8</sup> but would not be applicable to options overlying symbols that have transitioned to trading on Pillar.

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6.62P-O to remove the proposed Non-Display Remove Modifier; (9) revises proposed Rule 6.64P-O(a) to add a definition for the term “Auction Price” and to modify the definition of “Legal Quote Width”; (10) revises proposed Rule 6.64P-O(g)(2) to provide that during a trading halt, any unexecuted quantity of an order for which the 500-millisecond Trading Collar timer has started would be cancelled; (11) revises proposed Rule 6.64P-O(d)(3) and (4) to reduce the length of the proposed Opening MMQ Timers (from one minute to 30 seconds) and reduce the time before commencing opening of a series when there is a Calculated NBBO that is wider than the Legal Width Quote in a series (from five minutes to 90 seconds), both of which measures would shorten the time the Exchange would wait before automatically opening a series in the specified circumstances; and (12) revises proposed Rule 6.76AP-O(a)(1)(A) to provide that only the first LMM quote in time priority would be eligible for the LMM Guarantee.

<sup>7</sup> Trader Updates are available here: <https://www.nyse.com/trader-update/history>. Anyone can subscribe to email updates of Trader Updates, available here: <https://www.nyse.com/subscriptions>.

<sup>8</sup> “OX” refers to the Exchange’s current electronic order delivery, execution, and reporting system for designated option issues through which orders and quotes of Users are consolidated for execution and/or display. See Rule 6.1A-O(a)(13). “OX Book” refers to the OX’s electronic file of orders and quotes, which contain all of the orders in each of the Display Order and Working Order processes and all of the Market Makers’ quotes in the Display Order Process. See Rule 6.1A-O(a)(14). With the transition to Pillar, the Exchange would no longer use the terms “OX” or “OX Book” and rules using those terms would not be applicable to trading on Pillar. Once the transition is complete, the Exchange will file a subsequent proposed rule change to delete references to OX and OX Book from the rulebook.



Instead, the Exchange proposes new rules to reflect how options would trade on the Exchange once Pillar is implemented. These proposed rule changes will (1) use Pillar terminology that is based on Exchange Rule 7-E Pillar terminology governing cash equity trading; (2) provide for common functionality on both its options and cash equity markets; and (3) introduce new functionality.

The Exchange notes that certain of the proposed new Pillar rules concern functionality not currently available on the OX system and that would be unique to how option contracts trade, and therefore would be new rules with no parallel version for the Exchange's cash equity market.

#### Proposed use of "P" modifier

As proposed, new rules governing options trading on Pillar would have the same numbering as current rules that address the same functionality, but with the modifier "P" appended to the rule number. For example, Rule 6.76-O, governing Order Ranking and Display - OX, would remain unchanged and continue to apply to any trading in symbols on the OX system. Proposed Rule 6.76P-O would govern Order Ranking and Display for trading in options symbols migrated to the Pillar platform. All other current rules that have not had a version added with a "P" modifier will be applicable to how trading functions on both the OX system and Pillar. Once options overlying all symbols have migrated to the Pillar platform, the Exchange will file a separate rule proposal to delete rules that are no longer operative because they apply only to trading on the OX system.

To reflect how the "P" modifier would operate, the Exchange proposes to add rule text immediately following the title "Rule 6-O Options Trading," and before "Rules Principally Applicable to Trading of Option Contracts" 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, and consistent with the handling of the transition to Pillar by the Exchange’s cash equity platform, if a symbol (and the option overlying such 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.<sup>9</sup>

The Exchange believes that adding this explanation regarding the “P” modifier in Exchange rules would provide transparency regarding which rules and definitions would be operative during the symbol migration to Pillar.

#### Summary of Proposed Rule changes

In this filing, the Exchange proposes the following new Pillar rules: Rules 6.1P-O (Applicability), 6.37AP-O (Market Maker Quotations), 6.40P-O (Pre-Trade and Activity-Based Risk Controls), 6.41P-O (Price Reasonability Checks - Orders and Quotes), 6.62P-O (Orders and Modifiers), 6.64P-O (Auction Process), 6.76P-O (Order Ranking and Display), and 6.76AP-O (Order Execution and Routing). The Exchange also proposes to amend Rules 1.1 (Definitions), 6.1-O (Applicability, Definitions and References), and 6.1A-O (Definitions and References - OX) to reflect definitions that would be applicable for options trading on Pillar and make conforming amendments to Rules 6.37-O (Obligations of Market Makers), 6.65A-O (Limit-Up and Limit-Down During Extraordinary Market Volatility), and 6.96-O (Operation of Routing Broker). These proposed rules would set forth the foundation of the Exchange’s options trading model on

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<sup>9</sup> The Exchange used the same description when it transitioned its cash equity platform to Pillar. See Securities Exchange Act Release Nos. 75494 (July 20, 2015), 80 FR 44170 (July 24, 2015) (SR-NYSEArca-2015-38) (Approval Order) and 74951 (May 13, 2015), 80 FR 28721 (May 19, 2015) (“NYSE Arca Equities Pillar Notice”).

Pillar and, among other things, would use existing Pillar terminology currently in effect for the Exchange's cash equity platform.

Because certain proposed rules have definitions and functions that carry forward to other proposed rules, the Exchange proposes to describe the new rules in the following order (rather than by rule number order): definitions, applicability, ranking and display, execution and routing, orders and modifiers, market maker quotations, pre-trade and activity-based risk controls, price reasonability checks, and auctions.

To promote clarity and transparency, the Exchange further proposes to add a preamble to the following current rules specifying that they would not be applicable to trading on Pillar: Rule 6.1-O (Applicability, Definitions and References), 6.1A-O (Definitions and References - OX), Rule 6.37A-O (Market Maker Quotations), 6.40-O (Risk Limitation Mechanism), 6.60-O (Price Protection - Orders), 6.61-O (Price Protections - Quotes), 6.62-O (Certain Types of Orders Defined), 6.64-O (OX Opening Process), 6.76-O (Order Ranking and Display - OX), 6.76A-O (Order Execution - OX), 6.88-O (Directed Orders), and 6.90-O (Qualified Contingent Crosses).

As discussed in greater detail below, the Exchange is not proposing fundamentally different functionality applicable to options trading on Pillar than on the OX system. However, with Pillar, the Exchange would introduce new terminology, and as applicable, new or updated functionality that would be available for options trading on the Pillar platform.

The Exchange notes that new rules relating to electronic complex trading on Pillar are addressed in a separate proposed rule change.<sup>10</sup>

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<sup>10</sup> See Securities Exchange Act Release No. 92563 (August 4, 2021), 86 FR 43704

## **Proposed Rule Changes**

### **Rule 1.1 - Definitions**

Rule 1.1 sets forth definitions that are applicable to both the Exchange's cash equity and options markets. Rule 6.1-O(b) sets forth definitions that are applicable to the trading of option contracts on the Exchange. Rule 6.1A-O sets forth definitions that are applicable to trading on the Exchange's current OX system. In connection with the transition of options trading to Pillar, the Exchange proposes to copy the definitions currently set forth in Rules 6.1-O(b) and 6.1A-O into Rule 1.1, with changes as described below. This proposed rule change would streamline the Exchange's rules by consolidating definitions that would be applicable for trading on Pillar into Rule 1.1. Once the transition to Pillar is complete, the Exchange will file a subsequent proposed rule change to delete current Rules 6.1-O and 6.1A-O as discussed further below.

In connection with adding definitions to Rule 1.1, the Exchange proposes to delete the sub-paragraph numbering currently set forth in Rule 1.1. The Exchange does not believe that the sub-paragraph numbering is necessary because the definitions are organized in alphabetical order and would continue to be organized in alphabetical order. In addition, removing the sub-paragraph numbering would make any future amendments to Rule 1.1 easier to process as any new definitions would simply be added in alphabetical order.

Certain definitions in Rule 1.1 currently specify that they are only for "equities" trading. With the proposed consolidation of definitions, some of those definitions will

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(August 10, 2021) (Notice of proposed Rule 6.91P-O, regarding complex order trading on Pillar) ("Complex Pillar Notice").

become applicable to both options and cash equity trading, and others will continue to be applicable only to cash equity trading. With the proposed consolidation, the Exchange proposes to remove existing language limiting those definitions to “equities” traded on the Exchange if the definition would be equally applicable to options trading. In addition, to the extent that a proposed definition would continue to be applicable only to cash equity trading, the Exchange proposes to make a global change to update references to “equities” traded on the Exchange to “cash equity securities” traded on the Exchange. The Exchange believes these proposed modifications would add clarity and consistency to Exchange rules.

The Exchange proposes the following amendments to Rule 1.1.

First, definitions set forth in Rule 6.1-O(b) would be added to Rule 1.1 in alphabetical order with certain differences described in greater detail below.<sup>11</sup> To promote clarity, if the definition that is being copied is not specifically about options trading, the Exchange proposes to add an introductory clause to the definition to specify that the term is for options traded on the Exchange. The Exchange does not propose to

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<sup>11</sup> Rule 6.1-O(b) has definitions for: Options Clearing Corporation, Rules of the Options Clearing Corporation, Clearing Member, Participating Exchange, Option Contract, Exchange Option Transaction and Exchange Transaction, Type of Option, Call, Put, Class of Options, Series of Options, Option Issue, Underlying Stock or Underlying Security, Exercise Price, Aggregate Exercise Price, Expiration Month, Expiration Date, Long Position, Short Position, Opening Purchase Transaction, Opening Writing Transaction, Closing Sale Transaction, Closing Purchase Transaction, Covered, Uncovered, Outstanding, Primary Market, Options Trading, Customer, Trading Crowd, Foreign Broker/Dealer, Exchange-Traded Fund Share, Quote with Size, Trading Official, Non-OTP Firm or Non-OTP Holder Market Maker, Firm, Consolidated Book, Crowd Participants, Electronic Order Capture System, Short Term Option Series, and Quarterly Options Series. Unless otherwise specified, the Exchange proposes to copy the definitions from Rule 6.1-O(b) to Rule 1.1 without any differences.

copy the definition of “Quote with Size,” which is currently defined in Rule 6.1-O(b)(33), to Rule 1.1 because that term would not be used in the Pillar rules, and does not propose to copy the definition of “Short Term Options Series,” because it is duplicative of Commentary .07 to Rule 6.4-O. In addition, the Exchange is not including the definition of “Foreign Broker/Dealer,” which is currently defined in Rule 6.1-O(b)(31), in Rule 1.1, as this term is not used anywhere else in Exchange rules.<sup>12</sup> The Exchange also proposes changes to certain definitions that are being copied from Rule 6.1-O(b) to Rule 1.1, as follows:

- The Exchange proposes to amend certain definitions that are being copied to Rule 1.1 to use the term “underlying security” rather than referring separately to an “underlying stock or Exchange-Traded Fund Share.” The Exchange believes that this proposed change would not make any substantive changes because an Exchange-Traded Fund Share is a “security” as that term is defined in Rule 1.1 (and is also an NMS stock). Accordingly, the term “underlying security,” by definition, would include Exchange-Traded Fund Shares. The Exchange proposes to make this change to the following definitions that are proposed to be added to Rule 1.1: “Call,” “Class of Options,” “Covered,” “Exercise Price,” “Primary Market,” “Put,” “Option Issue,” and “Underlying Stock or Underlying Security.”<sup>13</sup>

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<sup>12</sup> The Exchange is not proposing to delete the definitions of “Quote with Size,” “Foreign Broker/Dealer,” or “Short Term Options Series” at this time as such terms would be deleted in the subsequent filing to delete Rule 6.1-O.

<sup>13</sup> The Exchange proposes to make a similar non-substantive change to delete the term “Exchange-Trade Fund Share” in Rule 6.37-O(c).

- The Exchange proposes to streamline the definitions of “Closing Purchase Transaction,” “Closing Sale Transaction,” “Opening Purchase Transaction,” and “Opening Writing Transaction” without any substantive differences, as follows:
  - The term “Closing Purchase Transaction” is currently defined in Rule 6.1-O(b)(23) to mean “an option transaction in which the purchaser's intention is to reduce or eliminate a short position in the series of options involved in such transaction.” The proposed Rule 1.1 definition of this term would be “a transaction in a series in which the purchaser intends to reduce or eliminate a short position in such series.”
  - The term “Closing Sale Transaction” is currently defined in Rule 6.1-O(b)(22) to mean an “option transaction in which the seller's intention is to reduce or eliminate a long position in the series of options involved in such transaction.” The proposed Rule 1.1 definition of this term would be “a transaction in a series in which the seller intends to reduce or eliminate a long position in such series.”
  - The term “Opening Purchase Transaction” is currently defined in Rule 6.1-O(b)(20) to mean “an option transaction in which the purchaser's intention is to create or increase a long position in the series of options involved in such transaction.” The proposed Rule 1.1 definition of this term would be “a transaction in a series in

which the purchaser intends to create or increase a long position in such series.”

- The term “Opening Writing Transaction” is currently defined in Rule 6.1-O(b)(21) to mean “an option transaction in which the seller's (writer's) intention is to create or increase a short position in the series of options involved in such transaction.” The proposed Rule 1.1 definition of this term would be “a transaction in a series in which the seller (writer) intends to create or increase a short position in such series.”
- The Exchange proposes to revise the definition of “Crowd Participants,” which is currently defined in Rule 6.1-O(b)(38) to mean “the Market Makers appointed to an option issue under Rule 6.35-O, and any Floor Brokers actively representing orders at the best bid or offer on the Exchange for a particular option series,” to not include the clause “for a particular option series” as unnecessary text. The Exchange considers that the definition of “Crowd Participants” as distinct from the current definition of “Trading Crowd.” Specifically, the term “Trading Crowd” refers to the physical location of the trading post for open outcry trading, whereas the term “Crowd Participants” refers to the individual Market Makers and Floor Brokers that comprise the Trading Crowd.<sup>14</sup>

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<sup>14</sup> For example, current Rule 6.76-O(d) refers to Floor Brokers representing orders “in the Trading Crowd,” i.e., the physical location for such open outcry trading. By contrast, current Rule 6.76-O(d)(2) refers to the requirement that priority be afforded to Crowd Participants in accordance with Rule 6.75-O(f), which refers to the individual Market Makers or Floor Brokers that are located within the Trading



- The Exchange proposes to revise the definition of “Electronic Order Capture System” to eliminate reference to the Commission’s order Instituting Public Administrative Proceedings Pursuant to Section 19(h)(1) of the Securities Exchange Act of 1934, Making Findings and Imposing Remedial Sanctions, which was the initial authority for the Exchange to specify requirements relating to the Electronic Order Capture System. The Exchange will continue to include requirements for the Electronic Order Capture System in its rules and does not believe it is necessary to continue to cite to the original authority for this requirement in Exchange rules.
- The Exchange proposes to streamline the definition of “Expiration Date” to eliminate now obsolete language limiting the definition to options expiring before, on, or after February 15, 2015. In addition, the Exchange does not propose to include the following text in the Rule 1.1 definition of “Expiration Date”: “Notwithstanding the foregoing, in the case of certain long-term options expiring on or after February 1, 2015 that the Options Clearing Corporation has designated as grandfathered, the term “expiration date” shall mean the Saturday immediately following the third Friday of the expiration month.” This rule text is now obsolete as the Exchange does not have any series trading on the Exchange with such Saturday expiration dates.

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Crowd and that may be eligible for priority. As discussed below, the Exchange proposes to maintain this distinction in proposed Rule 6.76P-O(h).

- The Exchange proposes to amend the definition of “Options Trading,” which is currently defined in Rule 6.1-O(b)(28), to delete the phrase “issued by the Options Clearing Corporation.” Accordingly, the proposed Rule 1.1 definition of “options trading” would be as follows: “when not preceded by the word ‘Exchange,’ means trading in any option contract, whether or not approved for trading on the Exchange.” The Exchange believes that this proposed change is immaterial because the Exchange trades only options that have been issued by the Options Clearing Corporation, and therefore reference to the OCC is redundant and unnecessary.
- The Exchange proposes to add to the definition of “Option Contract,” which is currently defined in Rule 6.1-O(b)(5), that option contracts would be included within the definition of “security” or “securities” as such terms are used in the Bylaws and Rules of the Exchange. This proposed text is copied from the last sentence of current Rule 6.1-O(a). As described below, proposed Rule 6.1P-O would not include this text. The Exchange believes that adding this text to the proposed Rule 1.1 definition of “option contract” would promote clarity and transparency in Exchange rules by consolidating related definitions in a single location.
- The Exchange proposes to streamline the definition of “Outstanding” without any substantive differences. Specifically, the Exchange proposes to replace the following Rule 6.1-O(b)(26) text, “has neither been the subject of a closing sale transaction on the Exchange or a comparable

closing transaction on another participating Exchange nor been exercised nor reached its expiration date,” with the following, “has not been the subject of a closing sale transaction, exercised, or expired.” The Exchange believes that the proposed revised text has the same meaning, with more clear text.

- The Exchange proposes to modify the definition of “Routing Agreement” to replace references to “NYSE Arca, L.L.C.,” an entity that no longer exists, with the term “the Exchange,” which is a defined term in Rule 1.1.
- The Exchange proposes to modify the definition of “Trading Crowd,” which is currently defined in Rule 6.1-O(b)(30), to include Floor Brokers, which change is consistent with how this concept is defined on other options exchanges.<sup>15</sup>
- The Exchange proposes to modify the definition of an “Uncovered” position, which “in respect of a short position in an option contract means that the short position is not covered.” Because a “covered” position is also defined in proposed Rule 1.1, the Exchange proposes to add quotation marks around “covered” and, immediately after this term, to add “as defined above,” to make clear the cross-reference is to another defined term, which would add transparency to the rule text.

Second, definitions set forth in Rule 6.1A-O(a) would be added to Rule 1.1 in

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<sup>15</sup> See, e.g., Cboe Exchange Inc. (“Cboe”) Rule 1.1 (defining the terms “in-crowd market participant” and “ICMP” to include “an in-crowd Market-Maker, an on-floor DPM or LMM with an allocation in a class, or a Floor Broker or PAR Official representing an order in the trading crowd on the trading floor”).

alphabetical order without any substantive differences.<sup>16</sup> Because certain of these definitions are already set forth in Rule 1.1 for cash equity trading, the Exchange proposes to amend those existing definitions to specify that they would be applicable to options trading, and if applicable, set forth differences for options trading, as described in more detail below.

The Exchange does not propose to add the definition of “Directed Order Market Maker” to Rule 1.1 because in Pillar the Exchange would no longer support Directed Order Market Makers. In addition, the Exchange does not propose to add the definitions of “Complex BBO” or “Complex NBBO” to Rule 1.1, and instead has proposed to define terms relating to complex trading in a separate proposed rule change relating to electronic complex trading.<sup>17</sup> The Exchange also does not propose to add options-related definitions to Rule 1.1 relating to “Sponsored Participant,” “Sponsoring OTP Firm,” and “Sponsorship Provisions” because there are currently not any Sponsored Participants trading options on the Exchange, and the Exchange does not propose to reintroduce this category of participants. As noted above, the terms “OX” and “OX Book” will not be used in Pillar rules.

Finally, in addition to definitions that are being added to Rule 1.1 without any changes from the defined terms from Rule 6.1A-O(a), the Exchange proposes the

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<sup>16</sup> Rule 6.1A-O(a) has definitions for: Authorized Trader, BBO, Complex BBO, Core Trading Hours, Customer, Professional Customer, Lead Market Maker, Market Center, Marketable, Market Maker, Market Maker Authorized Trader, Minimum Price Variation, NBBO, Complex NBBO, NOW Recipient, OX, OX Book, Routing Broker, Sponsored Participant, Sponsoring OTP Firm, Sponsorship Provisions, User, Directed Order Market Maker, and Order Flow Provider.

<sup>17</sup> See Complex Pillar Notice, supra note 10.

following specific changes to the definitions that would be included in the Rule 1.1 definitions:<sup>18</sup>

- Approved Person: The Exchange proposes a non-substantive amendment to change the word “a” to “an” before “OTP Firm.”
- Authorized Trader: The Exchange proposes to amend the Rule 1.1 definition of “Authorized Trader” to remove the limitation to equities trading so that it is applicable to both cash equity securities and options traded on the Exchange, and to add that it can mean a person who may submit orders to the Exchange’s Trading Facilities on behalf of his or her OTP Holder. These proposed amendments combine the definition of Authorized Trader currently set forth in Rule 6.1A-O(a)(1) with the existing Rule 1.1 definition of Authorized Trader.<sup>19</sup>
- Away Market: The Exchange proposes to amend the Rule 1.1 definition of “Away Market” to add how that term would be used for options trading on the Exchange. As proposed, the new text would provide: “[w]ith respect to options traded on the Exchange, the term ‘Away Market’ means any Trading Center (1) with which the Exchange maintains an electronic linkage, and (2) that provides instantaneous responses to orders routed from the Exchange.” This proposed definition is based on the Rule 6.1A-

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<sup>18</sup> The Exchange also proposes a non-substantive amendment to the definition of “Exchange” to add a period at the end of the sentence.

<sup>19</sup> The proposed (combined) definition of “Authorized Trader” for cash equity and options trading would still include reference to “Sponsored Participants,” which remains applicable to cash equity trading (although, as noted above, is no longer applicable to options trading).

O(a)(12) definition of “NOW Recipient,” which is currently defined as “any Market Center (1) with which the Exchange maintains an electronic linkage, and (2) that provides instantaneous responses to NOW Orders routed from OX. The Exchange shall designate from time to time those Market Centers that qualify as NOW Recipients and shall periodically publish such information via its website.” The Exchange proposes four non-substantive differences for the Pillar options trading definition of “Away Market”: (1) use the Pillar term of “Away Market” instead of the term “NOW Recipient;” (2) use the term “Trading Center” instead of “Market Center”; (3) refer to “orders routed from the Exchange” instead of “NOW Orders routed from OX”; and (4) delete the text relating to the Exchange designating and publishing to its website certain Away Markets. The Exchange does not believe that this text needs to be included in the definition of Away Market because such markets are by definition those with which the Exchange maintains electronic linkage (i.e., pursuant to the Options Order Protection and Locked/Crossed Market Plan).

- “Away Market BBO” (“ABBO”): The Exchange proposes to add a new definition to Rule 1.1 for the Away Market BBO or ABBO which, with respect to options traded on the Exchange, refers to the best bid(s) or offer(s) disseminated by Away Markets (defined immediately below) and calculated by the Exchange based on market information the Exchange receives from OPRA.<sup>20</sup> Consistent with this proposal, the Exchange also

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<sup>20</sup> See, e.g., infra, discussion regarding proposed Rule 6.62P-O(a)(1)(A)(iii), which

proposes that the term “ABB” would mean the best Away Market bid and the term “ABO” would mean the best Away Market offer. The Exchange notes that the proposed definition of ABBO is consistent with how this concept is defined on other options exchanges.<sup>21</sup>

In addition, the Exchange proposes that it would adjust its calculation of the ABBO for options traded on the Exchange in the same manner that the Exchange would calculate the NBBO (as described below). Accordingly, the Exchange proposes that, unless otherwise specified, the Exchange may adjust its calculation of the ABBO based on information about orders it sends to Away Markets, execution reports received from those Away Markets, and certain orders received by the Exchange.<sup>22</sup> This proposed text reflects how the Exchange currently calculates the ABBO for options trading and uses text based on Rule 7.37-E(d)(2) to use Pillar terminology to describe current functionality.<sup>23</sup> The Exchange believes that including

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would use the term “ABBO” when referring to a calculation of the national best bid and best offer that does not include the Exchange’s BBO.

<sup>21</sup> See, e.g., Cboe Rule 1.1. (defining the term “ABBO” to mean “the best bid(s) or offer(s) disseminated by Eligible Exchanges (as defined in [Cboe] Rule 5.65) and calculated by the Exchange based on market information the Exchange receives from OPRA”). The Exchange notes that Cboe’s reference to Eligible Exchanges is substantively the same as the Exchange’s reference to “Away Markets.”

<sup>22</sup> Although the Exchange has not presently identified any circumstances under which it would use an unadjusted ABBO, it has included the “[u]nless otherwise specified” text to allow for this possibility. Should the Exchange opt to utilize an unadjusted ABBO for purposes of a specified rule, it would file a subsequent rule change to this effect.

<sup>23</sup> See Securities Exchange Act Release No. 91564 (April 14, 2021), 86 FR 20541 (April 20, 2021) (SR-NYSEArca-2021-21) (Notice of filing and immediate effectiveness of proposed rule change to specify when the Exchange may adjust its calculation of the PBBO).

this detail in the proposed definition of ABBO would promote clarity and transparency in Exchange rules.

- BBO: The Exchange proposes to amend the Rule 1.1 definition of “BBO” to add how that term would be used for options trading on the Exchange. As proposed, with respect to options traded on the Exchange, BBO would mean the best displayed bid or best displayed offer on the Exchange. This definition is based on the Rule 6.1A-O(a)(2)(a) definition of BBO, which currently defines BBO as the “best bid or offer on OX.” The Exchange believes that the proposed difference would add granularity to be clear that non-displayed quotes and orders would not be included in the BBO, which is consistent with current functionality.<sup>24</sup> The Exchange also proposes to use the term “Exchange” instead of “OX.”
- Consolidated Book: The term “Consolidated Book” is currently defined in Rule 6.1-O(b)(37)<sup>25</sup> and the term “OX Book” is currently defined in Rule 6.1A-O(a)(14).<sup>26</sup> For Pillar, the Exchange proposes to define the term

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<sup>24</sup> For determining the BBO for cash equities trading, the Exchange considers “the best bid or offer that is a protected quotation on the NYSE Arca Marketplace,” which “protected quotations” are, by definition, displayed. Thus, only displayed interest is included in the Exchange’s calculation of the BBO on both its options and cash equities markets. See proposed Rule 1.1 (defining Protected Bid, Protected Offer, Protected Quotation) and current Rule 1.1 (ss) (defining same).

<sup>25</sup> The term “Consolidated Book” is currently defined as “the Exchange’s electronic book of limit orders for the accounts of Public Customers and broker-dealers, and Quotes with Size. All orders and Quotes with Size that are entered into the Book will be ranked and maintained in accordance with the rules of priority as provided in Rule 6.76-O. There is no limit to the size of orders or quotes that may be entered into the Consolidated Book.”

<sup>26</sup> See supra note 8 (noting that the term “OX Book” is currently defined as “the OX’s electronic file of orders and quotes, which contains all of the orders in each



“Consolidated Book” in Rule 1.1 to mean the Exchange’s electronic book of orders and quotes and state that all orders and quotes that are entered into the Consolidated Book would be ranked and maintained in accordance with the rules of priority, as provided for in proposed Rule 6.76P-O. This proposed definition uses terminology similar to the existing Rule 1.1 definition of “NYSE Arca Book,” which would be amended to specify that the definition would only be for cash equity securities traded on the Exchange. The Exchange believes that the proposed definition of “Consolidated Book” for options trading on Pillar is not substantively different from either the current Rule 6.1-O definition of “Consolidated Book” or the current Rule 6.1A-O definition of “OX Book.” Rather, the changes are designed to eliminate text that would not be applicable on Pillar without changing the substance of the proposed definition and would use more streamlined text to describe the Exchange’s electronic order book. For example, the Exchange is not proposing to copy from Rule 6.1-O(b)(37) the (now antiquated) provision that “[t]here is no limit to the size of orders or quotes that may be entered into the Consolidated Book” because other options exchanges do not specify any capacity limit to orders and quotes in their defined terms relating to their electronic books.<sup>27</sup> Further, the Exchange believes that the proposed use of the

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of the Display Order and Working Order Processes and all of the Market Makers’ quotes in the Display Order Process”)

<sup>27</sup> See, e.g., Cboe Rule 1.1. (defining “Book” and “Simple Book” as referring to “the electronic book of simple orders and quotes maintained by the System, which single book is used during both the RTH and GTH trading sessions,” without

phrase “electronic book of orders and quotes” makes clear that the Consolidated Book would include all orders and quotes, including orders from both “Public Customers and broker-dealers,” and it is not necessary to separately reference what entity may be entering orders. In addition, as noted above, the Exchange does not propose to use the term “Quote with Size” in connection with options trading on Pillar and therefore does not propose to include reference to that term in the Pillar proposed definition for “Consolidated Book.” And, as described in greater detail below in connection with proposed Rule 6.76P-O, on Pillar, the Exchange does not propose to use the terms “Display Order and Working Order Processes” and therefore these terms would not be included in the Rule 1.1 definition of Consolidated Book.

- Core Trading Hours: The Exchange proposes that the current definition of Core Trading Hours in Rule 1.1, which is defined as “the hours of 9:30 a.m. Eastern Time through 4:00 p.m. (Eastern Time) or such other hours as may be determined by the Exchange from time to time,” would be applicable to both cash equity securities and options trading on the Exchange. Because options trading may extend past 4:00 p.m., the Exchange proposes to amend Rule 1.1 to provide that for options traded on the Exchange, transactions may be effected on the Exchange for an equity options class until close of trading of the Primary Market for the

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reference to any size limitations); MIAX Options Exchange (“MIAX”) Rule 100 (defining “Book” as referring to “the electronic book of buy and sell orders and quotes maintained by the System,” without reference to any size limitations).

securities underlying an options class. This proposed text is based on current Rule 6.1A-O(a)(3).<sup>28</sup>

- Customer and Professional Customer: The Exchange proposes to amend Rule 1.1 to add the definitions of “Customer” and “Professional Customer.” The proposed definitions use the same text as the definitions of Customer and Professional Customer set forth in Rules 6.1A-O(a)(4) and (4A) with non-substantive differences only to specify that these definitions would be applicable for options traded on the Exchange, eliminate redundant headers,<sup>29</sup> and re-number the sub-paragraphs. The Exchange also proposes to include a cross-reference to the definition of a broker or dealer as defined in Sections 3(a)(4) and 3(a)(5) of the Exchange Act and rules thereunder, which specificity adds clarity and transparency to the proposed definition. The Exchange notes that the proposed

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<sup>28</sup> Rule 6.1A-O(a)(3) currently defines “Core Trading Hours” to mean “the regular trading hours for business set forth in the rules of the primary markets underlying those option classes listed on the Exchange; provided, however, that transactions may be effected on the Exchange until the regular time set for the normal close of trading in the primary markets with respect to equity option classes and ETF option classes, and 15 minutes after the regular time set for the normal close of trading in the primary markets with respect to index option classes, or such other hours as may be determined by the Exchange from time to time.” The Exchange does not propose to include in the Rule 1.1 definition of Core Trading Hours for options trading the current text regarding trading that continues 15 minutes after the regular time set for the normal close of trading in the primary markets with respect to index options classes, as this is already addressed in Rule 5.20-O(a) (Trading Sessions).

<sup>29</sup> The Exchange proposes that the Rule 1.1 definition of Professional Customer would not include the sub-header of “Calculation of Professional Customer Orders” as redundant of the following text in the rule that would provide “[e]xcept as noted below, each order of any order type counts as one order for Professional order counting purposes.”

definition of Customer is consistent with how this concept is defined on other options exchanges.<sup>30</sup>

- Floor: The Exchange proposes to amend the Rule 1.1 definition of “Floor,” which refers to the options trading floor, to include the synonymous defined terms “Trading Floor” and “Options Trading Floor,” which terms are used throughout existing Exchange rules and make one change to remove the term “shall.” These proposed changes would add clarity and consistency to Exchange rules.
- Lead Market Maker: The Exchange proposes to amend the Rule 1.1 definition of “Lead Market Maker” to add how that term would be used for options trading. As proposed, the new text would provide that for options traded on the Exchange, the term “Lead Market Maker” or “LMM” would “mean a person that has been deemed qualified by the Exchange for the purpose of making transactions on the Exchange in accordance with Rule 6.82-O. Each LMM must be registered with the Exchange as a Market Maker. Any OTP Holder or OTP Firm registered as a Market Maker with the Exchange is eligible to be qualified as an LMM.” This proposed definition is based on the Rule 6.1A-O(a)(5) definition of Lead Market Maker without any substantive differences. The Exchange proposes one non-substantive difference to use the term “person” instead

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<sup>30</sup> See, e.g., Cboe Rule 1.1. (defining “Public Customer” as referring to “a person that is not a Broker-Dealer). Thus, the Exchange does not propose to add to Rule 1.1 the definition of “Customer” that is set forth in Rule 6.1-O(b)(29) (which simply cross-references “paragraph (c)(6) of Rule 15 c3-1 under the Securities Exchange Act of 1934, as amended”) as unnecessary and potentially confusing.

of “individual or entity,” because the term “person,” as currently defined in Rule 1.1, is inclusive of natural persons and entities.

- Marketable: The Exchange proposes to amend the Rule 1.1 definition of “Marketable” to extend it to address options traded on the Exchange by deleting the phrase “[w]ith respect to equities traded on the Exchange.”<sup>31</sup> The current description of the term “Marketable,” for purposes of Market Orders, is the same in both Rules 1.1 and 6.1A-O(a)(7).<sup>32</sup> Accordingly, the existing Rule 1.1 text relating to the term “Marketable” with respect to Market Orders would be applicable to options trading without any differences. With respect to Limit Orders, in Rule 1.1, the term “Marketable” currently means an order that can be immediately executed or routed. The current Rule 6.1A-O(a)(7) definition of the term “Marketable” for Limit Orders means when the price of the order matches or crosses the NBBO on the other side of the market. The current Rule 1.1 definition relating to Limit Orders means substantively the same thing as the current Rule 6.1A-O(a)(7) description for Limit Orders, and the Exchange proposes to use the existing Rule 1.1 definition of the term “Marketable” for both cash equity and options trading of Limit Orders. The Exchange also proposes a non-substantive amendment to add a

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<sup>31</sup> The term “Marketable” is currently defined in Rule 1.1 to mean, “[w]ith respect to equities traded on the Exchange, the term ‘Marketable’ means for a Limit Order, an order that can be immediately executed or routed. Market Orders are always considered marketable.”

<sup>32</sup> The term “Marketable” is currently defined in Rule 6.1A-O(a)(7) for options trading to mean “for a Limit Order, the price matches or crosses the NBBO on the other side of the market. Market orders are always considered marketable.”

comma after the phrase, “the term ‘Marketable’ means” and before “for a Limit Order.”

- Market Maker: The Exchange proposes to amend the Rule 1.1 definition of “Market Maker” to add how that term would be used for options trading. As proposed, the new text would provide that for options traded on the Exchange, the term “Market Maker” would refer “to an OTP Holder or OTP Firm that acts as a Market Maker pursuant to Rule 6.32-O.” This proposed definition is based on the Rule 6.1A-O(a)(8) definition of Market Maker, which is defined as “an OTP Holder or OTP Firm that acts as a Market Maker pursuant to Rule 6.32-O.” Accordingly, the proposed Rule 1.1 definition of the term “Market Maker” for options trading would not have any differences from the current Rule 6.1A-O definition. The Exchange also proposes to include in the Rule 1.1 definition of Market Maker for options trading that for purposes of Exchange rules, the term Market Maker includes Lead Market Makers, unless the context otherwise indicates. This proposed text is based on Rule 6.1-O(c), References, with a non-substantive difference to use the term “Exchange” instead of “NYSE Arca.” The Exchange believes this proposed change would streamline and clarify this definition by consolidating definitions relating to Market Makers in a single location.
- Market Maker Authorized Trader: The Exchange proposes to amend the Rule 1.1 definition of “Market Maker Authorized Trader” to add how that term would be used for options trading. As proposed, the new text would

provide that for options traded on the Exchange, the term “Market Maker Authorized Trader” or “MMAT” would “mean an authorized trader who performs market making activities pursuant to Rule 6-O on behalf of an OTP Firm or OTP Holder registered as a Market Maker.” This proposed definition is based on the Rule 6.1A-O(a)(9) definition of Market Maker Authorized Trader without any differences.

- Market Participant Identifier (“MPID”): The Exchange proposes to add a new definition to Rule 1.1 for “Market Participant Identifier (‘MPID’).” This term is currently used in, but not defined in, Rules 7.19-E and 7.31-E(i)(2) for cash equities trading. Because this term would also be used for options trading on Pillar, the Exchange believes that defining this term in Rule 1.1 would promote clarity and transparency. The proposed definition would provide that “Market Participant Identifier” or “MPID” refers to the identifier assigned to the orders and quotes of a single ETP Holder, OTP Holder, or OTP Firm for the execution and clearing of trades on the Exchange by that permit holder. The definition would further provide that an ETP Holder, OTP Holder, or OTP Firm may obtain multiple MPIDs and each such MPID may be associated with one or more sub-identifiers of that MPID. The Exchange believes that using the term MPID on the Exchange for options trading would promote clarity as this is an identifier commonly used by members of exchanges and the Exchange believes that using this term for its OTP Holders and OTP Firms would promote consistency, particularly for those firms that are also ETP Holders on the

Exchange.

- Minimum Price Variation or MPV: The Exchange proposes to amend Rule 1.1 to add the definition of “Minimum Price Variation” or “MPV” for both cash equity securities and options that are traded on the Exchange. The Exchange proposes that the term “Minimum Price Variation” or “MPV” means the minimum price variations established by the Exchange. The Exchange further proposes that the MPVs for quoting cash equity securities traded on the Exchange are set forth in Rule 7.6-E. The Exchange further proposes that the MPVs for quoting and trading options traded on the Exchange are set forth in Rule 6.72-O(a). The proposed definition as it relates to options trading is based on the Rule 6.1A-O(a)(10) definition of MPV, which defines the term “Minimum Price Variation” to mean “the variations established by the Exchange pursuant to Rule 6.72-O(a).” Similar to this current rule, the proposed Rule 1.1 definition of MPV for options trading would cross reference Rule 6.72-O(a). The Exchange proposes a difference to add reference to “quoting and trading options” to distinguish how the MPV for options would be determined from how the MPV for quoting cash equity securities would be determined.
- NBBO: The Exchange proposes to amend the Rule 1.1 definition of “NBBO, Best Protected Bid, Best Protected Offer, Protected Best Bid and Offer (PBBO)” to add how the term NBBO would be used for options trading. The Exchange proposes that: “[w]ith respect to options traded on



the Exchange, the term ‘NBBO’ means the national best bid or offer. The terms ‘NBB’ means the national best bid and ‘NBO’ means the national best offer.” This proposed definition includes the current definition of NBBO from Rule 6.1A-O(a)(11)(a), which defines that term as “the national best bid or best offer.” The Exchange proposes to add the terms “NBB” and “NBO” as clarifying terms for options trading.

In addition, the Exchange proposes that, unless otherwise specified, for options trading, the Exchange may adjust its calculation of the NBBO based on information about orders it sends to Away Markets, execution reports received from those Away Markets, and certain orders received by the Exchange. This proposed text reflects how the Exchange currently calculates the NBBO for options trading and is based on how the PBBO is calculated on the Exchange’s cash equity market, as described in Rule 7.37-E(d)(2).<sup>33</sup> The Exchange proposes that it would adjust its calculation of the NBBO for options traded on the Exchange in the same manner that the Exchange calculates the PBBO for cash equity securities traded on the Exchange. The Exchange believes that adding this detail to the proposed definition of NBBO would promote clarity and transparency in Exchange rules. The Exchange further notes that there are limited circumstances when the Exchange would not adjust its calculation of the NBBO and

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<sup>33</sup> See Securities Exchange Act Release No. 91564 (April 14, 2021), 86 FR 20541 (April 20, 2021) (SR-NYSEArca-2021-21) (Notice of filing and immediate effectiveness of proposed rule change to specify when the Exchange may adjust its calculation of the PBBO).

would determine the NBBO for options in the same way that the Exchange determines the NBBO for cash equity securities traded on the Exchange.

As described in detail below, the Exchange will specify in its rules when it would not be using an adjusted NBBO for purposes of a specific rule.

- NYSE Arca Book: The Exchange proposes to amend the Rule 1.1 definition of “NYSE Arca Book” to specify that this term is applicable only for cash equity securities traded on the Exchange. As noted above, the Exchange uses the term “Consolidated Book” for options traded on the Exchange and would continue to use that term on Pillar for options trading.
- NYSE Arca Marketplace: The Exchange proposes to amend the Rule 1.1 definition of “NYSE Arca Marketplace” to specify that this term is applicable only for cash equity securities traded on the Exchange.
- Order Flow Provider or OFP: The Exchange proposes to add the definition of “Order Flow Provider or OFP” to Rule 1.1 to mean “any OTP Holder that submits, as agent, orders to the Exchange.” This proposed definition is based on the Rule 6.1A-O(a)(21) definition of “Order Flow Provider” without any differences.
- Trading Center: The Exchange proposes to amend the Rule 1.1 definition of “Trading Center” to add how this term would be used for options trading. As proposed: “[w]ith respect to options traded on the Exchange, for purposes of Rule 6-O, the term “Trading Center” means a national securities exchange that has qualified for participation in the Options

Clearing Corporation pursuant to the provisions of the rules of the Options Clearing Corporation.” This proposed definition is based on the Rule 6.1A-O(a)(6) definition of “Market Center” with a non-substantive difference to use the term “Trading Center” instead of “Market Center.”

- User: The Exchange proposes to amend the Rule 1.1 definition of “User” to add how this term would be used for options trading. As proposed: “[w]ith respect to options traded on the Exchange, the term ‘User’ shall mean any OTP Holder or OTP Firm who is authorized to obtain access to the Exchange pursuant to Rule 6.2A-O.” This proposed definition is based on the Rule 6.1A-O(a)(19) definition of User, with one difference not to include the reference to Sponsored Participant, which, as described above, is no longer used in connection with options trading.
- User Agreement: The Exchange proposes a non-substantive amendment to the Rule 1.1 definition of “User Agreement” to replace the term “NYSE Arca, L.L.C” with the term the “Exchange.”

In addition to proposed amendments to Rule 1.1, the Exchange proposes to amend Rule 6.96-O to add the definition of “Routing Broker,” which is currently defined in Rule 6.1A-O(a)(15) to mean “the broker-dealer affiliate of NYSE Arca, Inc. and/or any other non-affiliate that acts as a facility of NYSE Arca, Inc. for routing orders entered into OX of OTP Holders, OTP Firms and OTP Firms' Sponsored Participants to other Market Centers for execution whenever such routing is required by NYSE Arca Rules.” For options trading on Pillar, the Exchange proposes to define the term in Rule 6.96-O (Operation of a Routing Broker) to mean “the broker-dealer affiliate of the Exchange

and/or any other non-affiliate that acts as a facility of the Exchange for routing orders submitted to the Exchange to other Trading Centers for execution whenever such routing is required by Exchange Rules and federal securities laws.”<sup>34</sup> The proposed rule text is based on the current definition in Rule 6.1A-O(a)(15), with non-substantive differences to streamline the definition and to use Pillar terminology. Specifically, the Exchange does not propose to include terms that would no longer be applicable to trading on Pillar, including reference to OX, Market Centers, and Sponsored Participants. The Exchange notes that including the definition of “Routing Broker” in its rule governing the operation of the routing broker is consistent with the Exchange’s cash equity rules, which also defines the term “Routing Broker” in Rule 7.45-E(a) (Operation of Routing Broker)

In connection with the proposed amendments to Rule 1.1, the Exchange proposes to add the following preamble to Rule 6.1A-O: “This Rule is not applicable to trading on Pillar.” This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rule 6.1A-O would not be applicable to trading on Pillar.

#### Proposed Rule 6.1P-O: Applicability

Current Rule 6.1-O sets forth the applicability, definitions, and references in connection with options trading. As noted above, the definitions in Rule 6.1-O(b) and reference in Rule 6.1-O(c) to LMMs being included in the definition of Market Maker will be copied to proposed Rule 1.1 for purposes of trading on Pillar.

The Exchange proposes new Rule 6.1P-O to include only those portions of Rule 6.1-O relating to applicability of Exchange Rules that would continue to be applicable

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<sup>34</sup> The Exchange also proposes non-substantive amendments to Rule 6.96-O to refer to “the Exchange,” a defined term in Rule 1.1 (rather than NYSE Arca, Inc.) and to renumber current paragraphs (a), (b), and (c), as paragraphs (b), (c), and (d).

after the transition to Pillar. Proposed Rule 6.1P-O(a) would be identical to the first two sentences of current Rule 6.1-O(a). As noted above, the proposed definition of “option contract” would incorporate the final sentence of Rule 6.1-O(a), which states that option contracts are included in the definition of “security” or “securities.” Accordingly, the Exchange does not propose to include this text in proposed Rule 6.1P-O(a).

Proposed Rule 6.1P-O(b) would provide that unless otherwise stated, Exchange rules would be applicable to transactions on the Exchange in option contracts. The proposed rule is similar to Rule 6.1-O(e) because it addresses the applicability of other Exchange Rules.”<sup>35</sup> The Exchange proposes differences from current Rule 6.1-O(e) to eliminate obsolete and duplicative text and to streamline the proposed rule text without any substantive differences. For example, the Exchange does not believe it is necessary to identify which rules are or are not applicable to trading of option contracts because any rule with “-O” appended to it is applicable to trading of option contracts. In addition, Rule 1.1 is now applicable to trading of options contracts. And, as discussed above, the Exchange has proposed to amend the definition of “option contract” to specify that they are included in the definition of “security” or “securities.” Finally, the reference in Rule 6.1-O(e) to “‘specialist’ means ‘Market Maker’” is duplicative of Rule 6.32-O, and therefore is not necessary to add to proposed Rule 6.1P-O(b).

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<sup>35</sup> Rule 6.1-O(e) provides: “*Applicability of Other Exchange Rules.* The following Rules apply to transactions on the Exchange in option contracts issued or subject to issuance by the Options Clearing Corporation: Rules 4.15-O-4.19-O, 5.1-O, 9.21-O-9.28-O and 11.6. The following Rules do not apply to transactions on the Exchange in option contracts: Rule 1.1. All other Exchange rules are applicable to transactions on the Exchange in option contracts unless the context clearly indicates otherwise. In applying the Rules of the Exchange to transactions on the Exchange in option contracts, ‘security’ or ‘securities’ includes option contracts, ‘specialist’ means Market Maker on the Options Trading Floor.”

In connection with proposed Rule 6.1P-O, the Exchange proposes to add the following preamble to Rule 6.1-O: “This Rule is not applicable to trading on Pillar.” This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rule 6.1-O would not be applicable to trading on Pillar.

Proposed Rule 6.76P-O: Order Ranking and Display

Rule 6.76-O governs order ranking and display for the current Exchange options trading system. Proposed Rule 6.76P-O would address order ranking and display for options trading under Pillar, including accounting for the quoting activity of options Market Makers as noted below. With the transition to Pillar, the Exchange does not propose any substantive differences to how orders and quotes would be ranked and displayed on the Exchange and, unless otherwise specified in the proposed rules, the Exchange proposes that same-priced orders and quotes would be ranked no differently than how they are ranked in the OX system. For example, same-priced displayed orders and quotes would be ranked ahead of same-priced non-displayed orders and quotes, and within each category of displayed or non-displayed interest, orders and quotes would be ranked in time priority. However, the Exchange proposes to eliminate the terminology relating to the “Display Order Process” and “Working Order Process” (each of which are described below) and instead use Pillar terminology based on Rule 7.36-E, which governs order ranking and display on the Exchange’s cash equity market.<sup>36</sup>

Options Market Makers enter quotes and orders and the current OX system processes quotes and orders together with respect to ranking and display. The Exchange

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<sup>36</sup> As noted herein (see *supra* note 8), the Exchange also proposes to eliminate the use of the terms “OX” and “OX Book,” as these terms would not be applicable to trading on Pillar.

proposes that it would operate the same way using the Pillar technology. 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 and quotes on the Pillar trading platform. In addition, throughout proposed Rule 6.76P-O, the Exchange proposes to change the term "shall" to "will," which is a stylistic preference that would add consistency to Exchange rules.

Proposed Rule 6.76P-O(a) would set forth definitions for purposes of all of Rule 6-O (Options Trading) on the Pillar trading platform, including proposed Rule 6.76AP-O (Order Execution and Routing), described below. The proposed definitions are based on Rule 7.36-E(a) definitions for purposes of Rule 7-E cash equity trading, with terminology differences, as noted above, to reference "orders and quotes" throughout proposed Rule 6.76P-O. The Exchange believes that these proposed definitions would provide transparency regarding how the Exchange would operate its options platform on Pillar and serve as the foundation for how orders/quotes and modifiers would be described for options trading on Pillar, as discussed in more detail below. In addition, the Exchange believes that even with using Pillar terminology that is based on the Exchange's cash equity rules, unless otherwise specified, the definitions that are described in these proposed rules do not differ in substance from current Rule 6.76-O relating to options trading.

- Proposed Rule 6.76P-O(a)(1) would define the term "display price" to mean the price at which an order or quote ranked Priority 2 - Display Orders or Market Order is displayed, which price may be different from

the limit price or working price of the order (i.e., if it is a Non-Routable Limit Order or an ALO Order as described below in proposed Rule 6.62P-O(e)(1), (2), respectively). This proposed definition uses Pillar terminology based on Rule 7.36-E(a)(1). To incorporate quotes, the Exchange proposes one difference in terminology to refer to “order or quote ranked Priority 2 - Display Orders,” versus referring to “Limit Order,” as set forth in Rule 7.36-E(a)(1). The term “Priority 2 - Display Orders” is described in more detail below. The Exchange also proposes a second difference compared to the Exchange’s cash equity rules to include Market Orders as interest that may have a display price (for example, as described below and consistent with current functionality, a Market Order could be displayed at its Trading Collar, which is unique to options trading and not available on the cash equity platform).

- Proposed Rule 6.76P-O(a)(2) would define the term “limit price” to mean the highest (lowest) specified price at which a Limit Order or quote 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/quote would be displayed or eligible to trade. This proposed definition uses Pillar terminology based on Rule 7.36-E(a)(2), with a terminology difference to refer to the specified price of a “Limit Order or quote,” versus referring to “Limit Order,” as set forth in Rule 7.36-E(a)(2).
- Proposed Rule 6.76P-O(a)(3) would define the term “working price” to



mean the price at which an order or quote is eligible to trade at any given time, which may be different from the limit price or display price of an order. This proposed definition is based on Rule 7.36-E(a)(3), with a terminology difference to refer to “order or quote” for purposes of determining ranking priority, versus referring solely to an “an order,” as set forth in Rule 7.36-E(a)(3). The Exchange believes that the term “working price” would provide clarity regarding the price at which an order/quote 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 the circumstances. The Exchange will be using this term in connection with orders/quotes and modifiers, as described in more detail below.

- Proposed Rule 6.76P-O(a)(4) would define the term “working time” to mean the effective time sequence assigned to an order or quote 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 options 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/quote for purposes of ranking and is subject to change, depending on circumstances. This proposed definition is based on Rule 7.36-E(a)(4), with a terminology difference to refer to an “order or quote,” versus referring solely to “an

order,” as set forth in Rule 7.36-E(a)(4).

- Proposed Rule 6.76P-O(a)(5) would define an “Aggressing Order” or “Aggressing Quote” to mean a buy (sell) order or quote that is or becomes marketable against sell (buy) interest on the Consolidated Book. The proposed terms would therefore refer to orders or quotes that are marketable against other orders or quotes on the Consolidated Book. These terms would be applicable to incoming orders or quotes, orders that have returned unexecuted after routing, or resting orders or quotes that become marketable due to one or more events. For the most part, resting orders or quotes will have already traded with contra-side interest against which they are marketable.

To maximize the potential for orders or quotes to trade, the Exchange continually evaluates whether resting interest may become marketable. Events that could trigger a resting order to become marketable include updates to the working price of such order or quote, updates to the NBBO, changes to other interest resting on the Consolidated Book, or processing of inbound messages. To address such circumstances, the Exchange proposes to include in proposed Rule 6.76P-O(a)(5) that a resting order or quote may become an Aggressing Order or Aggressing Quote if its working price changes, if the NBBO is updated, because of changes to other orders or quotes on the Consolidated Book, or when processing inbound messages.

The proposed definition of an “Aggressing Order” is based on Rule 7.36-

E(a)(5), with differences in the proposed rule to account for options trading, such as including the defined term “Aggressing Quote”; referring to an “order or quote” versus “an order”; referring to the Consolidated Book rather than NYSE Arca Book; and referring to the NBBO instead of the PBBO, which is not a term used in options trading. The Exchange believes that these proposed definitions would promote transparency in Exchange rules by providing detail regarding circumstances when a resting order or quote may become marketable, and thus would be an Aggressing Order or Aggressing Quote.

Under current Rule 6.76-O, bids and offers are ranked and maintained in the Display Order Process and/or the Working Order Process of the OX Book according to price-time priority. In the Display Order Process, all Limit Orders (with no other conditions), quotes, and the displayed portion of Reserve Orders (not the reserve size) are ranked in price-time priority, displayed on an anonymous basis (except as permitted by Rule 6.76A-O), and the best-ranked interest is disseminated.<sup>37</sup> In the Working Order Process, the reserve portion of Reserve Orders,<sup>38</sup> All-or-None Orders, Stop and Stop

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<sup>37</sup> See Rule 6.76-O(a)(1)(A)-(B), (b) and (c). When the displayed portion of the Reserve Order is decremented completely, the displayed portion of the Reserve Order shall be refreshed for the displayed amount; or the entire reserve amount, if the remaining reserve amount is smaller than the displayed amount, from the reserve portion and shall be submitted and ranked at the specified limit price and the new time that the displayed portion of the order was refreshed. See Rule 6.76-O(a)(1)(B). As discussed in more detail below, the Exchange proposes to describe how Reserve Orders would function in proposed Rule 6.62P-O(d)(1).

<sup>38</sup> See Rule 6.76-O(a)(2)(A)-(E). After the displayed portion of a Reserve Order is refreshed from the reserve portion, the reserve portion remains ranked based on the original time of order entry, while the displayed portion is sent to the Display Order Process with a new time-stamp. See Rule 6.76-O(a)(2)(A).

Limit Orders and Stock Contingency Orders are ranked in price-time priority based on the limit price or, in the case of Stop and Stop Limit Orders, the stop price. As described in more detail below, proposed Rule 6.62P-O, relating to orders and modifiers, would specify whether an order or quote would be displayable, i.e., ranked Priority 2 Display Orders, or non-displayable, i.e., ranked Priority 3 - Non-Display Orders.

Proposed Rule 6.76P-O(b) would govern the display of non-marketable Limit Orders and quotes. As proposed, the Exchange would display “all non-marketable Limit Orders and quotes ranked Priority 2 –Display Orders unless the order or modifier instruction specifies that all or a portion of the order is not to be displayed,” which functionality is the same as that set forth in the first sentence of the preamble to the current Rule 6.76-O, stating that the Exchange displays “all non-marketable limit orders in the Display Order Process.” The Exchange proposes to use Pillar ranking terminology (described further below) to describe the same functionality and references to the Display Order Process would not be included.

Rule 6.76P-O(b)(1), which is substantially identical to current Rule 6.76-O(b), would provide that except as otherwise permitted in proposed new Rule 6.76AP-O (discussed below), all non-marketable displayed interest would be displayed on an anonymous basis.<sup>39</sup>

Proposed Rule 6.76P-O(b)(2) is substantially identical to the second sentence of the preamble to current Rule 6.76-O, and mirroring that text, would provide that the Exchange would “disseminate current consolidated quotations/last sale information, and

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<sup>39</sup> Rule 6.76-O(b) provides that “[e]xcept as otherwise permitted by Rule 6.76A-O, all bids and offers at all price levels in the Display Order Process of the OX Book shall be displayed on an anonymous basis.”

such other market information as may be made available from time to time pursuant to agreement between the Exchange and other Trading Centers, consistent with the Plan for Reporting of Consolidated Options Last Sale Reports and Quotation Information.”<sup>40</sup>

Finally, proposed Rule 6.76P-O(b)(3) would provide that if “an Away Market locks or crosses the Exchange BBO, the Exchange will not change the display price of any Limit Orders or quotes ranked Priority 2 - Display Orders and any such orders will be eligible to be displayed as the Exchange’s BBO.” This proposed rule describes Pillar functionality, which is the same as current functionality. The Exchange believes that including this text in the proposed rules would promote clarity and granularity. In addition, this proposed concept, which is based on Rule 7.36-E(b)(4), makes clear that resting displayed interest that did not cause a locked or crossed market condition can stand its ground and maintain priority at the price at which it was originally displayed. This provision uses Pillar terminology and functionality described in Rule 7.36-E(b)(4), but does not include text from the cash equity rule providing for the treatment of displayed Limit Orders that are “marketable against protected quotations on Away Market” before “resuming trading and publishing a quote in a UTP Security following a Regulatory Halts,” because the concept of trading a security on an unlisted trading privileges basis and how a non-primary cash equity market would resume trading after a primary listing exchanges resumes trading following a trading halt is not applicable to

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<sup>40</sup> The second sentence of the preamble to current Rule 6.76-O states, “OX also will disseminate current consolidated quotations/last sale information, and such other market information as may be made available from time to time pursuant to agreement between the Exchange and other Market Centers, consistent with the Plan for Reporting of Consolidated Options Last Sale Reports and Quotation Information.” The Exchange proposes a difference to use the term “Trading Centers” instead of “Market Centers.”

options trading.

Proposed Rule 6.76P-O(c) would describe the Exchange's general process for ranking orders and quotes, which process is the same as that set forth in current Rule 6.76-O(a), with differences to use Pillar ranking terminology and include additional detail related to order/quote modifiers.<sup>41</sup> As proposed, Rule 6.76P-O(c) would provide that all non-marketable orders and quotes would be ranked and maintained in the Consolidated 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/quote or modifier condition. Accordingly, orders and quotes would be first ranked by price. Next, at each price level, orders and quotes would be assigned a priority category, which is similar to the Exchange's current process to assign orders and quotes as being part of either the "Display Order Process" or "Working Order Process." Orders and quotes in each priority category would be required to be exhausted before moving to the next priority category. Within each priority category, orders and quotes would be ranked by time. These general requirements for ranking are applicable to all orders and quotes, unless an order or quote 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 above-described terms of "Display Order Process" and "Working Order Process" in Rule 6.76-O. However, substantively there would be no difference in how the Exchange would rank orders and quotes on the Pillar trading platform from how it ranks orders and quotes in the current option trading system. For example, a non-displayed order would

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<sup>41</sup> Rule 6.76-O(a) states that the Exchange ranks bids and offers "according to price-time priority, such that within each price level, all bids and offers shall be organized by the time of entry".

always be ranked after a displayed order at the same price, even if the non-displayed order has an earlier working time. In addition, this proposed rule would use Pillar terminology based on Rule 7.36-E(c), with terminology differences to reflect options trading, including that the proposed rule references “non-marketable orders and quotes,” not solely “non-marketable orders,” and references the “Consolidated Book,” rather than the “NYSE Arca Book.” These differences between the equity rules and the proposed rules reflect the differences between cash equities and options trading; interest on the Exchange’s options market would be ranked (in price-time priority) as it is on the Exchange’s cash equity market.

Proposed Rule 6.76P-O(d) would describe how orders and quotes would be ranked based on price, which additional detail would provide transparency regarding the Exchange’s price-ranking process. Specifically, as proposed, all orders and quotes would be ranked based on the working price of an order or quote. Orders and quotes to buy would be ranked from highest working price to lowest working price and orders and quotes 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 or quote changes, the price priority of an order or quote would change. This proposed pricing priority is current functionality, but the new rule would add detail regarding the concept of “working price” and its impact on priority and would use Pillar terminology. In addition, this proposed rule uses Pillar terminology from Rule 7.36-E(d), with terminology differences to reflect options trading to reference “orders and quotes” as opposed to solely “orders.”

Proposed Rule 6.76P-O(e) would describe the proposed priority categories for

ranking purposes, which added detail and terminology would be new for options trading without any functional differences.<sup>42</sup> As proposed, at each price, all orders and quotes would be assigned a priority category. If, at a price, there are no orders or quotes in a priority category, the next category would have first priority. The Exchange does not propose to include in Rule 6.76P-O, which sets forth the general rule regarding ranking, specifics about how one or more order or quote types may be ranked and displayed. Instead, as described in more detail below, the Exchange will address separately in new Rule 6.62P-O governing orders and modifiers which priority category correlates to different 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 currently addressed in Rule 6.76-O (a)(1)(B) and (a)(2)(A), will be addressed in proposed Rule 6.62P-O and therefore would not be included in proposed Rule 6.76P-O.<sup>43</sup>

The proposed changes are also the same as the terms used for priority categories for cash equity trading as set forth in Rule 7.36-E(e)(1)-(3), with terminology differences to include options-specific reference to “orders and quotes” rather than just orders as it relates to interest ranked Priority 2 and 3. In addition, the Exchange does not propose to include the Priority 4 -Tracking Orders category, which relates to an order type not available for options trading. The proposed terminology changes to use priority categories rather than refer to the “Display Order Process” and “Working Order Process”

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<sup>42</sup> See supra notes 37 and 38 (regarding treatment of Reserve Orders per Rule 6.76-O(a)(1)(B) and (a)(2)(A)).

<sup>43</sup> See, e.g., Rule 6.76-O(a)(1) and (2) (setting forth the price-time ranking and priority structure for bids and offers submitted to the Exchange, including ranking of certain order types with contingencies).



would not result in any changes in how the Exchange would rank orders and quotes on Pillar from how it currently ranks orders and quotes on the OX system.

The proposed priority categories would be:

- Proposed Rule 6.76P-O(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. As described in greater detail below, a Market Order subject to a Trading Collar would be displayed on the Consolidated Book. In such circumstances, the displayed Market Order would have priority over all other resting orders at that price. Under current options trading functionality, Market Orders have priority over all other same-side orders with the same working price. The proposed level of detail and priority categorization would be new terminology for options trading and the Exchange believes that the proposed rule change would add transparency and specificity to Exchange rules without changing functionality.
- Proposed Rule 6.76P-O(e)(2) would specify “Priority 2 – Display Orders.” This proposed priority category would replace the “Display Order Process,” which is described above. As proposed, non-marketable Limit Orders or quotes with a displayed working price would have second priority, which treatment of displayed orders and quotes is consistent with current functionality. For an order or quote that has a display price that differs from the working price of the order or quote, the order or quote

would be ranked Priority 3 - Non-Display Orders at the working price.<sup>44</sup>

This aspect of the proposed rule is consistent with current functionality.

For example, as described above, currently, the display portion of a Reserve Order is subject to the Display Order Process and the reserve portion is subject to the Working Order Process. The proposed level of detail and priority categorization would be new for options trading and the Exchange believes that it would add transparency and specificity to Exchange rules. In addition, this priority category operates the same as how Priority 2 -Display Orders function on the Exchange's cash equity market, as described in Rule 7.36-E(e)(2), with a terminology difference for the proposed rule to reflect options trading by including reference to quotes, which would not be processed differently on Pillar as compared to the OX system.

- Proposed Rule 6.76P-O(e)(3) would specify "Priority 3 – Non-Display Orders." This priority category would be used in Pillar rules instead of reference to the "Working Order Process," which is described above. As proposed, non-marketable Limit Orders or quotes for which the working price is not displayed, including the reserve interest of Reserve Orders, would have third priority. This proposed rule is consistent with current functionality. The proposed level of detail and priority categorization would be new for options trading and the Exchange believes that it would

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<sup>44</sup> See, e.g., *infra*, discussion regarding proposed Non-Routable Limit Order per Rule 6.62P-O(e)(1).

add transparency and specificity to Exchange rules. In addition, this priority category operates the same as how Priority 3 - Non-Display Orders function on the Exchange's cash equity market, as described in Rule 7.36-E(e)(3), with a terminology difference for the proposed rule to reflect options trading by including reference to quotes, which would not be processed differently on Pillar as compared to the OX system.

Proposed Rule 6.76P-O(f) would set forth that at each price level within each priority category, orders and quotes would be ranked based on time priority. This proposed rule is consistent with current Rule 6.76-(O)(a), which provides, in relevant part, that "within each price level, all bids and offers shall be organized by the time of entry." The proposed changes set forth below are consistent with current functionality and would add detail not included in existing option rules. In addition, the proposed changes use terminology based on Rule 7.36-E(f)(1) and (3), with differences to reference options terminology of "orders and quotes" rather than just "orders" and to the "Consolidated Book" rather than the "NYSE Arca Book," which differences are designed to address the distinction between cash equities and options trading without altering how such interest would be ranked (in price-time priority) on each market.<sup>45</sup>

- Proposed Rule 6.76P-O(f)(1) would provide that an order or quote would be assigned a working time when it is first added to the Consolidated

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<sup>45</sup> As discussed, *infra*, the Exchange proposes to rank orders and quotes on Pillar in the same manner as it does on the OX system, unless otherwise specified in the proposed rules (e.g., same-priced displayed orders and quotes would be ranked ahead of same-priced non-displayed orders and quotes, and within each category of displayed or non-displayed interest, orders and quotes would be ranked in time priority).

Book based on the time such order or quote is received by the Exchange. 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 6.76-O. This proposed rule uses Pillar terminology that is substantially the same as in Rule 7.36-E(f)(1). To provide transparency in Exchange rules, the Exchange further proposes to include in proposed Rule 6.76P-O(f) how the working time would be determined for orders that are routed, which is consistent with current options trading functionality. As proposed:

- Proposed Rule 6.76P-O(f)(1)(A) would specify that an order that is fully routed to an Away Market on arrival, per proposed Rule 6.76AP-O(b)(1), would not be assigned a working time unless and until any unexecuted portion of the order returns to the Consolidated Book. The Exchange notes that this is the current process for assigning a working time to an order (although this detail would be new to option trading rules) and uses Pillar terminology that is substantially the same as in Rule 7.36-E(f)(1)(A), with a terminology difference that the proposed rule includes reference to the “Consolidated Book” rather than the “NYSE Arca Book.” This proposed rule is also consistent with current Rule 6.76A-O(c)(2)(C), which provides that when an order or portion of an order has been routed away and is not executed either in whole or in part at the other Market Center, it will be

ranked and displayed in the OX Book in accordance with the terms of the order.

- Proposed Rule 6.76P-O(f)(1)(B) would specify that for an order that, on arrival, is partially routed to an Away Market, the portion that is not routed would be assigned a working time. If any unexecuted portion of the order returns to the Consolidated 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 Consolidated 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 (although this detail would be new to option trading rules) and uses Pillar terminology that is substantially the same as in Rule 7.36-E(f)(1)(B)), with a terminology difference that the proposed rule would reference the “Consolidated Book” rather than the “NYSE Arca Book.”
- Proposed Rule 6.76P-O(f)(2) would provide that an order or quote would be assigned a new working time if: (A) the display price of an order or quote changes, even if the working price does not change, or (B) the working price of an order or quote changes, unless the working price is adjusted to be the same as the display price of an order or quote. This

proposed text would be new and is different from how the Exchange adjusts the working time for cash equities trading when the working price of an order is updated to be the same as the display price.<sup>46</sup> The Exchange believes that for its options market, adjusting the working time any time the display price of an order or quote changes, would respect the priority of orders/quotes that were previously displayed at the price to which the display price is changing. In addition, the Exchange believes it is appropriate to adjust the working time of an order or quote any time its working price changes, unless the display price does not change. This proposed order handling in Exchange rules is consistent with the rules of other options exchanges.<sup>47</sup>

- Proposed Rule 6.76P-O(f)(3) would provide that an order or quote would be assigned a new working time if the size of an order or quote increases and that an order or quote retains its working time if the size of the order or quote is decreased. This proposed detail about the process for assigning (or not) a new working time when the size of an order changes is not currently described in the Exchange’s option rules and is consistent with existing functionality for how orders (but not quotes) are processed on the

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<sup>46</sup> Currently, for cash equity trading, Rule 7.36-E(f)(2) provides that, “[a]n order is assigned a new working time any time the working price of an order changes.” The Exchange plans to propose changes to this cash equity rule to align with that being proposed for its options market at a later date.

<sup>47</sup> See, e.g., Cboe BZX (“BZX”) Rule 11.9(g)(1)(B) (providing that, for orders subject to “display price sliding,” BZX “will re-rank an order at the same price as the displayed price in the event such order’s displayed price is locked or crossed by a Protected Quotation of an external market” and that “[s]uch event will not result in a change in priority for the order at its displayed price”).

OX system and would use Pillar terminology.<sup>48</sup> This provision is substantively identical to Rule 7.36-E(f)(3), with a terminology difference to reference “orders or quotes” as opposed to solely “an order.”

Proposed Rule 6.76P-O(g) would specify that the Exchange would apply ranking restrictions applicable to specified order, quote, or modifier instructions. These order, quote, and modifier instructions would be identified in proposed new Rule 6.62P-O, described below. Proposed Rule 6.76P-O(g) uses Pillar terminology substantially the same as is used in Rule 7.36-E(g), with a difference to reference quotes, which is unique to options trading. Current Rule 6.76-O(a)(2)(C)-(E) discusses ranking of certain order types with contingencies in the Working Order Process. The Exchange proposes that for Pillar, ranking details regarding orders and quotes designated with contingencies would be described in proposed Rule 6.62P-O(d) and (e). Accordingly, the Exchange does not propose to include the detail described in Rule 6.76-O(a)(2)(C) - (E) in proposed Rule 6.76P-O.<sup>49</sup>

Finally, proposed Rule 6.76P-O(h) would be applicable to “Orders Executed Manually” and would contain the same text as set forth in Rule 6.76-O(d) without any

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<sup>48</sup> Currently, on the Exchange’s OX system, if the size of a quote is reduced, the Exchange processes the reduced quantity as a new quote that is assigned a new effective time sequence. By contrast, orders reduced in size are not assigned a new working time by the OX system. The Exchange proposes that, on Pillar, both quotes and orders reduced in size would not receive a new working time. The proposed provision would provide for consistent handling of orders and quotes when the size of such interest is reduced.

<sup>49</sup> As discussed, supra note 45, on Pillar, the Exchange would rank orders and quotes -- including those with contingencies (i.e., MMALO and MMRP) -- the same way it does on the OX system, unless otherwise specified in the proposed rules. See proposed Rule 6.62P-O(e) (for discussion of Non-Routable Limit Orders and ALO Orders, both of which have contingencies and may be designated as quotations under Pillar).

substantive differences except for the non-substantive change of capitalizing the defined term Trading Crowd (per proposed Rule 1.1), removing the superfluous clause “in addition,” and updating the cross-reference to reflect the new Pillar rule.<sup>50</sup>

In connection with proposed Rule 6.76P-O, the Exchange proposes to add the following preamble to Rule 6.76-O: “This Rule is not applicable to trading on Pillar.” This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rule 6.76-O would not be applicable to trading on Pillar.

#### Proposed Rule 6.76AP-O: Order Execution and Routing

Current Rule 6.76A-O, titled “Order Execution — OX,” governs order execution and routing at the Exchange. The Exchange proposes that Rule 6.76AP-O would set forth the order execution and routing rules for options trading on Pillar. The Exchange proposes that the title for new Rule 6.76AP-O would be “Order Execution and Routing” instead of “Order Execution — OX” because the Exchange does not propose to use the term “OX” in connection with Pillar. The Exchange believes that because proposed Rule 6.76AP-O, like Rule 6.76A-O, would specify 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 6.76AP-O. This proposed rule is based on Rule 7.37-E, which describes the order execution and routing rules for cash equity securities trading on the Pillar platform, with differences described below to reflect differences for options trading. In addition, throughout proposed Rule

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<sup>50</sup> See proposed Rule 6.76P-O(h)(1) (removing “in addition”) (B) (regarding “Trading Crowd”) and (D) (updating the cross-reference to new subparagraph (B) in connection with the Section 11(a)(1)(G) of the Exchange Act and Rule 11a1-1(T) thereunder (“G exemption rule“)).



6.76AP-O, the Exchange proposes to use the term “will” instead of “shall,” which is a stylistic preference that would add consistency to Exchange rules.

Proposed Rule 6.76AP-O(a) and its subparagraphs would set forth the Exchange’s order execution process and would cover the same subject as the preamble to Rule 6.76A-O, which provides that like-priced orders and quotes are matched for execution, provided the execution price is equal to or better than the NBBO, unless such order has been routed to an Away Market at the NBBO.<sup>51</sup> The Exchange proposes a difference from current Rule 6.76A-O(a)-(c) to use Pillar terminology of “Aggressing Order” and “Aggressing Quote” -- rather than refer to an “incoming marketable bid or offer,” because (as described above) the proposed terms are more expansive and allow for interest to be (or become) marketable even after arrival (i.e., not limited to “incoming” interest). As proposed, per Rule 6.76AP-O(a), an Aggressing Order or Aggressing Quote would be matched for execution against contra-side orders or quotes in the Consolidated Book according to the price-time priority ranking of the resting interest, subject to specified parameters.

The Exchange does not propose to include in proposed Rule 6.76AP-O text based on current Rule 6.76A-O(a)(1), which describes “Step 1: Display Order Process,” or text based on current Rule 6.76A-O(b), which describes “Step 2: Working Order Process,” because by proposing detailed text in Rule 6.76P-O(c) - (f) regarding how orders and quotes would be ranked on the Exchange, it would be duplicative and unnecessary to describe this process again in proposed Rule 6.76AP-O. Instead, the Exchange believes

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<sup>51</sup> Rule 6.76A-O(a)-(c) sets forth a three-step process -- the Display Order Process, the Working Order Process, and Routing Away, Steps 1-3, respectively -- governing the handling of incoming marketable bids and offers.

that cross referencing the price-time priority ranking of the resting interest, per proposed Rule 6.76P-O, would provide transparency regarding how an Aggressing Order or Aggressing Quote would trade with resting interest. The Exchange notes that it made a similar stylistic change for its cash equity platform to eliminate references to the “Display Order Process” and “Working Order Process” in Rule 7.37-E (which was replaced by the aforementioned priority categories) when it transitioned to Pillar.<sup>52</sup>

Proposed Rule 6.76AP-O(a)(1) would set forth the LMM Guarantee, which is substantively the same as the current LMM Guarantee, as described in Rule 6.76A-O(a)(1)(A) - (D). Specifically, as with the current OX system, if an LMM is quoting at the NBBO, that LMM quote would be guaranteed to trade with 40% of the incoming bid or offer. This LMM guarantee is currently described in Rule 6.76A-O(a)(1)(A), which provides, in relevant part, that an LMM or Directed Order Market Maker (“DOMM”) that is quoting at the NBBO may be entitled to an allocation guarantee of the greater of: an amount equal to 40% of the incoming bid or offer up to the LMM’s or DOMM’s disseminated quote size; or the LMM’s or DOMM’s share in the order of ranking. However, current Rule 6.76A-O(a)(1)(A)(ii) provides that if there are Customer orders ranked ahead of the LMM (or DOMM, as applicable), or if there is no LMM (or DOMM) quoting at the NBBO, the incoming bid or offer will be matched against orders and quotes in the Display Process strictly in the order of their ranking. The Exchange proposes a substantive difference from current rules because, on Pillar, the Exchange would no longer support DOMMs or Directed Orders. Accordingly, rule text relating to DOMMs or Directed Orders is not included in proposed Rule 6.76AP-O and, as

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<sup>52</sup> See NYSE Arca Equities Pillar Notice, supra note 9 at 28728-29.

described below, only LMM's would be entitled to the LMM Guarantee.<sup>53</sup>

Proposed Rule 6.76AP-O(a)(1) would describe the LMM Guarantee on Pillar and would provide that an LMM would be entitled to an allocation guarantee when the execution price is equal to the NBB (NBO), the LMM has a displayed quote at the NBB (NBO), and there is no displayed Customer interest in time priority at the NBBO in the Consolidated Book. If the execution would meet these conditions, which are the same as under the Exchange's current options rules, the Aggressing Order or Aggressing Quote would be matched against the quote of the LMM for an amount equal to 40% of the Aggressing Order or Aggressing Quote, up to the size of the LMM's quote (the "LMM Guarantee"). The Exchange proposes to use the term "Aggressing Order or Aggressing Quote" instead of the term "incoming bid or offer" to provide greater specificity that the LMM Guarantee would be applied against any order or quote that becomes an Aggressing Order or Aggressing Quote, which is consistent with current functionality and uses Pillar terminology to describe that same functionality. Accordingly, the LMM Guarantee would function on Pillar, as described in current Rule 6.76A-O(a)(1), except as noted above to exclude reference to Directed Orders or DOMMs. The Exchange proposes non-substantive clarifying differences to specify that the execution price must be equal to the NBBO in addition to the proposed text that the LMM must have a displayed quote at the NBBO, which adds specificity compared to existing rule text that such LMM must be "quoting at the NBBO."

Proposed Rule 6.76AP-O(a)(1)(A) would provide that if an LMM has more than

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<sup>53</sup> The Exchange proposes to add a preamble to Rule 6.88-O (Directed Orders) to provide that the Rule would not be applicable to trading on Pillar.

one quote at a price, the LMM Guarantee would be applied only to the first LMM quote in time priority, which text would add granularity and transparency to Exchange rules. This text would be new and reflects that on Pillar, the Exchange would permit multiple quotes from the same LMM at the same price and that only the first quote in time priority would be eligible for the LMM Guarantee. On the OX system, an LMM may send only one same-side quotation using the OTP associated with its status as LMM.<sup>54</sup> Under Pillar, as described below regarding proposed Rule 6.37AP-O (Market Maker Quotations), LMMs would be able to send multiple same-side quotes associated with its OTP by utilizing different order/quote entry ports (i.e., in Pillar, LMM1 can send a bid for 1.00 in XYZ over order/quote entry port 1 and another bid for 1.00 in XYZ over order/quote entry port 2 and the bid sent via order/quote entry port 2 would not replace the quote sent over order/quote entry port 1). Because an LMM using Pillar could have more than one same-side, same-priced quote in an assigned series,<sup>55</sup> proposed Rule 6.76AP-O(a)(1)(A) is necessary to provide that only one such LMM quote (the first in time) would be eligible for the LMM Guarantee, consistent with current functionality.

Proposed Rule 6.76AP-O(a)(1)(B), which is substantively identical to current Rule 6.76A-O(a)(1)(B), would provide that if an LMM is entitled to an allocation (i.e., an LMM Guarantee pursuant to proposed paragraph (a)(1)) and the Aggressing Order or

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<sup>54</sup> While not specified in the current rules, the OX system utilizes a unique identifier for LMMs to send quotes and each LMM may only send LMM quotes in their assigned series using this single unique identifier. Therefore, LMM quotes are subject to the current Rule 6.37A(a)(1) requirement that a new same-side quote sent by that LMM updates the previous bid or offer, if any. Unlike LMMs, on the OX system, Market Makers not acting as an LMM may opt to utilize multiple OTPs to send more than one same-side quote in the same assigned series. See infra note 132.

<sup>55</sup> See, e.g., infra, discussion regarding proposed Rule 6.37AP-O(a)(1).

Aggressing Quote had an original size of five (5) contracts or fewer, then such order or quote would be matched against the quote of the LMM for an amount equal to 100%, up to the size of the LMM's quote. The Exchange also proposes to add Commentary .01 to the proposed rule (which is substantively identical to Commentary .02 of current Rule 6.76A-O) to make clear that on a quarterly basis, the Exchange would evaluate what percentage of the volume executed on the Exchange comprised of orders for five (5) contracts or fewer that was allocated to LMMs and would reduce the size of the orders included in this provision if such percentage is over 40%.<sup>56</sup>

Proposed Rule 6.76AP-O(a)(1)(C) would specify that if the result of applying the LMM Guarantee is a fractional allocation of contracts, the LMM Guarantee would be rounded down to the nearest contract and if the result of applying the LMM Guarantee results in less than one contract, the LMM Guarantee would be equal to one contract. The Exchange believes that including this additional detail (which is based on current functionality) in the proposed rule would add transparency to Exchange rules.

Finally, the Exchange proposes Rule 6.76AP-O(a)(1)(D), which would provide that after applying any LMM Guarantee, the Aggressing Order or Aggressing Quote would be allocated pursuant to proposed paragraph (a) of this Rule, i.e., that such orders or quotes would be matched for execution against contra-side interest resting in the Consolidated Book according to price-time priority. This proposed text is substantively identical to Rule 6.76A-O(a)(1)(C) and uses Pillar terminology, and eliminates the now

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<sup>56</sup> See proposed Rule 6.76AP-O, Commentary .01, which will not include cross-reference that appears in the current rule Commentary .02 to Rule 6.76A-O because the Exchange determined such cross-reference was superfluous and opted to remove excess verbiage.

obsolete reference to DOMMs, Directed Orders, and the Display Order Process.

Consistent with the Exchange's proposed approach to new Rule 6.76P-O, proposed Rule 6.76AP-O would not include references to specific order types and instead would 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 6.62P-O, described below.

Proposed Rule 6.76AP-O(b) would set forth the Exchange's routing process and is intended to address the same subject as Rule 6.76A-O(c), which is currently referred to as "Step 3: Routing Away" in order processing, without any substantive differences. Under current Rule 6.76A-O(c), the Exchange will route to another Market Center any unexecuted portion of an order that is eligible to route.<sup>57</sup> Proposed Rule 6.76AP-O(b) would provide that, absent an instruction not to route, the Exchange would route marketable orders to Away Market(s) after such orders are matched for execution with any contra-side interest in the Consolidated Book in accordance with proposed paragraph (a) of this Rule regarding Order Execution. Proposed Rule 6.76AP-O(b) also uses the same Pillar terminology that is used in current Rule 7.37-E(b), which governs the Exchange's routing process on the Exchange's cash equity platform, with differences to use option trading terminology such as "Consolidated Book."

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

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<sup>57</sup> Under the current rule, each eligible order is routed "as limit order equal to the price and up to the size of the quote published by the Market Center(s)" or, if "a marketable Reserve Order, the Exchange may route such order serially as component orders, such that each component corresponds to the displayed size." See Rule 6.76AP-O(c)(1)(A), (B). In the proposed Pillar rule, the Exchange proposes to use the term "Away Market" instead of "Market Center."

are consistent with current routing functionality, but are not described in current rules:

- Proposed Rule 6.76AP-O(b)(1) would provide that an order that cannot meet the pricing parameters of proposed Rule 6.76AP-O(a) may be routed to Away Market(s) before being matched for execution against contra-side interest in the Consolidated Book. The Exchange believes that this proposed rule text, which is consistent with current functionality, provides transparency that an order may be routed before being matched for execution, for example, to prevent locking or crossing or trading through the NBBO. This rule uses Pillar terminology that is substantially the same as in Rule 7.37-E(b)(1), with a terminology difference to reference the “Consolidated Book” rather than the “NYSE Arca Book.”
- Proposed Rule 6.76AP-O(b)(2) would provide that an order with an instruction not to route would be processed as provided for in proposed Rule 6.62P-O.<sup>58</sup> As described in greater detail below, the Exchange proposes to describe how orders and quotes with an instruction not to route would be processed in proposed Rule 6.62P-O(e).
- Proposed Rule 6.76AP-O(b)(3) would provide that any order or portion thereof that has been routed would not be eligible to trade on the Consolidated 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 6.76A-O(c)(2) with no substantive differences and

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<sup>58</sup> See, e.g., *infra*, discussion regarding proposed Rule 6.62P-O(e), Orders with Instructions Not to Route.

is based in part on Pillar terminology used in Rule 7.37-E(b)(6). Similar to Rule 6.76A-O(c)(2)(A), which provides that an order routed to an Away Market is subject to the trading rules of that market and, while so routed, has no standing relative to other orders on the Exchange in the OX Book, the Exchange proposes that Rule 6.76AP-O(b)(3) would state that once routed, an order would not be eligible to trade on the Consolidated Book. The Exchange does not believe it is necessary to include the text that once routed an order would be subject to the routing destination's trading rules, as such detail is obvious and unnecessary. In addition, because, as discussed above, the working time assigned to orders that are routed is being proposed to be addressed in new Rule 6.76P-O(f)(1)(A) and (B), the Exchange believes it would be unnecessary to restate this information in new Rule 6.76AP-O.

- Proposed Rule 6.76AP-O(b)(4) would provide that requests to cancel an order that has been routed in whole or part would not be processed unless and until all or a portion of the order returns unexecuted. This proposed rule uses Pillar terminology and operates substantively the same as Rule 7.37-E(b)(7)(A). This rule represents current functionality and is based on Rule 6.76A-O(c)(2)(B), except that, unlike the current rule, the proposed rule does not state that such orders (while still routed away) are subject to the applicable trading rules of the market to which such order was routed.
- Finally, proposed Rule 6.76AP-O(c) would provide that after trading with eligible contra-side interest on the Consolidated 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 6.76P-O. This rule represents current functionality as set forth in Rule 6.76A-O generally and paragraph (c)(2)(C) as it pertains to orders that were routed away and then returned unexecuted in whole or part to the Exchange without any substantive differences. This proposed rule uses Pillar terminology and operates substantively the same as Rule 7.37-E(c).

The Exchange believes that the specific routing methodologies for an order type or modifier should be included with how the order type is defined, which will be described in proposed Rule 6.62P-O. Accordingly, the Exchange does not believe it needs to specify in proposed Rule 6.76AP-O whether an order is eligible to route, and if so, whether there are any specific routing instructions applicable to the order and therefore will not be carrying over such specifics that are currently included in Rule 6.76A-O.

In connection with proposed Rule 6.76AP-O, the Exchange proposes to add the following preamble to Rule 6.76A-O: “This Rule is not applicable to trading on Pillar.” This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rule 6.76A-O would not be applicable to trading on Pillar.

#### Proposed Rule 6.62P-O: Orders and Modifiers

Current Rule 6.62-O (Certain Types of Orders Defined) defines the order types that are currently available for options trading both on the OX system and for open outcry trading on the Exchange. The Exchange proposes that new Rule 6.62P-O would set forth the order types and modifiers that would be available for options trading both on Pillar

(i.e., electronic order entry) and in open outcry trading. The Exchange proposes to specify that Rule 6.62-O would not be applicable to trading on Pillar.

Because the Exchange proposes to use for options trading the Pillar technology that is currently used for cash equity trading, the Exchange has identified opportunities to offer additional order, quote, and modifier functionality for options trading that is based on existing functionality on cash equity trading but has not previously been available for options trading. In addition, certain order and quote types and modifiers that would be available for options trading on Pillar would be based on, or similar to, order types and modifiers available on the Exchange's cash equity market. Because there would be similar orders and modifiers on both the Exchange's cash equity and options markets using similar terminology, the Exchange proposes to structure proposed Rule 6.62P-O based on Rule 7.31-E and use similar terminology. The Exchange also proposes to title proposed Rule 6.62P-O as "Orders and Modifiers," which is the title of Rule 7.31-E.

*Primary Order Types.* Proposed Rule 6.62P-O(a) would specify the Exchange's primary order types, which would be Market Orders and Limit Orders, and is based on Rule 7.31-E(a), which sets forth the Exchange's cash equity primary order types. Similar to Rule 7.31-E(a), proposed Rule 6.62P-O(a) would also set forth the Exchange's proposed Limit Order Price Protection functionality and Trading Collars.

*Market Orders.* Proposed Rule 6.62P-O(a)(1) would define a Market Order as an unpriced order message to buy or sell a stated number of option contracts at the best price obtainable, subject to the Trading Collar assigned to the order, and would further specify that unexecuted Market Orders may be designated Day or GTC, which represents current functionality, and that unexecuted Market Orders would be ranked Priority 1 - Market

Orders.<sup>59</sup> This proposed rule text uses Pillar terminology similar to Rule 7.31-E(a)(1) to describe Market Orders for options trading, with differences to reflect options trading functionality. For example, proposed Rule 6.62P-O(a)(1) would specify the ability to designate a Market Order as GTC, which is current options trading functionality that would continue on Pillar (but which modifier is not available on the Exchange's cash equity platform).<sup>60</sup> Similarly, the Exchange proposes to reference that trading of a Market Order would be subject to the Trading Collar assigned to the order, which is similar to the third paragraph of the current definition of Market Order in Rule 6.62-O(a). As described in greater detail below, the Exchange proposes changes to its Trading Collar functionality on Pillar.

Proposed Rule 6.62P-O(a)(1) would further provide that for purposes of processing Market Orders, the Exchange would not use an adjusted NBBO.<sup>61</sup> On the

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<sup>59</sup> Market Orders are currently defined in Rule 6.62-O(a) as follows: "A Market Order is an order to buy or sell a stated number of option contracts and is to be executed at the best price obtainable when the order reaches the Exchange. Market Orders entered before the opening of trading will be eligible for trading during the Opening Auction Process. The system will reject a Market Order entered during Core Trading Hours if at the time the order is received there is not an NBB and an NBO ("collectively NBBO") for that series as disseminated by OPRA. If the Exchange receives a Market Order to buy (sell) and there is an NBB (NBO) but no NBO (NBB) as disseminated by OPRA at the time the order is received, the order will be processed pursuant to Rule 6.60-O(a) -Trade Collar Protection."

<sup>60</sup> The ability for a Market Order to be designated Day or GTC is based on current Rules 6.62-O(m) (describing a "Day Order") and 6.62-O(n) (describing a "Good-till-Cancelled Order" or "GTC Order") and Commentary .01 to Rule 6.62-O, which requires all orders to be either "day," "immediate or cancel," or "good 'til cancelled." As described in more detail below, on Pillar, the time-in-force designation, e.g., Day or GTC, would be a modifier that can be added to an order type and would not be described in the rules as a separate order type. Similar to Rule 7.31-E, the Exchange would specify which time-in-force designations are available for each order type.

<sup>61</sup> See discussion supra, regarding the proposed Rule 1.1 definition of "NBBO" and

Exchange's cash equity market, the Exchange does not use an adjusted NBBO when processing Market Orders. The Exchange proposes to similarly not use an adjusted NBBO when processing Market Orders on its options market, which would be new for options trading. The Exchange believes that because Market Orders trade immediately on arrival, using an unadjusted NBBO would provide a price protection mechanism by using a more conservative view of the NBBO.

Proposed Rule 6.62P-O(a)(1)(A) would provide that a Market Order that arrives during continuous trading would be rejected, or that was routed, returns unexecuted, and has no resting quantity to join would be cancelled if it fails the validations specified in proposed Rule 6.62P-O(a)(1)(A)(i) - (iv). This proposed rule is based in part on Rule 6.62-O(a), which specifies that a Market Order will be rejected during Core Trading Hours if, when received, there is no NBBO for the applicable option series as disseminated by OPRA, with differences to use Pillar terminology and to expand the circumstances when a Market Order would be rejected beyond the absence of an NBBO. As proposed, a Market Order would be rejected (or cancelled if routed first) if:<sup>62</sup>

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that when using an unadjusted NBBO, the NBBO would not be adjusted based on information about orders the Exchange sends to Away Markets, execution reports received from those Away Markets, and certain orders received by the Exchange. The Exchange believes that the unadjusted NBBO is a more conservative view of the NBBO because the Exchange waits for an update from OPRA rather than updating it based on its view of the NBBO.

<sup>62</sup> The Exchange will also reject a Market Order if it is entered when the underlying NMS stock is either in a Limit State or a Straddle State, which is current functionality. See Rule 6.65A-O(a)(1). The Exchange proposes a non-substantive amendment to Rule 6.65A-O(a)(1) to add a cross reference to proposed Rule 6.62P-O(a)(1). The Exchange also proposes to amend the second sentence of Rule 6.65A-O(a)(1) to remove references to trading collars, and instead specify that the Exchange would cancel any resting Market Orders if the underlying NMS stock enters a Limit State or a Straddle State and would notify OTP Holders of the reason for such cancellation. This proposed change would

- There is no NBO (proposed Rule 6.62P-O(a)(1)(A)(i)). This criterion is similar to the current rule, which provides that a Market Order will be rejected if there is no NBO. The Exchange believes that in the absence of an NBO, Market Orders should not trade as there is no market for the option.
- There is no NBB and the NBO is higher than \$0.50 (for sell Market Orders only). The Exchange further proposes that if there is no NBB and the NBO is \$0.50 or below, a Market Order to sell would not be rejected and would have a working price and display price one MPV above zero and would not be subject to a Trading Collar (proposed Rule 6.62P-O(a)(1)(A)(ii)). The Exchange believes that if there is no NBB, but an NBO \$0.50 or below, the Exchange would be able to price that Market Order to sell at one MPV above zero. The functionality described in this proposed rule would be new and is designed to provide an opportunity for an arriving sell Market Order to trade when the NBO is below \$0.50. The proposed rule would further provide that a Market Order to sell would be cancelled if it was assigned a Trading Collar, routed, and when it returns unexecuted, it has no resting portion to join and there is no NBB, regardless of the price of the NBO. Accordingly, in this scenario, if there is no NBB and there is an NBO that is \$0.50 or below, the returned, unexecuted Market Order would be cancelled rather than displayed at one

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describe both how Market Orders function today on the OX system and how they would be processed on Pillar.

MPV above zero.

- There are no contra-side Market Maker quotes on the Exchange or contra-side ABBO, provided that a Market Order to sell would be accepted as provided for in proposed Rule 6.62P-O(a)(1)(A)(ii) (proposed Rule 6.62P-O(a)(1)(A)(iii)). This functionality would be new and is designed to prevent a Market Order from trading at prices that may not be current for that series in the absence of Market Maker quotations or an ABBO.
- The NBBO is not locked or crossed, and the spread is equal to or greater than a minimum amount based on the midpoint of the NBBO (proposed Rule 6.62P-O(a)(1)(A)(iv)). The proposed “wide-spread” parameter for purposes of determining whether to reject a Market Order is similar to the wide-spread parameter applied when determining whether a trade is a Catastrophic Error, as set forth in Rule 6.87-O(b)(3), with two differences. First, as shown below, the lowest bucket would be \$0.00 up to and including \$2.00, instead of \$0.00 to \$1.99, which means the \$2.00 price point would be included in this bucket. The Exchange proposes this difference because it would simplify the application to have the break points after whole dollar price points. Second, the wide-spread calculation would be based off of the midpoint of the NBBO, rather than off of the bid price, as follows:

The midpoint of the NBBO	Spread Parameter
\$0.00 to \$2.00	\$0.75
Above \$2.00 to and including \$5.00	\$1.25

Above \$5.00 to and including \$10.00	\$1.50
Above \$10.00 to and including \$20.00	\$2.50
Above \$20.00 to and including \$50.00	\$3.00
Above \$50.00 to and including \$100.00	\$4.50
Above \$100.00	\$6.00

The Exchange notes that this proposed protection for Market Orders is a new risk control designed to protect against erroneous executions and use of the midpoint of the NBBO as a basis for a price protection mechanism is consistent with similar functionality on other options markets.<sup>63</sup>

Proposed Rule 6.62P-O(a)(1)(B) would provide that an Aggressing Market Order to buy (sell) would trade with all orders or quotes to sell (buy) on the Consolidated Book priced at or below (above) the Trading Collar before routing to Away Market(s) at each price.<sup>64</sup> Proposed Rule 6.62P-O(a)(1)(B) would further provide that after trading or routing, or both, a Market Order would be displayed at the Trading Collar, subject to proposed Rule 6.62P-O(a)(1)(C), which is consistent with current functionality that Market Orders would be displayed at a Trading Collar, per Rule 6.60-O(a)(5).

Proposed Rule 6.62P-O(a)(1)(C) would provide that a Market Order would be cancelled before being displayed if there are no remaining contra-side Market Maker quotes on the Exchange or contra-side ABBO. Proposed Rule 6.62P-O(a)(1)(D) would

<sup>63</sup> See, e.g., Cboe Rule 5.34(a)(2) (setting forth the “Market Order NBBO Width Protection” wherein Cboe cancels or rejects market orders submitted “when the NBBO width is greater than x% of the midpoint of the NBBO,” subject to minimum and maximum dollar values determined by Cboe).

<sup>64</sup> The Exchange has defined an Aggressing Order in proposed Rule 6.76P-O(a)(5). An Aggressing Market Order is a Market Order that is an Aggressing Order.

provide that a Market Order would be cancelled after being displayed at its Trading Collar if there ceases to be a contra-side NBBO. These proposed cancellation events are similar to functionality described in Rule 6.60-O(a)(4)(E), which provides that “[t]he Exchange will cancel a Market Order, or the balance thereof, that has been collared pursuant to paragraph (a)(1)(A) or (B) [of that Rule] above, if after exhausting trading opportunities within the Collar Range, the Exchange determines there are no quotes on the Exchange and/or no interest on another market in the affected option series.” As proposed, in Pillar, the Exchange would cancel a Market Order in similar circumstances, with proposed modifications that a Market Order would be cancelled only if there are no remaining contra-side Market Maker quotes on the Exchange or if there is no contra-side ABBO. The Exchange believes that this proposed change from the current rule would provide that a Market Order would be cancelled when there is no contra-side interest against which to determine the price at which such order could trade.

Finally, proposed Rule 6.62P-O(a)(1)(E) would provide that a resting, displayed Market Order that is locked or crossed by an Away Market would be routed to that Away Market. Because Market Orders are intended to trade at the best price obtainable, the Exchange proposes to route displayed Market Orders if they are locked or crossed by an Away Market.<sup>65</sup> This proposed Rule is based on current functionality, which is not described in current rule. Therefore, the proposed rule is designed to promote clarity and transparency in Exchange rules.

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<sup>65</sup> As described above for proposed Rule 6.76P-O(b)(3), displayed interest other than displayed Market Orders would stand their ground if locked or crossed by an Away Market. The Exchange would provide an option for Limit Orders to instead be routed, see discussion infra, regarding proposed Rule 6.62P-O(i)(1) and the proposed Proactive if Locked/Crossed Modifier.



*Limit Orders.* Proposed Rule 6.62P-O(a)(2) would define a Limit Order as an order message to buy or sell a stated number of option contracts at a specified price or better, subject to Limit Order Price Protection and the Trading Collar assigned to the order, and that a Limit Order may be designated Day, IOC, or GTC. In addition, unless otherwise specified, the working price and the display price of a Limit Order would be equal to the limit price of the order, it is eligible to be routed, and it would be ranked under the proposed category of “Priority 2 - Display Orders.” This proposed rule text uses Pillar terminology that is based in part on Rule 7.31-E(a)(2). The ability for a Limit Order to be designated IOC, Day, or GTC is based on current Rules 6.62-O(k), (m) and (n), respectively, and therefore would differ from the cash equity rules because (unlike on the cash equity platform) a Limit Order could be designated GTC, but is consistent with current options trading functionality. In addition, unlike cash equity trading, but consistent with current options trading functionality, Limit Orders would be subject to trading collars. As described in more detail below, on Pillar, trading collars will differ from both current options trading collar functionality and trading collar functionality available on the Exchange’s cash equity platform (which is available only for Market Orders).

Proposed Rule 6.62P-O(a)(2)(A) would provide that a marketable Limit Order to buy (sell) received by the Exchange would trade with all orders and quotes to sell (buy) on the Consolidated Book priced at or below (above) the NBO (NBB) before routing to the ABO (ABB) and may route to prices higher (lower) than the NBO (NBB) only after trading with orders and quotes to sell (buy) on the Consolidated Book at each price point, and once no longer marketable, the Limit Order would be ranked and displayed on the

Consolidated Book. This proposed rule text is based on Rule 6.62-O(b), which provides that a “‘marketable’ limit order is a Limit Order to buy (sell) at or above (below) the NBBO.” The proposed rule text is more specific and uses the same Pillar terminology used to describe Limit Orders in Rule 7.31-E(a)(2)(A) for cash equity trading. In addition, proposed Rule 6.62P-O(a)(2)(A) would use terminology specific to options trading (i.e., the proposed rule refers to the Consolidated Book rather than the NYSE Arca Book as well as to the NBBO as opposed to the PBBO).

*Limit Order Price Protection.* The Exchange proposes to describe its proposed Limit Order Price Protection functionality in proposed Rule 6.62P-O(a)(3). On the OX system, the concept of “Limit Order Price Protection” for orders is set forth in Rule 6.60-O(b) and is called the “Limit Order Filter.” For quotes, price protection filters are described in Rule 6.61-O. The proposed “Limit Order Price Protection” on Pillar would be applicable to both Limit Orders and quotes and, at a high level, would work similarly to how the current price protection mechanisms function on the OX system because a Limit Order or quote would be rejected if it is priced at a specified threshold away from the contra-side NBB or NBO.<sup>66</sup> The Exchange proposes to enhance the functionality for options trading on Pillar by using new thresholds and reference prices (as discussed

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<sup>66</sup> Current Rule 6.60-O(b) provides that unless otherwise determined by the Exchange, the specified threshold percentage for orders is 100% when the contra-side NBB or NBO is priced at or below \$1.00 and 50% when the contra-side NBB or NBO is priced above \$1.00. Current Rule 6.61-O(a)(1)(A) provides that unless otherwise determined by the Exchange, the specified threshold for Market Maker bids is \$1.00 if the contra-side NBO is priced at or below \$1.00 and for Market Maker offers no limit if the NBB is priced at or below \$1.00. Current Rule 6.61-O(a)(1)(B) provides that unless otherwise determined by the Exchange, the specified threshold for Market Maker bids is 50% if the contra-side NBO (NBB) is priced above \$1.00.

further below) that would be applicable to both orders and quotes. The concept of a “Reference Price” as used in connection with risk controls would be new for options but consistent with Pillar terminology for the Exchange’s cash equity market as well as how this term is used on other option exchanges.<sup>67</sup> Thus, this term is not new or novel.

Proposed Rule 6.62P-O(a)(3)(A) would provide that each trading day, a Limit Order or quote to buy (sell) would be rejected or cancelled (if resting) if it is priced at a “Specified Threshold,” described below, equal to or above (below) the Reference Price, rounded down to the nearest price within the MPV for the Series (“Limit Order Price Protection”). In other words, a Limit Order designated GTC would be re-evaluated for Limit Order Price Protection on each day that it is eligible to trade and would be cancelled if the limit price is through the Specified Threshold. In addition, the proposed rounding down is consistent with current functionality, is standard on Pillar for price protection mechanisms, and is based on how Limit Order Price Protection is calculated on the Exchange’s cash equity market if it is not within the MPV for the security, as described in the last sentence of Rule 7.31-E(a)(2)(B). The proposed text would therefore promote granularity in Exchange rules. The proposed rule would further provide that Cross Orders and Limit-on-Open (“LOO”) Orders (described below) as well as orders represented in open outcry (except CTB Orders), would not be subject to Limit Order Price Protection and that Limit Order Price Protection would not be applied to a Limit Order or quote if there is no Reference Price, which is consistent with current

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<sup>67</sup> See, e.g., Cboe Rule 5.6(c) (setting forth the “reference price” applicable to orders for which Cboe delta-adjusts the execution price after the market close). As discussed *infra*, the Exchange likewise proposes to use the term Reference Price in connection with Trading Collars (proposed Rule 6.62P-O(a)(4)) and other risk checks (proposed Rule 6.41P-O).

functionality.

- Proposed Rule 6.62P-O(a)(3)(A)(i) would provide that a Limit Order or quote that arrives when a series is open would be evaluated for Limit Order Price Protection on arrival.
- Proposed Rule 6.62P-O(a)(3)(A)(ii) would provide that a Limit Order or quote received during a pre-open state would be evaluated for Limit Order Price Protection after an Auction concludes.<sup>68</sup>
- Proposed Rule 6.62P-O(a)(3)(A)(iii) would provide that a Limit Order or quote that was resting on the Consolidated Book before a trading halt would be evaluated for Limit Order Price Protection again after the Trading Halt Auction concludes.

The Exchange believes that these proposed rules would add clarity and transparency to when the Exchange would evaluate a Limit Order or quote for Limit Order Price Protection.

Proposed Rule 6.62P-O(a)(3)(B) would specify that the Reference Price for calculating Limit Order Price Protection for an order or quote to buy (sell) would be the NBO (NBB), provided that, immediately following an Auction, the Reference Price would be the Auction Price, or if none, the upper (lower) Auction Collar price, or, if none, the NBO (NBB). The Exchange believes that adjusting the Reference Price for Limit Order Price Protection immediately following an Auction would ensure that the most up-to-date price would be used to assess whether to cancel a Limit Order that was

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<sup>68</sup> See discussion infra, regarding proposed Rule 6.64P-O(a) and proposed definitions for the terms “Auction,” “Auction Price,” “Auction Collar,” “pre-open state,” and “Trading Halt Auction.”

received during a pre-open state or would be reevaluated after a Trading Halt Auction. The Exchange further proposes that for purposes of calculating Limit Order Price Protection, the Exchange would not use an adjusted NBBO, which use of an unadjusted NBBO is consistent with how Limit Order Price Protection currently functions on the Exchange's cash equity market, as described in Rule 7.31-E(a)(2)(B).<sup>69</sup> The Exchange believes that using an unadjusted NBBO for risk protection mechanisms is consistent with the goal of such mechanisms to prevent erroneous executions by using a more conservative view of the NBBO.

Proposed Rule 6.62P-O(a)(3)(C) would specify the Specified Threshold and would provide that unless determined otherwise by the Exchange and announced to OTP Holders and OTP Firms by Trader Update, the Specified Threshold applicable to Limit Order Price Protection would be:

<b>Reference Price</b>	<b>Specified Threshold</b>
\$0.00 to \$1.00	\$0.30
\$1.01 to \$10.00	50%
\$10.01 to \$20.00	40%
\$20.01 to \$50.00	30%
\$50.01 to \$100.00	20%
\$100.01 and higher	10%

The Exchange believes that it would provide a more reasonable and deterministic trading outcome to use a fixed dollar amount (of \$0.30) rather than a percentage calculation when the Reference Price is \$1.00 or less. The Exchange believes that the balance of the proposed thresholds, which are percentages tied to the amount of the

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<sup>69</sup> References to the NBBO, NBB, and NBO in Rule 7.31-E refer to using a determination of the national best bid and offer that has not been adjusted.

Reference Price that decrease as that Price increases, are more granular than those currently specified in Rules 6.60-O(b) (for orders) and 6.61-O(a)(1)(A) and (B) (for quotes) and therefore determining whether to reject a Limit Order or quote will be more tailored to the applicable Reference Price.<sup>70</sup> In addition, consistent with Rules 6.60-O(b) and 6.61-O(a)(1), the Exchange proposes that these thresholds could change, subject to announcing the changes by Trader Update. Providing flexibility in Exchange rules regarding how the Specified Thresholds would be set is consistent with the rules of other options exchanges.<sup>71</sup>

*Trading Collar.* Trading Collars on the OX system are currently described in Rule 6.60-O(a). Under the current rules, incoming Market Orders and marketable Limit Orders are limited in having an immediate execution if they would trade at a price greater than one “Trading Collar.” A collared order is displayed at that price and then can be repriced to new collars as the NBBO updates. On Pillar, the Exchange proposes Trading Collar functionality that would be new for Pillar and is not currently available on the Exchange’s cash equity platform.

Unlike current options trading collar functionality, which permits a collared order

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<sup>70</sup> On the OX system, the thresholds for price protection on orders and quotes (per Rules 6.60-O(b) and 6.61-O(a)(1), respectively), depend solely on whether the contra-side NBBO (i.e., the reference price) is more or less than \$1.00. The Exchange believes the additional Reference Price levels -- and corresponding Specified Thresholds -- would make the application of the Limit Order Price Protection more precise to the benefit of all market participants.

<sup>71</sup> See, e.g., Cboe Rule 5.34(a)(4) (describing the “Drill-Through Protection” and that Cboe “determines the buffer amount on a class and premium basis” without specifying the amount of such buffers); and the Nasdaq Stock Market LLC (“Nasdaq”) Options 3, Section 15(a)(1)(B) (specifying that “Order Price Protection” can be a configurable dollar amount not to exceed \$1.00 through such contra-side Reference BBO as specified by Nasdaq and announced via an Options Trader Alert).

to be repriced, as proposed, a Market Order or Limit Order would be assigned a single Trading Collar that would be applicable to that order until it is fully executed or cancelled (unless the series is halted). The new proposed Trading Collar would function as a ceiling (for buy orders) or floor (for sell orders) of the price at which such order could be traded, displayed, or routed. The Exchange further proposes that when an order is working at its assigned Trading Collar, it would cancel if not executed within a specified time period.

More specifically, proposed Rule 6.62P-O(a)(4) would provide that a Market Order or Limit Order to buy (sell) would not trade or route to an Away Market at a price above (below) the Trading Collar assigned to that order. As further proposed, Auction-Only Orders, Limit Orders designated IOC or FOK, Cross Orders, ISOs, and Market Maker quotes would not be subject to Trading Collars, which interest is excluded under current functionality.<sup>72</sup> The proposed rule, however, would explicitly add reference to Auction-Only Orders, Cross Orders, and ISOs being excluded from Trading Collars, which new detail would add granularity to the proposed rule and would also address that the proposed Day ISOs, described below, would not be subject to Trading Collars. In addition, Trading Collars would not be applicable during Auctions but (as described below) would be calculated after such Auction concludes.

Proposed Rule 6.62P-O(a)(4)(A) would provide that a Trading Collar assigned to an order would be calculated once per trading day and would be updated only if the series is halted. Accordingly, an order designated GTC would receive a new Trading Collar

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<sup>72</sup> See Rule 6.60-O(a)(3) (“Trade Collar Protection does not apply to quotes, IOC Orders, AON Orders, FOK Orders, and NOW Orders.”).

each day, but that Trading Collar would not be updated intraday unless the series is halted. Proposed Rule 6.62P-O(a)(4)(A)(i) would provide that an order that is received during continuous trading would be assigned a Trading Collar before being processed for either trading, repricing, or routing and that an order that is routed on arrival and returned unexecuted would use the Trading Collar previously assigned to it. Proposed Rule 6.62P-O(a)(4)(A)(ii) would provide that an order received during a pre-open state would be assigned a Trading Collar after an Auction concludes. Finally, proposed Rule 6.62P-O(a)(4)(A)(iii) would provide that the Trading Collar for an order resting on the Consolidated Book before a trading halt would be calculated again after the Trading Halt Auction concludes. The Exchange believes that because Trading Collars are intended as a price protection mechanism, updating the Trading Collar after a series has reopened would allow for the Trading Collar assigned to an order to reflect more updated pricing.

Proposed Rule 6.62P-O(a)(4)(B) would provide that the Reference Price for calculating the Trading Collar for an order to buy (sell) would be the NBO (NBB), which is consistent with how trading collars are currently determined for Limit Orders, with differences to use this Reference Price for all orders and for how the Reference Price would be determined after an Auction.<sup>73</sup> The Exchange proposes to use the Pillar term “Reference Price” to describe what would be used for Trading Collar calculations.<sup>74</sup> The proposed rule would further provide that for Auction-eligible orders to buy (sell) that were received during a pre-open state or orders that were re-assigned a Trading Collar

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<sup>73</sup> Under current rules, trading collars are calculated based off of the contra-side NBBO. See Rule 6.60-O(a)(1)(A)(ii).

<sup>74</sup> See discussion regarding Cboe Rule 5.34(a)(4) and Nasdaq Options 3, Section 15(a)(1)(B), supra note 71.



after a trading halt, the Reference Price would be the Auction Price or, if none, the upper (lower) Auction Collar price or, if none, the NBO (NBB). For reasons similar to those described above, the Exchange proposes to use a more conservative view of the NBBO for purposes of risk protection mechanisms. Therefore, the Exchange proposes that for purposes of calculating a Trading Collar, the Exchange would not use an adjusted NBBO. Proposed Rule 6.62P-O(a)(4)(B)(i) would further provide that a Trading Collar would not be assigned to a Limit Order if there is no Reference Price at the time of calculation, which is consistent with current functionality and the proposed rule would add granularity to Exchange rules.

Proposed Rule 6.62P-O(a)(4)(C) would describe how the Trading Collar would be calculated and would provide that the Trading Collar for an order to buy (sell) would be a specified amount above (below) the Reference Price, as follows: (1) for orders with a Reference Price of \$1.00 or lower, \$0.25; or (2) for orders with a Reference Price above \$1.00, the lower of \$2.50 or 25%. Trading Collars under the current rule are based on a specified dollar amount (set forth in four tranches).<sup>75</sup> The Exchange believes the proposed functionality (set forth in two tranches) would tailor the Trading Collar calculations with either a specified dollar amount or percentage, depending on the Reference Price of the order, while at the same time providing that the thresholds would be within the current parameters for determining whether a trade is an Obvious Error or

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<sup>75</sup> Under the current rule, the Trading Collar for buy (sell) orders is as follows: \$0.25 for each option contract for which the NBB (NBO) is less than \$2.00; \$0.40 where the NBB (NBO) is between \$2.00 - \$5.00; \$0.50 where the NBB (NBO) is between \$5.01 - \$10.00; \$0.80 where the NBB (NBO) is between \$10.01 but does not exceed - \$20.00; and \$1.00 when the NBB (NBO) is \$20.01 or more.

Catastrophic Error.<sup>76</sup> Proposed Rule 6.62P-O(a)(4)(C)(i) would further provide that if the calculation of a Trading Collar would not be in the MPV for the series, it would be rounded down to the nearest price within the applicable MPV, which is consistent with current functionality and based on how Trading Collars are calculated on the Exchange's cash equity market, as described in Rule 7.31-E(a)(1)(B). Proposed Rule 6.62P-O(a)(4)(C)(ii) would further provide that for orders to sell, if subtracting the Trading Collar from the Reference Price would result in a negative number, the Trading Collar for Limit Orders would be the limit price and the Trading Collar for Market Orders would be one MPV above zero, which would provide more granularity in Exchange rules and would ensure that there will be a Trading Collar calculated for low-priced orders to sell.

Proposed Rule 6.62P-O(a)(4)(D) would describe how the Trading Collar would be applied and would provide that if an order to buy (sell) would trade or route above (below) the Trading Collar or would have its working price repriced to a Trading Collar that is below (above) its limit price, the order would be added to the Consolidated Book at the Trading Collar for 500 milliseconds and if not traded within that period, would be cancelled. In addition, once the 500-millisecond timer begins for an order, the order would be cancelled at the end of the timer even if it repriced or has been routed to an Away Market during that period, in which case any portion of the order that is returned unexecuted would be cancelled.

The Exchange believes that the proposed Trading Collar functionality is designed to provide a similar type of order protection as is currently available (as described in Rule

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<sup>76</sup> See Rules 6.87-O(c)(1) (thresholds for Obvious Errors) and 6.87-O(d)(1) (thresholds for Catastrophic Errors).

6.60-O(a)) because it would limit the price at which a marketable order could be traded, routed, or displayed. The Exchange believes that the proposed differences are designed to simplify the functionality by applying a static ceiling price (for a buy order) or floor price (for a sell order) at which such order could be traded or routed that would be determined at the time of entry (or after a series opens or reopens) and would be applicable to the order until it is traded or cancelled. The Exchange believes that the proposed functionality would provide greater determinism to an OTP Holder or OTP Firm of the Trading Collar that would be applicable to a Market Order or Limit Order and when such order may be cancelled if it reaches its Trading Collar.

*Time in Force Modifiers.* Proposed Rule 6.62P-O(b) would set forth the time-in-force modifiers that would be available for options trading on Pillar and uses Pillar terminology similar to that used in Rule 7.31-E(b), with differences to offer time-in-force modifiers currently available for options trading that are not available for cash equity trading. The Exchange proposes to offer the same time-in-force modifiers that are currently available for options trading on the Exchange and use Pillar terminology to describe the functionality. As noted above, the Exchange proposes to describe the Time in Force Modifiers in proposed Rule 6.62P-O(b), and then specify for each order type which Time in Force Modifiers would be available for such orders or quotes.

*Day Modifier.* Proposed Rule 6.62P-O(b)(1) would provide that any order or quote to buy or sell designated Day, if not traded, would expire at the end of the trading day on which it was entered and that a Day Modifier cannot be combined with any other Time in Force Modifier. This proposed rule text uses Pillar terminology based on Rule 7.31-E(b)(1) with one difference to reference “quotes” in addition to orders. This

proposed functionality would operate no differently than how a “Day Order,” as described in Rule 6.62-O(m), currently functions.

*Immediate-or-Cancel (“IOC”) Modifier.* Proposed Rule 6.62P-O(b)(2) would provide that a Limit Order may be designated IOC or Routable IOC, as described in proposed Rules 6.62P-O(b)(2)(A) and (B) and that a Limit Order designated IOC would not be eligible to participate in any Auctions. This proposed rule text is based on the first and third sentences of Rule 7.31-E(b)(2) without any differences and makes explicit current (but not defined) functionality.<sup>77</sup> The Exchange proposes to use Pillar terminology based on Rule 7.31-E(b)(2) to describe this functionality.

Proposed Rule 6.62P-O(b)(2)(A) would define a “Limit IOC Order” as a Limit Order designated IOC that would be traded in whole or in part on the Exchange as soon as such order is received, and the unexecuted quantity would be cancelled and that a Limit IOC Order does not route. This proposed rule text uses Pillar terminology based on Rule 7.31-E(b)(2)(A) without any substantive differences. The proposed Pillar Limit IOC Order would function the same as an “Immediate-or-Cancel Order (IOC Order),” as currently described in Rule 6.62-O(k), without any differences.

Proposed Rule 6.62P-O(b)(2)(B) would define a “Limit Routable IOC Order” as a Limit Order designated Routable IOC that would be traded in whole or in part on the Exchange as soon as such order is received, and the unexecuted quantity routed to Away Market(s) and that any quantity not immediately traded either on the Exchange or an

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<sup>77</sup> The proposed rule does not include the second sentence of Rule 7.31-E(b)(2), which provides that the “IOC Modifier will override any posting or routing instructions of orders that include the IOC Modifier,” as this functionality is not applicable to options because an order that is not eligible to include an IOC Modifier would be rejected on Pillar.

Away Market would be cancelled. This proposed rule text uses Pillar terminology based on Rule 7.31-E(b)(2)(B) without any substantive differences. The proposed Pillar Limit Routable IOC Order is also based on the “NOW Order,” as currently described in Rule 6.62-O(o) and uses Pillar terminology.

*Fill-or-Kill (“FOK”) Modifier:* Proposed Rule 6.62P-O(b)(3) would provide that a Limit Order designated FOK would be traded in whole on the Exchange as soon as such order is received, and if not so traded is to be cancelled and that a Limit Order designated FOK does not route and does not participate in any Auctions. The Exchange does not offer the FOK Modifier on its cash equity market, and this proposed rule uses Pillar terminology to offer the same functionality that is currently described in Rule 6.62-O(l) as the “Fill-or-Kill Order (FOK Order)” without any substantive differences.

*Good-‘Til-Cancelled (“GTC”) Modifier.* Proposed Rule 6.62P-O(b)(4) would provide that a Limit or Market Order designated GTC remains in force until the order is filled, cancelled, the MPV in the series changes overnight, the option contract expires, or a corporate action results in an adjustment to the terms of the option contract. The Exchange does not offer the GTC Modifier on its cash equity market, and this proposed rule uses Pillar terminology to offer the same functionality that is currently described in Rule 6.62-O(n) as the “Good-Till-Cancelled (GTC Order),” with the substantive difference that the proposed text makes clear (consistent with current functionality) that such orders may be cancelled if the MPV changes overnight. Otherwise, the proposed Rule describes

the same functionality that is currently described in Rule 6.62-O(n) as the “Good-Till-Cancelled (GTC Order).”

Auction-Only Orders. Proposed Rule 6.62P-O(c) would define an “Auction-Only Order” as a Limit Order or Market Order that is to be traded only in an Auction pursuant to Rule 6.64P-O,<sup>78</sup> which uses Pillar terminology based on Rule 7.31-E(c) in lieu of the current description of an “Opening Only Order” set forth in Rule 6.62-O(r), without any functional differences to how such orders trade on Pillar.<sup>79</sup> The proposed rule would further provide that an Auction-Only Order would not be accepted when a series is opened for trading (i.e., would be accepted only during a pre-open state, which includes a trading halt) and any portion of an Auction-Only Order that is not traded in a Core Open Auction or Trading Halt Auction would be cancelled. This represents current functionality.<sup>80</sup> The proposed rule is designed to provide clarity and uses Pillar terminology from both the last sentence of Rule 7.31-E(c)(1) and the last sentence of Rule 7.31-E(c)(2) for options trading.

Proposed Rule 6.62P-O(c)(1) would define a “Limit-on-Open Order (‘LOO Order’)” as a Limit Order that is to be traded only in an Auction. This proposed rule uses Pillar terminology based on Rule 7.31-E(c)(1) to describe functionality that would be no different from current functionality, as described in Rule 6.62-O(r).

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<sup>78</sup> See discussion infra, regarding proposed Rule 6.64P-O and definitions relating to Auctions. As proposed, an “Auction” includes the opening or reopening of a series for trading either on a trade or quote. See proposed Rule 6.64P-O(a)(5).

<sup>79</sup> Rule 6.62-O(r) defines an “Opening Only Order” as “a Market Order or Limit Order which is to be executed in whole or in part during the opening auction of an options series or not at all. Any portion not so executed is to be treated as cancelled.” Per Rule 6.64-O(d), the Exchange utilizes the same process for orders eligible to participate in the opening or reopening (following a trading halt) of a series.

<sup>80</sup> See Rule 6.62-O(r) (providing that any portion of an Opening Only Order “not so executed is to be treated as cancelled.”)

Proposed Rule 6.62P-O(c)(2) would define a “Market-on-Open Order (‘MOO Order’)” as a Market Order that is to be traded only in an Auction (whether a Core Open Auction or Trading Halt Auction, per proposed Rule 6.64P-O(a)(1)(A), (B)). This proposed rule uses Pillar terminology based on Rule 7.31-E(c)(2) to describe functionality for options that would be no different from current functionality, as described in Rule 6.62-O(r).

Proposed Rule 6.62P-O(c)(3) would define an “Imbalance Offset Order (‘IO Order’).” The Exchange currently offers an IO Order for participation in Trading Halt Auctions on its cash equity market but does not offer this order type for options trading on the OX system. For cash equity trading, the IO Order is a conditional order type that is eligible to participate in a Trading Halt Auction only if it would offset the imbalance. To provide OTP Holders and OTP Firms with greater flexibility for options trading on Pillar, the Exchange proposes to offer more expansive functionality than is currently available for cash equity trading and to offer the IO Order for both Core Open Auctions and Trading Halt Auctions.

As proposed, the IO Order would function no differently than how an IO Order currently functions on the Exchange’s cash equity market (except that it would be eligible to trade in all Auctions). Accordingly, proposed Rule 6.62P-O(c)(3) would define an IO Order as a Limit Order that is to be traded only in an Auction, which is based on Rule 7.31-E(c)(5), with a difference that for options trading, it would also be available for Core Open Auctions.

- Proposed Rule 6.62P-O(c)(3)(A) would provide that an IO Order would participate in an Auction only if: (1) there is an Imbalance in the series on

the opposite side of the market from the IO Order after taking into account all other orders and quotes eligible to trade at the Indicative Match Price; and (2) the limit price of the IO Order to buy (sell) would be at or above (below) the Indicative Match Price. This proposed text is based on Rule 7.31-E(c)(5)(B) except that it includes reference to quotes, which are unique to options trading, and does not limit the order type to Trading Halt Auctions.

- Proposed Rule 6.62P-O(c)(3)(B) would provide that the working price of an IO Order to buy (sell) would be adjusted to be equal to the Indicative Match Price, provided that the working price of an IO Order would not be higher (lower) than its limit price. This proposed text is based on Rule 7.31-E(c)(5)(C) without any differences.

Orders with a Conditional or Undisplayed Price and/or Size. Proposed Rule 6.62P-O(d) would set forth the orders with a conditional or undisplayed price and/or size that would be available for options trading on Pillar. On Pillar, the Exchange proposes to offer the same type of orders that are available in the OX system and that are currently described in Rule 6.62-O(d) as a “Contingency Order or Working Order,” with changes as described below.<sup>81</sup>

*Reserve Order.* Reserve Orders are currently defined in Rule 6.62-O(d)(3). The Exchange proposes that for options traded on Pillar, Reserve Orders would function

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<sup>81</sup> As discussed, supra, regarding proposed Rule 6.76P-O(g), the Exchange proposes to include details about ranking of orders and quotes with contingencies in this proposed Rule 6.62P-O(d) using the Pillar priority scheme. Also, as discussed infra, see e.g., note 44, the ranking and priority of quotes under Pillar is consistent with handling on the OX system unless otherwise noted herein.



similarly to how Reserve Orders function on its cash equity market, as described in Rule 7.31-E(d)(1), with differences described below. Accordingly, the Exchange proposes that proposed Rule 6.62P-O(d)(1), which would define Reserve Orders for options trading on Pillar, would use Pillar terminology based on Rule 7.31-E(d)(1), with differences to reflect differences in options and cash equity trading. For example, options trading does not have a concept of “round lot” or “odd lot” trading, and therefore the proposed options trading version of the Rule would not include a description of behavior that correlates to such functionality.

Proposed Rule 6.62P-O(d)(1) would define a Reserve Order as a Limit Order with a quantity of the size displayed and with a reserve quantity of the size (“reserve interest”) that is not displayed and that the displayed quantity of a Reserve Order is ranked under the proposed category of “Priority 2 - Display Orders” and the reserve interest is ranked under the proposed category of “Priority 3 - Non-Display Orders.” This proposed rule text is based on Rule 7.31-E(d)(1) without any differences. This proposed rule text is also consistent with Rule 6.76-O(a)(1)(B) and (a)(2), with orders ranked under the proposed category of “Priority 2 - Display Orders” functioning the same as orders in the current “Display Order Process” and orders ranked under the proposed category of “Priority 3 - Non-Displayed Orders” functioning the same as orders in the current “Working Order Process.” Proposed Rule 6.62P-O(d)(1) would further provide that both the display quantity and the reserve interest of an arriving marketable Reserve Order would be eligible to trade with resting interest in the Consolidated Book or route to Away Markets, unless designated as a Non-Routable Limit Order, which is based on the third sentence of Rule 7.31-E(d)(1) with a non-substantive difference to add reference to Non-

Routable Limit Order.

Proposed Rule 6.62P-O(d)(1) would further provide that the working price of the reserve interest of a resting Reserve Order to buy (sell) would be adjusted in the same manner as a Non-Displayed Limit Order, as provided for in paragraph (d)(2)(A) of this Rule, provided that it would never be priced higher (lower) than the working price of the display quantity of the Reserve Order. This proposed rule text is based on the last sentence of Rule 7.31-E(d)(1) with one difference to reference that the reserve interest could never have a working price that is more aggressive than the working price of the display quantity of the Reserve Order, which would be new functionality on Pillar for options trading (and not currently available for cash equity trading) designed to ensure that the reserve interest of a Reserve Order to buy (sell) would never trade at a price higher (lower) than the working price of the display quantity of the Reserve Order.<sup>82</sup>

- Proposed Rule 6.62P-O(d)(1)(A) would provide that the displayed portion of a Reserve Order would be replenished when the display quantity is decremented to zero and that the replenish quantity would be the minimum display size of the order or the remaining quantity of the reserve interest if it is less than the minimum display quantity. This proposed rule text is based on Rule 7.31-E(d)(1)(A) with differences to reflect that

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<sup>82</sup> For example, as described in more detail below, the proposed Non-Routable Limit Order would be eligible to be repriced only once after it is resting in the Consolidated Book (see proposed Rule 6.62P-O(e)(1)). If the display quantity of a Non-Routable Limit Order that is combined with a Reserve Order has already been repriced and is no longer eligible to be repriced, and the ABBO adjusts, the reserve quantity would not adjust to a price that would be more aggressive than the working price of the display quantity of the order. This functionality is not currently available on the Exchange's cash equity market.

options are not traded in “round lots” or “odd lots.” Accordingly, the Exchange would not replenish a Reserve Order on the options trading platform until the display portion is fully decremented, which is consistent with current functionality as described in Rule 6.76-O(a)(1)(B).

- Proposed Rule 6.62P-O(d)(1)(B) would provide that each time the display quantity of a Reserve Order is replenished from reserve interest, a new working time would be assigned to the replenished quantity, which is consistent with current Rule 6.76-O(a)(1)(B)(ii), which provides that when refreshed, the new display quantity will be ranked at the new time that the displayed portion of the order was refreshed. This proposed rule text is based in part on Rule 7.31-E(d)(1)(B) with differences to reflect that for options traded on Pillar, there would never be more than one display quantity of a Reserve Order, and therefore the Exchange would not have different “child” display quantities of a Reserve Order with different working times, as could occur for a Reserve Order on the Exchange’s cash equity trading platform.
- Proposed Rule 6.62P-O(d)(1)(C) would provide that a Reserve Order may be designated as a Non-Routable Limit Order and if so designated, the reserve interest that replenishes the display quantity would be assigned a display price and working price consistent with the instructions for the order. This proposed rule text is based on Rule 7.31-E(d)(1)(B)(ii) without any substantive differences. The Exchange believes that the proposed rule would promote transparency and granularity in Exchange

rules.

- Proposed Rule 6.62P-O(d)(1)(D) would provide that a routable Reserve Order would be evaluated for routing both on arrival and each time the display quantity is replenished, which is consistent with Rule 6.76A-O(c)(1)(B), which provides that a Reserve Order may be routed serially as component orders. Proposed Rule 6.62P-O(d)(1)(D)(i) would provide that if routing is required, the Exchange would route from reserve interest before publishing the display quantity. And proposed Rule 6.62P-O(d)(1)(D)(ii) would provide that any quantity of a Reserve Order that is returned unexecuted would join the working time of the reserve interest and that if there is no reserve interest to join, the returned quantity would be assigned a new working time. This proposed rule text is based on Rule 7.31-E(d)(1)(D) and subparagraphs (i) and (ii) with differences to reflect that there is no concept of round lots or multiple child display orders for options trading. The Exchange believes that the proposed rule would promote transparency and granularity in Exchange rules.
- Proposed Rule 6.62P-O(d)(1)(E) would provide that a request to reduce the size of a Reserve Order would cancel the reserve interest before cancelling the display quantity. This proposed rule text is based on Rule 7.31-E(d)(1)(E) with differences only to reflect that there would not be more than one child display order for options trading of Reserve Orders on Pillar. The Exchange believes that the proposed rule would promote transparency and granularity in Exchange rules.

- Proposed Rule 6.62P-O(d)(1)(F) would provide that a Reserve Order may be designated Day or GTC, but it may not be designated as an ALO Order. This proposed rule text is based in part on Rule 7.31-E(d)(1)(C), with differences to reflect that the GTC Modifier would be available for Reserve Orders trading on the Pillar options trading platform (consistent with current functionality) and that Primary Pegged Orders would not be available for options traded on Pillar (also consistent with current functionality). The Exchange believes that the proposed rule would promote transparency and granularity in Exchange rules.

*Non-Displayed Limit Order.* The Exchange proposes to offer the Non-Displayed Limit Order for options trading on Pillar, which would be new for options trading and would provide OTP Holders and OTP Firms with a non-displayed order type in lieu of non-displayed PNP Blind Orders, which latter order type would not be available on Pillar.<sup>83</sup> The proposed order type would function similarly to the existing Non-Displayed Limit Order as described in Rule 7.31-E(d)(2). Proposed Rule 6.62P-O(d)(2) would define a Non-Displayed Limit Order as a Limit Order that is not displayed, does not route, and is ranked under the proposed category of “Priority 3 - Non-Display Orders”; and that a Non-Displayed Limit Order may be designated Day or GTC and would not participate in any Auctions. This proposed rule text uses the same Pillar terminology as used in Rule 7.31-E(d)(2) with differences to reflect that the GTC Time-in-Force

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<sup>83</sup> The Exchange notes that a Non-Displayed Limit Order would function similarly to a PNP Blind Order that locks or crosses the contra-side NBBO. In such case, a PNP Blind Order is not displayed, as described in Rule 6.62-O(u) (“if the PNP Blind Order would lock or cross the NBBO, the price and size of the order will not be disseminated”).

Modifier is available for options trading on Pillar.

- Proposed Rule 6.62P-O(d)(2)(A) would provide that the working price of a Non-Displayed Limit Order would be assigned on arrival and adjusted when resting on the Consolidated Book and that the working price of a Non-Displayed Limit Order to buy (sell) would be the lower (higher) of the limit price or the NBO (NBB). This proposed rule text is based on Rule 7.31-E(d)(2)(A) with non-substantive differences to reference the Consolidated Book instead of the NYSE Arca Book and to streamline the rule text without any substantive differences.

*All-or-None (“AON”) Order.* AON Orders are currently defined in Rule 6.62-O(d)(4). AON Orders are not available on the Exchange’s cash equity market, and for options trading on Pillar, would function similarly to how AON Orders currently function because such orders would only execute if they can be satisfied in their entirety. However, unlike the OX system, where AON Orders are not integrated in the Consolidated Book, on Pillar, the Exchange proposes that AON Orders would be ranked in the Consolidated Book and function as conditional orders that would trade only if their condition could be met, similar to how orders with a Minimum Trade Size (“MTS”) Modifier function on Pillar on the Exchange’s cash equity market. In addition, on Pillar, the Exchange would not support Market Orders designated as AON, which would be a change from current functionality. The Exchange does not believe it needs to continue offering AON Market Orders because such functionality was not used often on the OX system, indicating a lack of market participant interest in this functionality. Because of the new functionality that would be available for AON Orders on Pillar, the Exchange

proposes to use Pillar terminology to describe this order type.

Proposed Rule 6.62P-O(d)(3) would provide that an AON Order is a Limit Order that is to be traded in whole on the Exchange at the same time or not at all, which represents current functionality as described in the first sentence of Rule 6.62-O(d)(4). Proposed Rule 6.62P-O(d)(3) would further provide that an AON Order that does not trade on arrival would be ranked under the proposed category of “Priority 3 - Non-Display Orders” and that an AON Order may be designated Day or GTC, does not route, and would not participate in any Auctions. This proposed rule text uses Pillar terminology to describe the proposed new functionality that such orders would be ranked on the Consolidated Book.

- Proposed Rule 6.62P-O(d)(3)(A) would provide that the working price of an AON Order would be assigned on arrival and adjusted when resting on the Consolidated Book and that the working price of an AON Order to buy (sell) would be the lower (higher) of the limit price or NBO (NBB). Because an AON Order is non-displayed, the Exchange proposes that its working price should be adjusted in the same manner as the proposed Non-Displayed Limit Order.
- Proposed Rule 6.62P-O(d)(3)(B) would provide that an Aggressing AON Order to buy (sell) would trade with sell (buy) orders and quotes that in the aggregate can satisfy the AON Order in its entirety. This proposed rule text is new and promotes clarity in Exchange rules that an Aggressing AON Order (whether on arrival or as a resting order that becomes an Aggressing Order) would be eligible to trade with more than one contra-

side order or quote, provided that multiple orders and quotes in the aggregate would satisfy the AON Order in its entirety.

- Proposed Rule 6.62P-O(d)(3)(C) would provide that a resting AON Order to buy (sell) would trade with an Aggressing Order or Aggressing Quote to sell (buy) that individually can satisfy the whole AON Order. This is proposed new functionality, because currently, an AON Order can trade only against resting interest in the Consolidated Book. The Exchange believes this proposed change would provide an AON Order with additional execution opportunities.
- Proposed Rule 6.62P-O(d)(3)(C)(i) would provide that if an Aggressing Order or Aggressing Quote to sell (buy) does not satisfy the resting AON Order to buy (sell), that Aggressing Order or Aggressing Quote would not trade with and may trade through such AON Order. Proposed Rule 6.62P-O(d)(3)(C)(ii) would further provide that if a resting non-displayed order to sell (buy) does not satisfy the quantity of a same-priced resting AON Order to buy (sell), a subsequently arriving order or quote to sell (buy) that satisfies the AON Order would trade before such resting non-displayed order or quote to sell (buy) at that price. Both of these proposed rules are similar to current Rule 6.62-O(d)(4), which provides that a resting AON Order can be ignored if its condition is not met. Similar to current functionality, even though an AON would be ranked in the Consolidated Book, it is still a conditional order type and therefore, by its terms, can be skipped over for an execution. This proposed rule text is also based on



how the MTS Modifier functions on the cash equity market, as described in Rule 7.31-E(i)(3)(E)(i) and (ii).

- Proposed Rule 6.62P-O(d)(3)(D) would provide that a resting AON Order to buy (sell) would not be eligible to trade against an Aggressing Order or Aggressing Quote to sell (buy): (i) at a price equal to or above (below) any orders or quotes to sell (buy) that are displayed at a price equal to or below (above) the working price of such AON Order; or (ii) at a price above (below) any orders or quotes to sell (buy) that are not displayed and that have a working price below (above) the working price of such AON Order. This proposed rule text is new functionality for AON Orders that is designed to protect the priority of resting orders and quotes and is based on how the MTS Modifier functions on the cash equity market, as described in Rule 7.31-E(i)(3)(C) and its subparagraphs (i) and (ii).
- Proposed Rule 6.62P-O(d)(3)(E) would provide that if a resting AON Order to buy (sell) becomes an Aggressing Order it would trade as provided in paragraph (d)(3)(B) of this Rule; however, other resting orders or quotes to buy (sell) ranked Priority 3 - Non-Display Orders that become Aggressing Orders or Aggressing Quotes at the same time as the resting AON Order would be processed before the AON Order. This is proposed new functionality and is designed to promote clarity in Exchange rules that if multiple orders ranked Priority 3 - Non-Display Orders, including AON and non-AON Orders, become Aggressing Orders or Aggressing Quotes at the same time, the AON Order would not be eligible trade until the other orders ranked Priority 3- Non-Display Orders have been processed,

even if they have later working times. The Exchange believes that it would be consistent with the conditional nature of AON Orders for other same-side non-displayed orders to have a trading opportunity before the AON Order.

*Stop Order.* Stop Orders are currently defined in Rule 6.62-O(d)(1). The Exchange proposes to use Pillar terminology with more granularity to describe Stop Orders in proposed Rule 6.62P-O(d)(4), as specified below. Proposed Rule 6.62P-O(d)(4) would provide that a Stop Order is an order to buy (sell) a particular option contract that becomes a Market Order (or is “elected”) when the Exchange BB (BO) or the most recent consolidated last sale price reported after the order was placed in the Consolidated Book (the “Consolidated Last Sale”) (either, the “trigger”) is equal to or higher (lower) than the specified “stop” price. The proposed functionality is consistent with existing functionality and provides more granularity of the circumstances when a Stop Order would be elected.<sup>84</sup> Because a Stop Order becomes a Market Order when it is elected, the Exchange proposes that when it is elected, it would be cancelled if it does not meet the validations specified in proposed Rule 6.62P-O(a)(1)(A) and if not cancelled, it would be assigned a Trading Collar. This is consistent with current functionality, which is not described in the current rule describing Stop Orders, that once converted to a Market Order, such order is subject to the checks applicable in the current rule for Market Orders, i.e., cancelling such order if there is no NBBO. The proposed rule references the checks that would be applicable to a Market Order on Pillar and thus adds greater granularity and transparency to Exchange rules.

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<sup>84</sup> The current rule states that a Stop Order to buy (sell) will be triggered (i.e., elected) if “trades at a price equal to or greater (less) than the specified ‘stop’ price on the Exchange or another Market Center.” See Rule 6.62-O(d)(1).

Proposed Rule 6.62P-O(d)(4)(A) would provide that a Stop Order would be assigned a working time when it is received but would not be ranked or displayed in the Consolidated Book until it is elected and that once converted to a Market Order, the order would be assigned a new working time and be ranked Priority 1- Market Orders. The original working time assigned to a Stop Order would be used to rank multiple Stop Orders elected at the same time. This is consistent with the current rule, which provides that a Stop Order is not displayed and has no standing in any Order Process in the Consolidated Book, unless or until it is triggered. The proposed rule is designed to provide greater granularity and clarity regarding the treatment of Stop Orders, both when received and when elected.

Proposed Rule 6.62P-O(d)(4)(B) would specify additional events that are designed to limit when a Stop Order may be elected so that a Market Order does not trade during a period of pricing uncertainty:

- Proposed Rule 6.62P-O(d)(4)(B)(i) would provide that if not elected on arrival, a Stop Order that is resting would not be eligible to be elected based on a Consolidated Last Sale unless the Consolidated Last Sale is equal to or in between the NBBO. This proposed rule text provides additional transparency of when a resting Stop Order would be eligible to be elected.
- Proposed Rule 6.62P-O(d)(4)(B)(ii) would provide that a Stop Order would not be elected if the NBBO is crossed.
- Proposed Rule 6.62P-O(d)(4)(B)(iii) would provide that after a Limit State or Straddle State is lifted, the trigger to elect a Stop Order would be either

the Consolidated Last Sale received after such state was lifted or the Exchange BB (BO).<sup>85</sup>

*Stop Limit Order.* Stop Limit Orders are currently defined in Rule 6.62-O(d)(2). The Exchange proposes to use Pillar terminology with more granularity to describe Stop Limit Orders in proposed Rule 6.62P-O(d)(5), as specified below.

Proposed Rule 6.62P-O(d)(5) would provide that a Stop Limit Order is an order to buy (sell) a particular option contract that becomes a Limit Order (or is “elected”) when the Exchange BB (BO) or the Consolidated Last Sale (either, the “trigger”) is equal to or higher (lower) than the specified “stop” price.<sup>86</sup> The proposed functionality is consistent with existing functionality and provides more granularity of when a Stop Limit Order would be elected than the current Rule 6.62-O(d)(2) definition of Stop Limit Order. As further proposed, a Stop Limit Order to buy (sell) would be rejected if the stop price is higher (lower) than its limit price, which rejection would be new functionality under Pillar and would prevent the Exchange from accepting potentially erroneously-priced orders. Because a Stop Limit Order becomes a Limit Order when it is elected, the Exchange proposes that when it is elected, it would be cancelled if it fails Limit Order Price Protection or a Price Reasonability Check and if not cancelled, it would be assigned a Trading Collar.<sup>87</sup> This functionality is consistent with current functionality, though it is

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<sup>85</sup> Rule 6.65A-O(a)(2) currently provides that the Exchange will not elect Stop Orders when the underlying NMS stock is either in a Limit State or a Straddle State, which would continue to be applicable on Pillar. The Exchange proposes a non-substantive amendment to Rule 6.65A-O(a)(2) to add a cross-reference to proposed Rule 6.62P-O(d)(4).

<sup>86</sup> The term “Consolidated Last Sale” is defined in proposed Rule 6.62P-O(d)(4).

<sup>87</sup> See discussion infra, regarding proposed Rule 6.41P-O and Price Reasonability Checks.

not explicitly stated in the current rule describing Stop Limit Orders. Specifically, both in the current OX System and as proposed on Pillar, once converted to a Limit Order, such order is subject to the checks applicable in the current rule for Limit Orders, i.e., Limit Order Filter on the OX System. The proposed rule references the checks that would be applicable to a Limit Order on Pillar and thus adds greater granularity and transparency to Exchange rules.

Proposed Rule 6.62P-O(d)(5)(A) would provide that a Stop Limit Order would be assigned a working time when it is received but would not be ranked or displayed in the Consolidated Book until it is elected and that once converted to a Limit Order, the order would be assigned a new working time and be ranked under the proposed category of “Priority 2 - Display Orders.” This functionality is consistent with the current rule, which provides that a Stop Limit Order is not displayed and has no standing in any Order Process in the Consolidated Book, unless or until it is triggered. The proposed rule is designed to provide greater granularity and clarity.

Proposed Rule 6.62P-O(d)(5)(B) would specify additional events that are designed to limit when a Stop Limit Order may be elected so that a Limit Order would not have a possibility of trading or being added to the Consolidated Book during a period of pricing uncertainty.

- Proposed Rule 6.62P-O(d)(5)(B)(i) would provide that if not elected on arrival, a Stop Limit Order that is resting would not be eligible to be elected based on a Consolidated Last Sale unless the Consolidated Last Sale is equal to or in between the NBBO.
- Proposed Rule 6.62P-O(d)(5)(B)(ii) would provide that a Stop Limit Order

would not be elected if the NBBO is crossed.

*Orders with Instructions Not to Route.* Currently, the Exchange defines non-routable orders in Rule 6.62-O as a PNP Order (which includes a Repricing PNP Order (“RPNP”)) (current Rule 6.62-O(p)), a Liquidity Adding Order (“ALO”) (which includes a Repricing ALO (“RALO”)) (current Rule 6.62-O(t)); a PNP-Blind Order (current Rule 6.62-O(u)); and a PNP-Light Order (Rule 6.62-O(v)). The Exchange also defines Intermarket Sweep Orders (current Rule 6.62-O(aa)), which are also non-routable.

The Exchange separately defines quotes -- all of which are non-routable<sup>88</sup> -- in Rule 6.37A-O and such quotes may be designated as a Market Maker - Light Only Quotation (“MMLO”) (current Rule 6.37A-O(a)(3)(A)); a Market Maker - Add Liquidity Only Quotation (“MMALO”) (current Rule 6.37A-O(a)(3)(B)); and a Market Maker - Repricing Quotation (“MMRP”) (current Rule 6.37A-O(a)(3)(C)). On the OX system, Market Maker quotes not designated as MMALO or MMRP will cancel (rather than reprice) if they would lock or cross the NBBO, per Rule 6.37A-O(a)(4)(C).

On Pillar, the Exchange proposes to streamline the non-routable order types and quotes that would be available for options trading, use terminology that is similar to how non-routable orders are described for cash equity trading as described in Rule 7.31-E(e), and describe the functionality that would be applicable to both orders and quotes in proposed Rule 6.62P-O(e).<sup>89</sup> As described in greater detail below, proposed Rule

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<sup>88</sup> See Rule 6.37A-O(a)(2) (providing that “[a] quotation will not route”).

<sup>89</sup> As discussed, supra, regarding proposed Rule 6.76P-O(g), the Exchange proposes to include details about ranking of orders and quotes with contingencies in this proposed Rule 6.62P-O(e) using the Pillar priority scheme. Also, as discussed infra, see e.g., note 44, the ranking and priority of quotes under Pillar is consistent with handling on the OX system unless otherwise noted herein.

6.37AP-O governing Market Maker Quotations would no longer define how quotations would function. Instead, that rule would specify that a Market Maker may designate either a Non-Routable Limit Order or ALO Order as a Market Maker quote. Because the way in which non-routable orders and quotes would function on Pillar would be virtually identical (with differences described below), and because Market Makers could enter a Non-Routable Limit Order or an ALO Order and then choose to designate it either as a quote or an order, the Exchange believes that it would promote transparency in Exchange rules to consolidate the description of the functionality in a single rule and eliminate duplication in Exchange rules. As described below, proposed Rule 6.37A-O would cross reference proposed Rule 6.62P-O(e).

On Pillar, the Exchange would no longer offer functionality based on the PNP-Blind Order, PNP-Light Order, or MMLO because it believes that the proposed orders/quotes with instructions not to route on Pillar would continue to provide OTP Firms and OTP Holders with the core functionality associated with these existing order and quotation types, including that the proposed rules would provide for non-routable functionality and the ability to either reprice or cancel such orders/quotes. In addition, as discussed above, the Exchange believes that the proposed Non-Displayed Limit Order would provide functionality similar to what is currently available with the PNP-Blind Order, thus obviating the need for the Exchange to offer PNP-Blind Orders under Pillar.<sup>90</sup>

*Non-Routable Limit Order.* Proposed Rule 6.62P-O(e)(1) would define the Non-Routable Limit Order. As explained further below, this proposed order type incorporates

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<sup>90</sup> See discussion, *infra*, regarding Non-Displayed Limit Orders generally, per proposed Rule 6.62P-O(e).

functionality currently available in both the existing PNP and RPNP order types, as defined in Rule 6.62-O, and the existing MMRP quotation type, as defined in Rule 6.37A-O(a)(3)(C),<sup>91</sup> and uses Pillar terminology. As described below, a Market Maker can designate a Non-Routable Limit Order as either a quote or an order and such interest so designated would be handled the same except as specified below. Accordingly, references to the capitalized term “Non-Routable Limit Order” describes functionality for either a quote or an order, unless otherwise specified.

Proposed Rule 6.62P-O(e)(1) would provide that a Non-Routable Limit Order is a Limit Order or quote that does not route and may be designated Day or GTC and would further provide that a Non-Routable Limit Order with a working price different from the display price would be ranked under the proposed category of “Priority 3-Non-Display Orders” and a Non-Routable Limit Order with a working price equal to the display price would be ranked under the proposed category of “Priority 2-Display Orders.” This proposed rule uses Pillar terminology and describes the same functionality as set forth in the Exchange’s cash equity market in Rules 7.31-E(e)(1) and 7.31-E(e)(1)(B), including references to the Pillar concepts of “working” and “display” price as well to Priority rankings as proposed in Rule 6.76P-O(e)(2), (3). This proposed rule also describes functionality similar to that described in the first clause of current Rule 6.62-O(p) relating to a PNP Order, which states that the portion of such order not executed on arrival is ranked in the Consolidated Book without routing any portion of the order to another

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<sup>91</sup> Both RPNPs and MMRPs function similarly. Compare current Rule 6.37A-O(a)(4)(B) and subparagraphs (i) and (ii) with current Rule 6.62-O(p)(1)(A) and subparagraphs (i) and (ii). They are defined in separate rules only because the former is for quotes and the latter for orders.



Market Center (although the current rule does not include Pillar concepts of “working” and “display” price or Pillar Priority rankings).

Proposed Rule 6.62P-O(e)(1)(A) would provide that a Non-Routable Limit Order would not be displayed at a price that would lock or cross the ABBO and that a Non-Routable Limit Order to buy (sell) would trade with orders or quotes to sell (buy) in the Consolidated Book priced at or below (above) the ABO (ABB). This proposed text is designed to provide granularity that a Non-Routable Limit Order would never be displayed at a price that would lock or cross the ABBO, which is consistent with current PNP and RPNP Order functionality and with current Market Maker quoting functionality, as described in Rules 6.62-O(p), (p)(1), and 6.37A-O(a)(3)-(4), respectively. The Exchange proposes to use the term “ABBO” to provide more granularity in Exchange rules.

Proposed Rule 6.62P-O(e)(1)(A)(i) would provide that a Non-Routable Limit Order can be designated to be cancelled if it would be displayed at a price other than its limit price. This would be an optional designation and would provide OTP Holders and OTP Firms with functionality similar to how a PNP Order or a Market Maker quote not designated as MMALO or MMRP currently functions, which cancel if such order or quote locks or crosses the NBBO.<sup>92</sup> The Exchange proposes a substantive difference from the current PNP Order functionality such that if an OTP Holder or OTP Firm opts to cancel instead of reprice a Non-Routable Limit Order, such order would be cancelled

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<sup>92</sup> A PNP Order cannot route, and any unexecuted portion is ranked in the Consolidated Book except that such order is canceled if it would lock or cross the NBBO. See Rule 6.62-O(p). A Market Maker quote not designated as MMALO or MMRP will cancel (rather than reprice) if such quote would lock or cross the NBBO. See Rule 6.37A-O(a)(4)(C).

only if it could not be displayed at its limit price -- which could be because the order would be repriced to display at a price that would not lock or cross the ABBO or because it would be repriced due to Trading Collars.<sup>93</sup> Stated otherwise, if a Non-Routable Limit Order with a designation to cancel could be displayed at its original limit price and not lock or cross the ABBO, such order or quote would not be cancelled. The Exchange believes that the proposed rule provides granularity of the operation of a Non-Routable Limit Order and when such order or quote would be cancelled, if so designated, including specifying circumstances when such order could be repriced, such as to avoid locking or crossing the ABBO or because of Trading collars. This proposed functionality is not currently available for cash equity trading.

Proposed Rule 6.62P-O(e)(1)(A)(ii) would provide that if not designated to cancel, if the limit price of a Non-Routable Limit Order to buy (sell) would lock or cross the ABO (ABB), it would be repriced to have a working price equal to the ABO (ABB) and a display price one MPV below (above) that ABO (ABB). Accordingly, the proposed Non-Routable Limit Order, if not designated to cancel, would reprice in the same manner as an RPNP order or MMRP quotation reprices on arrival per Rules 6.62-O(p)(1)(A) and 6.37A-O(a)(4)(B), which both offer similar functionality. The Exchange proposes functionality on Pillar for the Non-Routable Limit Order that is consistent with

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<sup>93</sup> Current Rule 6.62-O(p)(1)(B) provides that an incoming RPNP order would cancel if its limit price is more than a configurable number of MPVs outside its initial display price (on arrival). Under Pillar, because Trading Collars would be applicable to Non-Routable Limit Orders (and such orders may be repriced or “collared” on arrival), the Exchange does not propose to cancel an incoming Non-Routable Limit Order if its limit price is more than a configurable number of MPVs outside its initial display price. As such, this aspect of RPNP functionality is not incorporated in the proposed Pillar rules and the Exchange instead proposes to incorporate Trading Collar functionality into the Non-Routable Limit Order.

but different in application to the RPNP Order or MMRP on OX. Specifically, proposed Rule 6.62P-O(e)(1)(B) would provide that the display price of a resting Non-Routable Limit Order to buy (sell) that has been repriced would be repriced higher (lower) only one additional time.<sup>94</sup> If after that second repricing, the display price could be repriced higher (lower) again, the order can be designated to either remain at its last working price and display price or be cancelled, provided that a resting Non-Routable Limit Order that is designated as a quote cannot be designated to be cancelled.<sup>95</sup> As compared to the proposal on Pillar to limit the number of times that Non-Routable Limit Orders may be repriced, the OX system restricts repricing of RPNPs and MMRPs based on the limit price of the interest being a configurable number of MPVs away from its initial display price.<sup>96</sup> The Exchange therefore believes that the proposed functionality is consistent

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<sup>94</sup> For example, on arrival, a Non-Routable Limit Order to buy (sell) with a limit price higher (lower) than the ABO (ABB), would have a display price one MPV below (above) the ABO (ABB) and a working price equal to the ABO (ABB). If the ABO (ABB) reprices higher (lower), the resting Non-Routable Limit Order to buy (sell) would similarly be repriced higher (lower). If the ABO (ABB) adjusts higher (lower) again, the resting Non-Routable Limit Order would not be adjusted again.

<sup>95</sup> The working time of a Non-Routable Limit Order would be adjusted as described in proposed Rule 6.76P-O(f)(2), which would be applicable to any scenario when the working time of an order may change, including a Non-Routable Limit Order. Similar to how the Pillar rules function on the Exchange's cash equity market, the Exchange does not propose to separately describe how the working time of an order changes in proposed Rule 6.62P-O.

<sup>96</sup> See, e.g., Rule 6.62-O(p)1(B) (providing that “[a]n incoming RPNP will be cancelled if its limit price to buy (sell) is more than a configurable number of MPVs above (below) the initial display price (on arrival), after first trading with eligible interest, if any,” which configurable number of MPVs will be determined by the Exchange and be announced by Trader Update) and Rule 6.37A-O(a)(4)(C) (providing that, an MMRP to buy (sell) will be canceled after trading with marketable interest in the Consolidated Book up (down) to the NBO (NBB), if its limit price is more than a configurable number of MPVs above (below) the initial display price (on arrival)).

with current functionality because in either case, there will be limited repricing of resting interest, and adds determinism to order execution based on the explicit restriction on the number of times resting interest may be repriced.

The Exchange notes that a designation to cancel after an order has been repriced once is separate from the designation to cancel if a Non-Routable Limit Order cannot be displayed at its limit price. When a Non-Routable Limit Order is designated to cancel if it cannot be displayed at its limit price, there is no repricing and therefore the option of a second cancellation designation is moot. Rather, this second cancellation designation is applicable only to a resting Non-Routable Limit Order that has been designated to reprice on arrival and was repriced before it was displayed on the Consolidated Book. This functionality provides OTP Holders and OTP Firms with an option to cancel a resting order if market conditions are such that a resting order could be repriced again, e.g., the contra-side ABBO changes. The Exchange proposes that this second cancellation option would not be available for any Non-Routable Limit Orders designated by a Market Maker as a quote. The Exchange believes that this proposed difference would assist Market Makers in maintaining quotes in their assigned series by reducing the potential to interfere with a Market Maker's ability to maintain their continuous quoting obligations.<sup>97</sup>

Proposed Rule 6.62P-O(e)(1)(B)(i) would provide that if the limit price of the resting Non-Routable Limit Order to buy (sell) that has been repriced no longer locks or crosses the ABO (ABB), it would be assigned a working price and display price equal to

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<sup>97</sup> Proposed Rules 6.37AP-O(b) and (c) set forth the continuous quoting obligations of Lead Market Makers and Market Makers, respectively.

its limit price. This proposed rule text is based on the way in which Non-Routable Limit Orders function on the Exchange's cash equity market, as described in Rule 7.31-E(e)(1)(A)(iv), with a difference that the proposed rule does not include text describing that, in such circumstances, the order "will not be assigned a new working price or display price based on changes to the PBO (PBB)." The Exchange does not propose to include this text because it is redundant of proposed Rule 6.76P-O(b)(3), which describes that once an order is displayed, it can stand its ground if it is locked or crossed by the Away Market PBBO, which is consistent with current functionality as described immediately below.<sup>98</sup>

Proposed Rule 6.62P-O(e)(1)(B)(ii) would provide that the working price of a resting Non-Routable Limit Order to buy (sell) that has been repriced would be adjusted to be equal to its display price if the ABO (ABB) is equal to or lower (higher) than its display price. This proposed rule is based in part on how an RPNP or MMRP reprices when the NBO (NBB) updates to lock or cross its display price (as described in Rules 6.62-O(p)(1)(A)(i) and 6.37A-O(a)(4)(B)(i)) and uses Pillar terminology (i.e., ABBO and concepts of working price and display price).<sup>99</sup> The proposed rule would further

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<sup>98</sup> See discussion supra regarding proposed Rule 6.76P-O(b)(3), which describes how the Exchange would not change the display price of any Limit Orders or quotes ranked under the proposed category of "Priority 2 - Display Orders."

<sup>99</sup> Rule 6.62-O(p)(1)(A)(i) provides that "if the NBO (NBB) updates to lock or cross the RPNP's display price, such RPNP will trade at its display price in time priority behind other eligible interest already displayed at that price." Rule 6.37A-O(a)(4)(B)(i) provides that "if the NBO (NBB) updates to lock or cross the MMRP's display price, such MMRP will trade at its display price in time priority behind other eligible interest already displayed at that price." On Pillar, however, if the NBO (NBB) updates to lock or cross the display price of a Non-Routable Order, and the working price is adjusted to be equal to the display price, the order will not receive a new working time. See discussion supra regarding proposed Rule 6.76P-O(f)(2)(B).

provide that once the working price and display price of a Non-Routable Limit Order to buy (sell) are the same, the working price would be adjusted higher (lower) only if the display price of the order is adjusted.<sup>100</sup>

Finally, proposed Rule 6.62P-O(e)(1)(C) would provide that the designation to cancel a Non-Routable Limit Order (including those designated as quotations<sup>101</sup>) would not be applicable in an Auction and, per proposed Rule 6.64P-O(g)(2) (described below) such order would participate in an Auction at its limit price. This proposed rule text promotes clarity and transparency that a Non-Routable Limit Order would be eligible to participate in an Auction, but that it would be repriced to its limit price for participation in such Auction, which is consistent with current RPNP functionality, as described in the last sentence of Rule 6.62-O(p) and providing that an RPNP would be processed as a Limit Order and would not be repriced for purposes of participating in an opening or reopening auction. This proposal is also consistent with Rule 6.37A-O(a)(5), which provides that MMRPs received when a series is not open for trading will be eligible to participate in the opening auction and re-opening auction (as applicable) at the limit price of the MMRP.

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<sup>100</sup> For example, if the ABO is 1.05 and the Exchange receives a Non-Routable Limit Order to buy priced at 1.10, it would be assigned a display price of 1.00 and a working price of 1.05. If the ABO adjusts to 1.00, the working price of the Non-Routable Limit Order to buy would be adjusted to 1.00 to be equal to its display price. However, if the Away Market BO moves back to 1.05, the Non-Routable Limit Order's working price would not adjust again to 1.05 and would stay at 1.00.

<sup>101</sup> See discussion, *infra*, regarding proposed Rule 6.64P-O(g)(1), which provides that "all resting Market Maker quotations" -- including Non-Routable Limit Orders designated as quotations -- will be canceled in the event of a Trading Halt, which functionality is consistent with current Rule 6.37A-O(a)(5), which likewise provides that "[a]ll resting quotations will be cancelled in the event of a trading halt").

*ALO Order.* Proposed Rule 6.62P-O(e)(2) would define an ALO Order as a Limit Order or quote that is a Non-Routable Limit Order that would not remove liquidity from the Consolidated Book. This proposed order type incorporates functionality currently available with ALO and RALO order types, as defined in Rule 6.62-O(t), and with the MMALO quotation type, as defined in Rule 6.37A-O(a)(3)(B), with differences described below, including an option to cancel or reprice an ALO Order if such non-routable interest would trade as a liquidity taker. Unless otherwise specified in proposed Rule 6.62P-O(e)(2), an ALO Order would function the same as a Non-Routable Limit Order, including that it would participate in an Auction at its limit price. As described below, per proposed Rule 6.37AP-O, a Market Maker can designate an ALO Order as either a quote or an order and such interest would be handled the same, except as specified below. Accordingly, references to the capitalized term “ALO Order” describe functionality for both quotes and orders.

Proposed Rule 6.62P-O(e)(2)(A) would provide that an ALO Order would not be displayed at a price that would lock or cross the ABBO, would lock or cross displayed interest in the Consolidated Book, or would cross non-displayed interest in the Consolidated Book.<sup>102</sup> Because an ALO Order would never remove liquidity, this proposed rule text ensures that such ALO Order would not be displayed at a price that would lock or cross displayed interest either on the Exchange or an Away Market, and would not be displayed at a price that crosses non-displayed interest in the Consolidated Book. This proposed rule text is consistent with current functionality, as described for

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<sup>102</sup> This functionality is consistent with the current rule, which states that an ALO Order is accepted only if it is “*not* executable at the time of receipt” (emphasis added). See Rule 6.62-O(t).

MMALO in Rule 6.37A-O(a)(3)(B) and for Liquidity Adding Order in Rule 6.62-O(t), that such quotes or orders would not trade as takers.

Proposed Rule 6.62P-O(e)(2)(A)(i) would provide that an ALO Order can be designated to be cancelled if it would be displayed at a price other than its limit price. This proposed designation to cancel would be optional and an ALO Order so designated would function similarly to a Liquidity Adding Order, as defined in Rule 6.62-O(t), which is rejected if it would be marketable against the NBBO. While the Exchange does not currently offer a cancellation option for a quote designated as MMALO, the default behavior for any Market Maker quote on the OX system is to cancel if such quote locks or crosses the NBBO and is not designated as MMALO (or MMRP).

Proposed Rule 6.62P-O(e)(2)(A)(ii) would provide that an ALO Order to buy (sell) would be displayed at its limit price if it locks non-displayed orders or quotes to sell (buy) on the Consolidated Book. This proposed functionality would be new for options trading on Pillar.<sup>103</sup> Allowing a conditional order to lock interest in the Consolidated Book is consistent with current functionality for other non-displayed orders. For example, an AON is a non-displayed conditional order type that could be priced to trade at a price that locks contra-side interest, but the interest would not interact if the AON condition could not be satisfied, in which case, two orders with locking prices, one that is non-displayed, would both be accepted by the Exchange. The proposed ALO Order is also a conditional order type because it can never be a liquidity taker. The Exchange

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<sup>103</sup> Currently, an order designated as a RALO to buy (sell) that would trade with any undisplayed sell (buy) interest will be displayed at a price one MPV below (above) that undisplayed sell interest. See Rule 6.62-O(t)(1)(A). See also Rule 6.37A-O(a)(4)(A)(i) (describing similar functionality for a quote designated as a MMALO).



believes that allowing an ALO Order to lock non-displayed interest would reduce potential repricing or cancellation events for an incoming ALO Order and would likewise reduce potential information leakage about non-displayed interest in the Consolidated Book. This behavior is also consistent with how ALO Orders function on the Exchange's cash equity platform.<sup>104</sup> Because an ALO Order would not be repriced in this scenario, this functionality would be the same regardless of whether the ALO Order includes the optional designation to cancel.

Proposed Rule 6.62P-O(e)(2)(A)(iii) would provide that an ALO Order to buy (sell) would not consider an AON Order or an order with an MTS Modifier to sell (buy) for purposes of determining whether it needs to be repriced or cancelled. This proposed rule would be new functionality and is designed to promote transparency that a resting contra-side order with conditional instructions, i.e., an AON Order or an order with an MTS Modifier, would not have any bearing on whether an Aggressing ALO Order would need to be repriced. Accordingly, an ALO Order would not trade as the liquidity taker with such orders (even if it could satisfy their size condition) and could be displayed at a price that would lock or cross the price of such orders. Once the ALO Order is resting on the Consolidated Book, the Exchange would reevaluate the orders on the Consolidated Book. For example, if the ALO Order could satisfy the size condition of the resting AON Order, the resting AON Order would become the Aggressing Order and would trade as the liquidity taker with such resting ALO Order.

Proposed Rule 6.62P-O(e)(2)(B) would describe how an ALO Order would be processed if it is not designated to cancel, as follows:

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<sup>104</sup> See, e.g., Rule 7.31-E(e)(2)(B)(iv).

- If the limit price of an ALO Order to buy (sell) would lock or cross displayed orders or quotes to sell (buy) on the Consolidated Book, it would be repriced to have a working price and display price one MPV below (above) the lowest (highest) priced displayed order or quote to sell (buy) on the Consolidated Book (proposed Rule 6.62P-O(e)(2)(B)(i)). This proposed rule is consistent with how both RALO and MMALO reprice under current rules.<sup>105</sup>
- If the limit price of an ALO Order to buy (sell) would lock or cross the ABO (ABB), it would be repriced to have a working price equal to the ABO (ABB) and a display price one MPV below (above) the ABO (ABB) (proposed Rule 6.62P-O(e)(2)(B)(ii)). This proposed functionality is consistent with how both RALO and MMALO reprice under current rules.<sup>106</sup>
- If the limit price of an ALO Order to buy (sell) would cross non-displayed orders or quotes<sup>107</sup> on the Consolidated Book, it would be repriced to have a working price and display price equal to the lowest (highest) priced non-displayed order or quote to sell (buy) on the Consolidated Book (proposed

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<sup>105</sup> Current Rule 6.62-O(t)(1) provides that a RALO will be repriced instead of rejected if it would trade as a liquidity taker or display at a price that locks or crosses any interest on the Exchange or the NBBO. Current Rule 6.62-O(t)(1)(A) further provides that if an RALO would trade with any displayed or undisplayed contra-side interest on the Consolidated Book, it would be displayed at a price one MPV inside such interest. See also Rule 6.37-O(a)(4)(A)(i).

<sup>106</sup> See Rules 6.62-O(t)(1)(A) and 6.37A-O(a)(4)(A)(i).

<sup>107</sup> For example, a contra-side Market Maker quote designated as a Non-Routable Limit Order could have a non-displayed working price.

Rule 6.62P-O(e)(2)(B)(iii). This functionality would be new on Pillar for options trading and would provide that an ALO Order would never take liquidity thereby eliminating the potential for an ALO to cross non-displayed interest in the Consolidated Book. This proposed functionality is therefore different not only from how RALOs and MMALOs currently function, but is also different from how ALO Orders currently function on the Exchange's cash equity market.<sup>108</sup> For the reasons discussed above, the Exchange believes that displaying ALO Orders at a price that locks the best-priced non-displayed interest would reduce potential information leakage about the non-displayed orders on the Consolidated Book.

Because an ALO would never be a liquidity-taking order, the above-described repricing scenarios provide clarity and transparency regarding how an ALO Order would be repriced (or cancelled, if this optional designation is selected) to prevent either trading with interest on the Consolidated Book or routing to an Away Market. Accordingly, with the exception of how an ALO Order that locks or crosses non-displayed interest would be processed, the proposed ALO Order would be consistent with the current functionality available for RALO, as described in Rule 6.62-O(t)(1)(A) and for MMALO, as described in Rule 6.37-O(a)(4)(A).

Proposed Rule 6.62P-O(e)(2)(C) would provide that the display price of a resting ALO Order to buy (sell) that has been repriced would be repriced higher (lower) only one additional time and that if, after that repricing, the display price could be repriced higher (lower) again, the order can be designated to either remain at its last working price and

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<sup>108</sup> See Rule 7.31-E(e)(2)(B)(ii).

display price or be cancelled, provided that a resting ALO Order that is a quote cannot be designated to be cancelled. This proposed functionality would be new to Pillar and is based on how the proposed Non-Routable Limit Order would function, as described above.<sup>109</sup> Consistent with the treatment of Non-Routable Limit Orders designated as Market Maker quotations, the Exchange likewise proposes that this second cancellation designation would not be available for an ALO Order designated by a Market Maker as a quote. The purpose of this proposed functionality is to assist Market Makers in maintaining quotes in their assigned series and to avoid any interference with Market Makers' ability to maintain their continuous quoting obligations.<sup>110</sup>

Proposed Rule 6.62P-O(e)(2)(C)(i) would provide that if the limit price of an ALO Order to buy (sell) that has been repriced no longer locks or crosses displayed orders or quotes in the Consolidated Book, locks or crosses the ABBO, or crosses non-displayed orders or quotes in the Consolidated Book, it would be assigned a working price and display price equal to its limit price. This proposed rule text is similar to proposed Rule 6.62P-O(e)(1)(B)(i) for Non-Routable Limit Orders, with differences to reflect the additional circumstances when an ALO Order would be repriced based off of contra-side displayed or non-displayed interest in the Consolidated Book because, unlike a Non-Routable Limit Order, an ALO Order would not trade as a liquidity taker. The proposed rule is designed to provide granularity and clarity regarding when a resting

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<sup>109</sup> This proposed feature to limit the number of times an ALO Order may be repriced differs from the treatment of RALOs, which may be continuously repriced (both the displayed and undisplayed price) as interest in the Consolidated Book or NBBO moves. See Rule 6.62-O(t)(1)(A).

<sup>110</sup> Proposed Rules 6.37AP-O(b) and (c) set forth the continuous quoting obligations of Lead Market Makers and Market Makers, respectively.

ALO Order would be assigned a working price and display price equal to its limit price.<sup>111</sup>

Proposed Rule 6.62P-O(e)(2)(D) would provide that the working price of a resting ALO Order to buy (sell) that has been repriced would be adjusted to be equal to its display price (and would not be adjusted again unless the display price of the order is adjusted) if:

- the ABO (ABB) re-prices to be equal to or lower (higher) than the display price of the resting ALO Order to buy (sell) (proposed Rule 6.62P-O(e)(2)(D)(i)); or
- an ALO Order or Day ISO ALO to sell (buy) is displayed on the Consolidated Book at a price equal to the working price of the resting ALO Order to buy (sell) (proposed Rule 6.62P-O(e)(2)(D)(ii)).

This proposed rule text is similar to proposed Rule 6.62P-O(e)(1)(C) for Non-Routable Limit Orders, with differences to reflect the additional circumstances when an ALO Order would be repriced as a result of contra-side interest on the Consolidated Book so that the ALO Order would not be a liquidity taker. Specifically, the Exchange proposes that for an ALO Order that has been repriced and has a non-displayed working price, if the Exchange receives a contra-side ALO Order (or Day ISO ALO) with a limit price that is equal to or crosses the working price of the resting ALO Order, the working price of the resting ALO Order would be adjusted to be equal to its display price. This

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<sup>111</sup> The proposed rule is similar to RALO functionality currently described in Rule 6.62-O(t)(1)(A)(ii) (if the NBO (NBB) updates to lock or cross the RALO's display price, such RALO will trade at its display price"). See also Rule 6.37A-O(a)(4)(A)(i)(b) (describing similar functionality for MMALO).

proposed functionality would reduce the potential for two contra-side ALO Orders to have working prices that are locked on the Consolidated Book. The proposed rule text is designed to provide more granularity than the current Rule regarding circumstances when an ALO Order would be repriced.

Proposed Rule 6.62P-O(e)(2)(E) would provide that when the working price and display price of an ALO Order to buy (sell) are the same, the working price would be adjusted higher (lower) only if the display price of the order is adjusted. This proposed functionality would be new for Pillar and is not currently available on the Exchange's cash equity platform.

Proposed Rule 6.62P-O(e)(2)(F) would provide that the ALO designation would be ignored for ALO Orders that participate in an Auction, including those designated as quotations.<sup>112</sup> This proposed rule is based on Rule 7.31-E(e)(2)(A), which similarly provides that an ALO Order can participate in an auction and that its ALO designation would be ignored. This is also new functionality for options because currently, the Exchange rejects ALOs and MMALOs if entered outside of Core Trading Hours or during a trading halt and if resting, are cancelled during a trading halt.<sup>113</sup> The Exchange proposes this new functionality to provide such ALO Orders with an execution opportunity in an Auction.

*Intermarket Sweep Order ("ISO").* ISOs are currently defined in Rule 6.62-O as

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<sup>112</sup> See discussion, *infra*, regarding proposed Rule 6.64P-O(g)(1), which provides that "all resting Market Maker quotations" -- including ALO Orders designated as quotations -- will be canceled in the event of a Trading Halt, which functionality is consistent with current Rule 6.37A-O(a)(5), which likewise provides that "[a]ll resting quotations will be cancelled in the event of a trading halt").

<sup>113</sup> See Rules 6.62-O(t) and 6.37A-O(a)(3)(B), for ALO Orders and MMALOs, respectively.

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 Away Market Protected Quotations<sup>114</sup> and that 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). The Exchange proposes to offer identical functionality on Pillar and to describe such functionality in proposed Rule 6.62P-O(e)(3) using Pillar terminology, including that an ISO is a Limit Order that does not route and meets the requirements of Rule 6.92-O(a)(8).

Currently, an ISO must be entered with a time-in-force of IOC. On Pillar, the Exchange proposes to add the ability for an OTP Holder or OTP Firm to designate an ISO either as IOC, which is current functionality, or with a Day time-in-force designation, which would be new for options trading. The Exchange also proposes to offer new functionality for options trading to designate a Day ISO as ALO. Both the proposed Day ISO and Day ISO ALO functionality are available on the Exchange's cash equity market as described in Rule 7.31-E(e)(3). The Exchange proposes to describe the functionality for each type of ISO separately, as follows:

- *IOC ISO.* Proposed Rule 6.62P-O(e)(3)(A) would define an IOC ISO as an ISO designated IOC to buy (sell) that would be immediately traded with orders and quotes to sell (buy) in the Consolidated Book up to its full size and limit price and may trade through Away Market Protected

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<sup>114</sup> The terms "Protected Bid," "Protected Offer," and "Quotation" are defined in Rule 6.92-O(a)(15) and (16) and the term "Away Market" is defined in Rule 1.1. Accordingly, Away Market Protected Quotations refer to Protected Bids and Protected Offers that are disseminated pursuant to the OPRA Plan and are the Best Bid and Best Offer displayed by an Eligible Exchange, as those terms are defined in Rule 6.92-O.

Quotations and any untraded quantity of an IOC ISO would be immediately and automatically cancelled. This proposed rule uses the same Pillar terminology as used in Rule 7.31-E(e)(3)(B) to describe functionality that would be offered on Pillar without any differences from how ISOs currently function. The Exchange proposes a non-substantive difference in the proposed Pillar options rule to reference that an IOC ISO may trade through Away Market Protected Quotations, which is consistent with both current options and cash equity platform functionality.

- *Day ISO*. Proposed Rule 6.62-O(e)(3)(B) would define a Day ISO as an ISO designated Day to buy (sell) that, if marketable on arrival, would be immediately traded with orders and quotes to sell (buy) in the Consolidated Book up to its full size and limit price and may trade through Away Market Protected Quotations and that any untraded quantity of a Day ISO would be displayed at its limit price and may lock or cross Away Market Protected Quotations at the time the Day ISO is received by the Exchange. As noted above, this proposed functionality (allowing Day designation for ISOs) would be new on the Exchange for options trading and would offer market participants additional control over their trading interest. The proposed rule is substantively identical to the Day ISO functionality available on the Exchange's cash equity market, as described in Rule 7.31-E(e)(3)(C), with a non-substantive difference to use the phrase "may lock or cross Away Market Protected Quotations at the time the Day ISO is received by the Exchange" instead of "may lock or cross a



protected quotation that was displayed at the time of arrival of the Day ISO.” These proposed textual differences are designed to promote clarity and transparency without any substantive differences. The availability of the Day time-in-force designation for ISOs would not be new for options trading, however, as such orders are currently available on other options exchanges.<sup>115</sup> The proposed Day ISO is also consistent with current Rule 6.95-O(b)(3), which describes an exception to the prohibition on locking or crossing a Protected Quotation if the Member simultaneously routed an ISO to execute against the full displayed size of any locked or crossed Protected Bid or Protected Offer.<sup>116</sup> Although the Exchange has not previously availed itself of this exception, this exception to locking and

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<sup>115</sup> See Nasdaq Options 3, Section 7(a)(7) (“ISOs may have any time-in-force designation . . . .”) and Cboe Rules 5.30(a)(2) and (3). See also Cboe US Options Fix Specifications, dated June 15, 2021, Section 4.4.7, available here: [http://cdn.cboe.com/resources/membership/US\\_Options\\_FIX\\_Specification.pdf](http://cdn.cboe.com/resources/membership/US_Options_FIX_Specification.pdf), which references how a Day ISO would be processed under specified circumstances.

<sup>116</sup> The Commission has previously stated that the requirements in the Options Linkage Plan relating to Locked and Crossed Markets are “virtually identical to those applicable to market centers for NMS stock under Regulation NMS.” See also Securities Exchange Act Release No. 60405 (July 30, 2009), 74 FR 39362, 39368 (August 6, 2009) (Order approving Options Linkage Plan). Accordingly, guidance relating to the ISO exception for locked and crossed markets for NMS stocks that specifically contemplate use of Day ISOs is also applicable to options trading. See Responses to Frequently Asked Questions Concerning Rule 611 and Rule 610 of Regulation NMS, FAQ 5.02 (“The ISO exception to the SRO lock/cross rules, in contrast, requires that ISOs be routed to execute against all protected quotations with a price that is *equal* to the display price (*i.e.*, those protected quotations that would be locked by the displayed quotation), as well as all protected quotations with prices that are better than the display price (*i.e.*, those protected quotations that would be crossed by the displayed quotation).” Consistent with this guidance, the Exchange implemented Rule 6.95-O(b)(3). See also Cboe Rule 5.67(b)(3), and Nasdaq Options 5, Section 3(b)(3).

crossing Protected Bids and Protected Offers would only be needed if an ISO is designated as Day and therefore would be displayed at a price that would lock or cross a Protected Quotation; an IOC ISO would never be displayed and therefore this existing exception would not be applicable to such orders.

- *Day ISO ALO*. Proposed Rule 6.62P-O(e)(3)(C) would define a Day ISO ALO as a Day ISO with an ALO modifier. This proposed order type would be new for options trading and is based on the Day ISO ALO currently available on the Exchange's cash equity market, as described in Rule 7.31-E(e)(3)(D), with differences to reflect how the order type would function on the Exchange's options market. Specifically, similar to the differences between the proposed ALO Order for options trading on Pillar, as compared to the cash equity version of the ALO Order, for options trading, a Day ISO with an ALO designation would not trade as liquidity taker.

As proposed, on arrival, a Day ISO ALO to buy (sell) may lock or cross Away Market Protected Quotations, but would not remove liquidity from the Consolidated Book, which is how the Exchange proposes that ALO Orders would function on Pillar and consistent with current options functionality for RALO as described herein.<sup>117</sup> A Day ISO ALO to buy

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<sup>117</sup> By contrast, the Rule 7.31-E(e)(3)(D) description of Day ISO ALO for cash equity trading incorporates cash equity functionality that an order with an ALO would trade if it crosses the working price of any displayed or non-displayed orders.

(sell) can be designated to be cancelled if it would be displayed at a price other than its limit price, which is similar to the proposed cancellation instruction for ALO Orders for options trading on Pillar, described above. Proposed Rule 6.62P-O(e)(3)(C)(i) would provide that if not designated to cancel, a Day ISO ALO that would lock or cross orders and quotes on the Consolidated Book would be repriced as specified in proposed Rule 6.62P-O(e)(2)(B). This proposed rule therefore incorporates the proposed repricing functionality for ALO Orders for options trading on Pillar with the proposed Day ISO ALO. Proposed Rule 6.62P-O(e)(3)(C)(ii) would provide that, once resting, a DAY ISO ALO would be processed as an ALO Order as specified in proposed Rule 6.62P-O(e)(2)(C) - (G).

Complex Orders. Complex Orders are defined in Rule 6.62-O(e). The Exchange proposes to define Complex Orders for Pillar in proposed Rule 6.62P-O(f) based on Rule 6.62-O(e) and its sub-paragraphs (1) and (2) without any substantive differences. The Exchange proposes to add clarifying text that the different options series in a Complex Order are also referred to as the “legs” or “components” of the Complex Order. The Exchange also proposes that proposed Rule 6.62P-O(f) would provide that a Complex Order would be any order involving the simultaneous purchase and/or sale of “two or more options series in the same underlying security,” and not use the modifier “different” before the phrase “more option series.” The Exchange believes that the word “different” is redundant and unnecessary in this context. In addition, proposed Rule 6.62P-O(f)(1) and (2) would not reference mini-options contracts, which no longer trade on the Exchange.

Cross Orders. Currently, the only electronically-entered cross orders available on the Exchange are Qualified Contingent Cross Orders, which are defined in Rule 6.62-O(bb) and Commentary .02 to Rule 6.62-O. In addition, Rule 6.90-O describes how Qualified Contingent Cross Orders are processed. The Exchange proposes to define the term “Cross Orders” on Pillar as being a Qualified Contingent Cross (“QCC”) Order in proposed Rule 6.62P-O(g). As proposed, QCC Orders on Pillar would function identically to how Qualified Contingent Cross Orders function on the OX system, and for purposes of the rules governing trading on Pillar, the Exchange proposes to merge language from two rules relating to QCC Orders into a single rule, proposed Rule 6.62P-O(g), using Pillar terminology and functionality as described below. Proposed Rule 6.62P-O(g)(1) would describe rules applicable to electronically-entered QCC Orders and Complex QCC Orders. In addition, the Exchange proposes to adopt new Rule 6.62P-O(g)(1)(D) to provide for the trading of complex QCC orders.<sup>118</sup>

Proposed Rule 6.62P-O(g)(1)(A) would provide that a QCC Order must be comprised of an originating order to buy or sell at least 1,000 contracts that is identified as being part of a qualified contingent trade coupled with a contra-side order or orders totaling an equal number of contracts. This proposed rule text is based on Rule 6.62-O(bb) with a non-substantive difference that the Pillar rule would not reference mini-options contracts, which no longer trade on the Exchange. Proposed Rule 6.62P-O(g)(1)(A) would also specify that if a QCC has more than one option leg (a “Complex QCC Order”), each option leg must have at least 1,000 contracts, which is consistent with

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<sup>118</sup> See also Complex Pillar Notice, supra note 10, (describing proposed Rule 6.91P-O regarding complex order trading on Pillar).

existing functionality that is not described in the current rule. Complex QCCs which are described below, are available for options trading on other options exchanges, and therefore are not novel.<sup>119</sup> The proposed rule would further provide that a QCC Order that is not rejected per proposed Rule 6.62P-O(g)(1)(C) or (D) would immediately trade in full at its price, would not route, and may be entered with an MPV of \$0.01 regardless of the MPV of the options series<sup>120</sup> and that QCC Orders may be entered by Floor Brokers from the Trading Floor or routed to the Exchange from off-Floor. This proposed rule is consistent with current Rule 6.90-O, which provides that QCC Orders are automatically executed upon entry provided that they meet specified criteria. On Pillar, the Exchange proposes to specify those criteria in proposed Rule 6.62P-O(g)(1)(C), described below. In addition, the proposed Rule would provide that Rule 6.47A-O (related to exposure of orders on the Exchange) does not apply to Cross Orders, which text is substantively identical to Commentary .03 to current Rule 6.90-O.<sup>121</sup>

Proposed Rule 6.62P-O(g)(1)(B) and subparagraphs (i) - (vi) would define a “qualified contingent trade” as a transaction consisting of two or more component orders, executed as agent or principal, where specified requirements are also met and uses the

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<sup>119</sup> See, e.g., Cboe Rule 5.6(c) (setting forth operation of Complex QCC Orders) and MIAX Rule 515(h)(4) (same).

<sup>120</sup> Allowing QCC Orders to trade in pennies under Pillar is consistent with current functionality. See Rule 6.90-O(2) (providing that QCC Orders may only be entered in the regular trading increments applicable to the options class under Rule 6.72-O(b)). Rule 6.72-O(b) provides that minimum trading increment for option contracts traded on NYSE Arca will be one cent (\$0.01) for all series.

<sup>121</sup> Commentary .03 to Rule 6.90-O provides that “NYSE Arca Rule 6.47A-O does not apply to Qualified Contingent Cross Orders.” As noted above, at this time, the Exchange would only be offering QCC Cross Orders and therefore the proposed rule is substantively the same as this current Commentary.

same text as currently set forth in Commentary .02 and sub-paragraphs (a) - (f) to Rule 6.62-O without any differences.

Proposed Rule 6.62P-O(g)(1)(C) would describe general rules relating to execution of QCC Orders and would provide that a QCC Order with one option leg would be rejected if received when the NBBO is crossed or if it would be traded at a price that (i) is at the same price as a displayed Customer order on the Consolidated Book and (ii) is not at or between the NBBO and would provide that the QCC Order would never trade at a price worse than the Exchange BBO. This proposed rule is based on Rule 6.90-O without any substantive differences but adds detail about pricing of a QCC Order vis a vis the Exchange BBO. The Exchange believes that specifying that a QCC Order would be rejected when the NBBO is crossed, which is new text, provides greater granularity than current Rule 6.90-O(1), which provides that “Qualified Contingent Cross Orders will be automatically cancelled if they cannot be executed.” The other two proposed conditions are identical to the current functionality, as specified in Rule 6.90-O: that Qualified Contingent Cross Orders are automatically executed “provided that the execution (i) is not at the same price as a Customer Order in the Consolidated Book and (ii) is at or between the NBBO.”

Proposed Rule 6.62P-O(g)(1)(D) would describe how Complex QCC Orders would be executed on the Exchange. As proposed, a Complex QCC Order must include a limit price, no option leg would trade at a price worse than the Exchange BBO, and would be rejected if:

- any option leg cannot execute in compliance with proposed paragraph (g)(1)(C) of this Rule (described above), which is consistent with

Complex QCC handling on other options exchanges;<sup>122</sup>

- the best-priced Complex Order(s) on the Exchange contain(s) displayed Customer interest and the Complex QCC Order price does not improve such displayed Customer interest by \$0.01 (proposed Rule 6.62P-O(g)(1)(D)(ii)), which is consistent with Complex QCC handling on other options exchanges;<sup>123</sup>
- the price of the QCC Order is worse than the best-priced Complex orders in the Consolidated Book or the prices of the best-priced Complex Orders in the Consolidated Book are crossed (proposed Rule 6.62P-O(g)(1)(D)(iii)), which detail provides additional protections against potentially erroneous executions and adds transparency and granularity to the proposed rule; or
- there is no NBO for a given leg (proposed Rule 6.62P-O(g)(1)(D)(iv)), which detail provides additional protections against potentially erroneous executions and adds transparency and granularity to the proposed rule.

This proposed rule text is designed to promote clarity and transparency in Exchange rules regarding the price requirements for a Complex QCC Order, which

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<sup>122</sup> See, e.g., MIAAX Rule 515(h)(4) (which provides that each Complex QCC or “cQCC” is “automatically executed upon entry provided that, with respect to each option leg of the cQCC Order, the execution (i) is not at the same price as a Priority Customer Order on the Exchange’s Book; and (ii) is at or between the NBBO”).

<sup>123</sup> See, e.g., Cboe Rule 5.6(c)(2)(B)(iii) (requiring that the “execution price is better than the price of any complex order resting in the [Cboe Complex Order Book], unless the Complex QCC Order is a Priority Customer Order and the resting complex order is a non-Priority Customer Order, in which case the execution price may be the same as or better than the price of the resting complex order”).

requirements to protect priority of resting interest are consistent with the rules of other options exchanges, as described above, and to provide additional safeguards against potentially erroneous executions of Complex QCCs.

Proposed Rule 6.62P-O(g)(1)(E) would specify rules governing QCC Orders entered from the Trading Floor, which can be entered only by Floor Brokers,<sup>124</sup> and is based on Commentary .01 to Rule 6.90-O without any substantive differences.<sup>125</sup> The Exchange proposes textual changes as compared to the current Rule that are not designed to change the substance of the Rule, but to instead promote clarity and transparency. The proposed rule would provide that while on the Trading Floor, only Floor Brokers can enter QCC Orders, and that Floor Brokers may not enter QCC Orders for their own account, the account of an associated person, or an account with respect to which it or an associated person thereof exercises investment discretion (each a “prohibited account”). As further proposed, when executing such orders, Floor Brokers would not be subject to Rule 6.47-O regarding “Crossing” orders. Floor Brokers must maintain books and

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<sup>124</sup> An options Floor Broker is “an individual (either an OTP Holder or OTP Firm or a nominee of an OTP Holder or OTP Firm) who is registered with the Exchange for the purpose, while on the Exchange Floor, of accepting and executing option orders.” See Rule 6.43-O(a).

<sup>125</sup> Commentary .01 to Rule 6.90-O provides: “Qualified Contingent Cross Orders can be entered into the NYSE Arca System from on the Floor of the Exchange only by Floor Brokers. Floor Brokers shall not enter such orders for their own account, the account of an associated person, or an account with respect to which it or an associated person thereof exercises investment discretion (each a ‘prohibited account’). When executing such orders, Floor Brokers shall not be subject to NYSE Arca Rule 6.47-O. Floor Brokers must maintain books and records demonstrating that each Qualified Contingent Cross Order entered from the Floor was not entered for a prohibited account. Any Qualified Contingent Cross Order entered from the Floor that does not have a corresponding record required by this Commentary .01 shall be deemed to have been entered for a prohibited account in violation of this Rule.”



records demonstrating that each QCC Order entered from the Floor was not entered for a prohibited account. Any QCC Order entered from the Floor that does not have a corresponding record required by this paragraph would be deemed to have been entered for a prohibited account in violation of this Rule.

Proposed Rule 6.62P-O(g)(1)(F) would specify rules governing QCC Orders entered off-Floor and that OTP Holders must maintain books and records demonstrating that each such order was so routed. This proposed rule is based on Commentary .02 to Rule 6.90-O without any substantive differences.<sup>126</sup> The Exchange proposes textual differences as compared to the current Rule that are not designed to change the substance of the Rule, but instead promote clarity and transparency.

In connection with adding QCC to proposed Rule 6.62P-O, the Exchange proposes to add the following preamble to Rule 6.90-O: “This Rule is not applicable to trading on Pillar.” This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rule 6.90-O would not be applicable to trading on Pillar.

Orders Available Only in Open Outcry. The Exchange proposes to add to Rule 6.62P-O(h) orders that are available only in open outcry, most of which are currently

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<sup>126</sup> Commentary .02 to Rule 6.90-O provides: “With respect to a Qualified Contingent Cross Order that was routed to the NYSE Arca System from off of the Floor, OTP Holders must maintain books and records demonstrating that each such order was routed to the system from off of the Floor. This provision would not apply to a Qualified Contingent Cross Order covered by Commentary .01 to this NYSE Arca Rule 6.90-O (i.e., a Qualified Contingent Cross Order routed to a Floor Broker for entry into the NYSE Arca System).” The Exchange does not propose to include the last sentence of this Commentary in the proposed Pillar rule because the Exchange does not believe it is necessary to specify that Floor Brokers that enter orders electronically are subject to rules relating to electronic order entry as opposed to rules governing open outcry.

defined in Rule 6.62-O.

First, proposed Rule 6.62P-O(h)(1) would codify an existing order type, the Clear-the-Book (“CTB”) Order, which is currently described only in a Regulatory Bulletin.<sup>127</sup> The proposed definition would describe the CTB Order, which would be an order type available in open outcry that would interface with the Consolidated Book, and therefore with Pillar. As proposed, a CTB Order would be a Limit IOC Order that may be entered only by a Floor Broker, contemporaneous with executing an order in open outcry, that is approved by a Trading Official (the “TO Approval”). The CTB Order would be eligible to trade only with contra-side orders and quotes that were resting in the Consolidated Book prior to the TO Approval. In addition, proposed Rule 6.62P-O(h)(1)(A) - (C) would provide that:

- A CTB Order to buy (sell) would trade with contra-side orders and quotes with a display price below (above) the limit price of the CTB Order (proposed Rule 6.62P-O(h)(1)(A));
- A CTB Order to buy (sell) would trade with contra-side orders and quotes that have a display price and working price equal to the limit price of the CTB Order only if there is displayed Customer sell (buy) interest at that price, in which case, the CTB Order to buy (sell) would trade with the displayed Customer interest to sell (buy) and any non-Customer interest to sell (buy) with a working time earlier than the latest-arriving displayed

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<sup>127</sup> See NYSE Arca Options RB-16-04, dated February 19, 2016 (Rules of Priority and Order Protection in Open Outcry), available here: <https://www.nyse.com/publicdocs/nyse/markets/arca-options/rule-interpretations/2016/NYSE%20Arca%20Options%20RB%2016-04.pdf>.

Customer interest to sell (buy) (proposed Rule 6.62P-O(h)(1)(B)); and

- Any unexecuted portion of the CTB Order would cancel after trading with all better-priced interest and eligible same-priced interest on the Consolidated Book (proposed Rule 6.62P-O(h)(1)(C)).

Currently, CTB Orders only trade with displayed Customer interest and any same-priced displayed non-Customer interest ranked ahead of such interest in time priority, but do not trade with better-priced displayed non-Customer interest. In Pillar, per Rule 6.62P-O(h)(1)(B), CTB Orders would trade with displayed non-Customer interest priced better than the latest-arriving displayed Customer interest (i.e., a CTB order buying with a \$1.00 limit would now trade with any displayed interest offered at \$0.99). Because Floor Brokers have an obligation to satisfy better-priced interest on the Consolidated Book, the Exchange believes this proposed change to automate such priority would make it easier for Floor Brokers to comply with Exchange priority rules. In addition, the Exchange believes that this proposed change would increase execution opportunities and achieve the goal of a CTB Order, which is to clear priority on the Consolidated Book at the time of the TO Approval.

In addition, proposed Rule 6.62P-O(h)(1)(D) would codify existing regulatory responsibilities of Floor Brokers utilizing CTB Orders to submit such orders in a timely manner after receiving TO Approval and would also provide that because CTB Orders are non-routable (and thus ineligible to clear Protected Quotations), Floor Brokers would still be obligated to route any other eligible orders (i.e., not the CTB Order) to better-priced interest on Away Markets per Rule 6.94-O.<sup>128</sup>

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<sup>128</sup> See id. at p. 2-3 (describing regulatory responsibilities related to CTB Orders,

The Exchange also proposes to include in Rule 6.62P-O additional open outcry order types that are currently defined in Rule 6.62-O:

- Proposed Rule 6.62P-O(h)(2) would define “Facilitation Order” and is based on the Rule 6.62-O(j) definition of Facilitation Order without any differences.
- Proposed Rule 6.62P-O(h)(3) would define “Mid-Point Crossing Order” and is based on the Rule 6.62-O(q) definition of Mid-Point Crossing Order without any differences.
- Proposed Rule 6.62P-O(h)(4) would define “Not Held Order” and is based on the Rule 6.62-O(f) definition of Not Held Order without any differences.
- Proposed Rule 6.62P-O(h)(5) would define “Single Stock Future (“SSF”)/Option Order” and is based on the Rule 6.62-O(i) definition of Single Stock Future (“SSF”)/Option Order without any differences.
- Proposed Rule 6.62P-O(h)(6)(A) would define a “Stock/Option Order” and is based on the Rule 6.62-O(h)(1) definition of Stock/Option Order without any differences.
- Proposed Rule 6.62P-O(h)(6)(B) and subparagraphs (i) and (ii) would define a “Stock/Complex Order” and is based on the Rule 6.62-O(h)(2) definition of Stock/Complex Order with its sub-paragraphs without any differences.

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including that it is the Floor Broker’s responsibility to comply with the terms of the Options Order Protection and Locked/Crossed Market Plan, including by sending ISOs to trade with Protected Quotes).

The Exchange proposes that after the transition to Pillar, the following open outcry order types, which are currently described in Rule 6.62-O but are not used by Floor Brokers, would not be added to proposed Rule 6.62P-O governing orders and modifiers: One cancels the other (OCO) Order and Stock Contingency Order.

*Additional Order Instructions and Modifiers.* The Exchange proposes to specify the additional order instructions and modifiers that would be available in Pillar in proposed Rule 6.62P-O(i).

*Proactive if Locked/Crossed Modifier.* Proposed Rule 6.62P-O(i)(1) would provide that a Limit Order that is displayed and eligible to route and designated with a Proactive if Locked/Crossed Modifier would route to an Away Market if the Away Market locks or crosses the display price of the order and that if any quantity of the routed order is returned unexecuted, the order would be displayed in the Consolidated Book. This would be new functionality for options trading on the Exchange and is based on the Proactive if Locked/Crossed Modifier available on the Exchange's cash equity platform, as described in Rule 7.31-E(i)(1) without any differences. The Exchange believes that offering this as an optional modifier for Limit Orders would provide OTP Holders and OTP Firms with additional flexibility to designate a resting displayed order to route if it becomes locked or crossed by an Away Market.

*Self-Trade Prevention ("STP") Modifier.* Self-Trade Prevention ("STP") Modifiers are currently defined in Commentary .01 to Rule 6.76A-O and are available only for Market Maker orders and quotes. On Pillar, the Exchange proposes to expand

the availability of STP to all orders and quotes to offer this protection to trading interest of all OTP Holders and OTP Firms, not just Market Makers. The Exchange believes this expansion is appropriate because it would facilitate market participants' compliance and risk management by assisting them in avoiding unintentional wash-sale trading. Because STP Modifiers are an instruction that can be added to an order or quote, the Exchange proposes that for Pillar, STP Modifiers would be described in proposed Rule 6.62P-O(i)(2). This is based on the structure of the Exchange's cash equity rules, which also describe the STP Modifier in Rule 7.31-E(i), which is available to all market participants.

Proposed Rule 6.62P-O(i)(2) would provide that an Aggressing Order or Aggressing Quote to buy (sell) designated with one of the STP modifiers in proposed Rule 6.62P-O(i)(2) would be prevented from trading with a resting order or quote to sell (buy) also designated with an STP modifier from the same MPID, and, if specified, any sub-identifier of that MPID and that the STP modifier on the Aggressing Order or Aggressing Quote would control the interaction between two orders and/or quotes marked with STP modifiers. In addition, STP would not be applicable during an Auction or to Cross Orders or when a Complex Order legs out. This proposed rule text is based on Commentary .01 to Rule 6.76A with non-substantive differences to use Pillar terminology.

Proposed Rule 6.62P-O(i)(2) would further provide that if the condition for a Limit Order designated FOK, an AON Order, or an arriving order with an MTS modifier designated under proposed Rule 6.62P-O(i)(3)(B)(i) (described below) cannot be met

because of STP modifiers, such order would either be cancelled or placed on the Consolidated Book, as applicable. This functionality would be new on Pillar and reflects that for order types that must trade a specified quantity (either in full or a specified minimum quantity) and could trade with multiple contra-side orders to meet that size requirement, such order types would not be compatible with applying STP, which examines a one-on-one relationship between two interacting orders. This proposed rule text provides clarity that if a condition of an order cannot be met because of STP modifiers, the order would either cancel (i.e., a Limit Order designated FOK), or be added to the Consolidated Book (i.e., an AON Order or an order with an MTS modifier), and then such resting orders would function as described in Rule 6.62P-O.

The proposed rule would further provide that Aggressing Orders or Aggressing Quotes would be processed as follows:

- Proposed Rule 6.62P-O(i)(2)(A) would describe STP Cancel Newest (“STPN”) and provide that an Aggressing Order or Aggressing Quote to buy (sell) marked with the STPN modifier would not trade with resting interest to sell (buy) marked with any STP modifier from the same MPID; that the Aggressing Order or Aggressing Quote marked with the STPN modifier would be cancelled; and that the resting order or quote marked with one of the STP modifiers would remain on the Consolidated Book. This proposed rule is based on Commentary .01(a) to Rule 6.76A-O with non-substantive differences to use Pillar terminology.
- Proposed Rule 6.62P-O(i)(2)(B) would describe STP Cancel Oldest

(“STPO”) and provide that an Aggressing Order or Aggressing Quote to buy (sell) marked with the STPO modifier would not trade with resting interest to sell (buy) marked with any STP modifier from the same MPID; that the resting order or quote marked with the STP modifier would be cancelled; and that the Aggressing Order or Aggressing Quote marked with the STPO modifier would be placed on the Consolidated Book. This proposed rule is based on Commentary .01(b) to Rule 6.76A-O with non-substantive differences to use Pillar terminology.

- Proposed Rule 6.62P-O(i)(2)(C) would describe STP Cancel Both (“STPC”) and provide that an Aggressing Order or Aggressing Quote to buy (sell) marked with the STPC modifier would not trade with resting interest to sell (buy) marked with any STP modifier from the same MPID and that the entire size of both orders and/or quotes would be cancelled. This proposed rule is based on Commentary .01(c) to Rule 6.76A-O with non-substantive differences to use Pillar terminology.

*Minimum Trade Size Modifier.* The Exchange proposes to add the Minimum Trade Size (“MTS”) Modifier, which would be new functionality for options trading on Pillar that is based on the same functionality currently available for cash equity securities trading on Pillar, as described in Rule 7.31-E(i)(3). The Exchange proposes to provide this modifier for options trading to provide OTP Firms and OTP Holders with more features with respect to order handling. The proposed MTS Modifier is similar in concept to both FOK and AON, which are currently available for options trading. With the MTS Modifier, an OTP Holder or OTP Firm would have greater flexibility to



designate a size smaller than the entire quantity (which is current FOK and AON functionality) as a condition for execution. The Exchange notes that the use of an MTS Modifier is not new or novel to options trading.<sup>129</sup>

As with the MTS Modifier for cash equity trading, the proposed MTS Modifier for options traded on Pillar would be available only for non-displayed orders.

Accordingly, proposed Rule 6.62P-O(i)(3) would provide that a Limit IOC Order or Non-Displayed Limit Order may be designated with an MTS Modifier.<sup>130</sup>

Proposed Rule 6.62P-O(i)(3)(A) would provide that the quantity of the MTS Modifier may be less than the order quantity; however, an order would be rejected if it has an MTS Modifier quantity that is larger than the size of the order. This proposed rule is based on Rule 7.31-E(i)(3)(A) with differences only to reflect that the concept of a round lot is not applicable for options trading.

Proposed Rule 6.62P-O(i)(3)(B) would provide that one of the following instructions must be specified with respect to whether an order to buy (sell) with an MTS Modifier would trade on arrival with: (i) orders or quotes to sell (buy) in the Consolidated Book that in the aggregate meet such order's MTS; or (ii) only individual order(s) or quote(s) to sell (buy) in the Consolidated Book that each meets such order's MTS. This proposed rule is based on Rule 7.31-E(i)(3)(B) and sub-paragraphs (i) and (ii) with only non-substantive differences to use options trading terminology (e.g., Consolidated Book

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<sup>129</sup> See, e.g., Nasdaq Options 3, Section 7(a)(3)(B) (describing "Minimum Quantity Order" as "an order that requires that a specified minimum quantity of contracts be obtained, or the order is cancelled").

<sup>130</sup> For cash equity trading, the MTS Modifier is also available for an MPL Order or Tracking Order, which are non-displayed order types available on the Exchange's cash equity trading platform that would not be available for options trading on Pillar. See Rule 7.31-E(i)(3).

instead of NYSE Arca Book and reference to quotes). Otherwise, the functionality would be identical on both the options and cash equity trading platforms.

Proposed Rule 6.62P-O(i)(3)(C) would provide that an order with an MTS Modifier that is designated Day or GTC that cannot be executed immediately on arrival would not trade and would be ranked in the Consolidated Book. In such case, the order to buy (sell) with an MTS Modifier to buy (sell) that is ranked in the Consolidated Book would not be eligible to trade: (i) at a price equal to or above (below) any orders or quotes to sell (buy) that are displayed at a price equal to or below (above) the working price of such order with an MTS Modifier; or (ii) at a price above (below) any orders or quotes to sell (buy) that are not displayed and that have a working price below (above) the working price of such order with an MTS Modifier. This proposed rule is based on Rule 7.31-E(i)(3)(C) and sub-paragraphs (i) and (ii) with only non-substantive differences to use options trading terminology and to reflect the availability of the GTC time-in-force modifier for Non-Displayed Limit Orders. Otherwise, the functionality would be identical on both the options and cash equity trading platforms.

Proposed Rule 6.62P-O(i)(3)(D) would provide that an order with an MTS Modifier that is designated IOC and cannot be immediately executed would be cancelled. This proposed rule is based on Rule 7.31-E(i)(3)(D) without any differences and the functionality would be identical on both the options and cash equity trading platforms.

Proposed Rule 6.62P-O(i)(3)(E) would provide that a resting order to buy (sell) with an MTS Modifier would trade with individual orders and quotes to sell (buy) that each meet the MTS and that (i) if an Aggressing Order or Aggressing Quote to sell (buy) does not meet the MTS of the resting order to buy (sell) with an MTS Modifier, that

Aggressing Order or Aggressing Quote would not trade with, and may trade, through such resting order with an MTS Modifier; and (ii) if a resting non-displayed order or quote to sell (buy) did not meet the MTS of a same-priced resting order or quote to buy (sell) with an MTS Modifier, a subsequently arriving order or quote to sell (buy) that meets the MTS would trade before such resting non-displayed order or quote to sell (buy) at that price. This proposed rule is based on Rule 7.31-E(i)(3)(E) and sub-paragraphs (i) and (ii) with only non-substantive differences to use options trading terminology (i.e., refers to an order trading with contra-side quotes). Otherwise, the proposed functionality would be identical on both the options and cash equity trading platforms.

Proposed Rule 6.62P-O(i)(3)(F) would provide that a resting order with an MTS Modifier would be cancelled if it is traded in part or reduced in size and the remaining quantity is less than such order's MTS. This proposed rule is based on Rule 7.31-E(i)(3)(F) without any differences and the functionality would be identical on both the options and cash equity trading platforms.

In connection with proposed Rule 6.62P-O, the Exchange proposes to add the following preamble to Rule 6.62-O: "This Rule is not applicable to trading on Pillar." This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rule 6.62-O would not be applicable to trading on Pillar.

#### Proposed Rule 6.37AP-O: Market Maker Quotations

Current Rule 6.37A-O describes Market Maker quoting obligations, including defining "quotations," describing the treatment of such quotations, and specifying Market Maker and LMM quoting obligations. Proposed Rule 6.37AP-O would set forth Market Maker quoting obligations under Pillar.

As with current functionality, on Pillar, the Exchange would provide Market Makers with the ability to designate bids and offers as quotations, which is unique to options trading and not applicable to cash equity trading. Currently, the Exchange offers designated “quotation” types to Market Makers, which are described in Rule 6.37A-O(a)(3).<sup>131</sup> On Pillar, as described above in connection with proposed Rules 6.62P-O(e)(1) and (2), the Exchange is proposing to offer quotation functionality for Market Makers that would be displayed, traded, repriced, or cancelled in the same manner as Non-Routable Limit Orders and ALO Orders. As such, Market Makers may designate these two “order” types as quotations and, if designated as a quotation, such bids and offers would be displayed, traded, repriced, or cancelled as described in proposed Rule 6.62P-O(e)(1) and (2), as discussed in detail above. In addition, such quotations would be ranked and executed as described in proposed Rules 6.76P-O and 6.76AP-O, described above. Moreover, if designated as a quotation, such bids or offers would be identifiable to the Exchange as “quotations,” subject to the Market Maker and LMM requirements relating to quotations and the Exchange would be able to monitor a Market Maker’s compliance with quoting obligations because its bids or offers would be designated as quotations. If a Market Maker does not choose to designate a bid or offer as a quotation, such bid or offer would be processed as an “order” and would not count towards a Market Maker’s quoting obligations.<sup>132</sup>

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<sup>131</sup> As described in Rule 6.37A-O(a)(3)(A) - (C), a Market Maker may designate a quote as Market Maker-Light Only Quotation (“MMLO”), Market Maker - Add Liquidity Only Quotation (“MMALO”), and Market Maker - Repricing Quotation (“MMRP”).

<sup>132</sup> For example, a Market Maker could choose to designate a Non-Routable Limit Order as either a quote or as an order, which is consistent with current Rule 6.37B-O, which provides that a Market Maker may enter all order types permitted

- Rule 6.37AP-O(a) would be based on current Rule 6.37A-O(a) and would provide that a Market Maker may send quotations only in the issues included in its appointment. This functionality would not be new, and the Exchange proposes one terminology difference from the current Rule to use the term “send” rather than “enter,” which is a stylistic preference that does not alter the functionality.
- Proposed Rule 6.37AP-O(a)(1) would provide that the term “quote” or “quotation” means “a bid or offer sent by a Market Maker that is not sent as an order,” and that “[a] quotation sent by a Market Maker will replace a previously displayed same-side quotation that was sent from the same order/quote entry port of that Market Maker.”<sup>133</sup> This proposed Rule is similar to current Rule 6.37A-O(a)(1), which provides that “[t]he term ‘quote’ or ‘quotation’ means a bid or offer entered by a Market Maker that updates the Market Maker’s previous bid or offer, if any,” with two distinctions. First, the Exchange proposes textual differences to use the terms “sent” and “received” instead of “entered,” which is a stylistic

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to be entered by Users under the Rules to buy or sell options in all classes of options listed on the Exchange. Accordingly, the functionality set forth in proposed Rule 6.37AP-O(a)(2) herein is not materially different for Market Makers because, under current functionality, they can choose to send as Market Maker orders any order type described in current Rule 6.62-O, including, for example, RPNP, RALO, PNP-Blind Order, and PNP Light Order.

<sup>133</sup> See NYSE Arca Fee Schedule, Port Fees (setting forth fees for order/quote entry ports, which fees are currently \$450 per port per month for the first forty such ports and \$150 per port per month for each port in excess of forty (i.e., 41 and greater), available here: [https://www.nyse.com/publicdocs/nyse/markets/arca-options/NYSE\\_Arca\\_Options\\_Fee\\_Schedule.pdf](https://www.nyse.com/publicdocs/nyse/markets/arca-options/NYSE_Arca_Options_Fee_Schedule.pdf)).

preference that does not alter the functionality. Second, the Exchange proposes additional detail (consistent with current functionality) to make clear that quotations sent by a Market Maker would be replaced, i.e., “updated,” as the term is used in the current rule, when a new same-side quote is sent via the same order/quote entry port.<sup>134</sup> Because LMMs would be Market Makers on Pillar, this functionality would also be available to LMMs.<sup>135</sup>

The NYSE Arca Fee Schedule makes clear that Market Makers can obtain upwards of forty ports for quote entry. Thus, the Exchange believes that establishing when a Market Maker’s previously displayed same-side quotation would be replaced (i.e., when sent via the same order/quote entry port) would add clarity and transparency to Exchange rules. In addition, because the Exchange proposes that a Market Maker may designate Non-Routable Limit Orders or ALO Orders as quotes, the Exchange proposes a difference from the current Rule to provide that a quote is a bid or offer not designated as an order.

- Proposed Rule 6.37AP-O(a)(2) would provide that a Market Maker may

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<sup>134</sup> On the OX system, a Market Maker’s same-side quote is updated when a Market Maker uses the same OTP for quote entry. Therefore, on the OX system, a Market Maker (not acting as an LMM) that uses multiple OTPs could have more than one same-side quote in a series. As discussed supra, because the OX system utilizes a unique identifier for each LMM to send quotes, under current functionality, an LMM cannot have more than one same-side quote in an assigned series. See supra note 54.

<sup>135</sup> See proposed Rule 1.1 definition of Market Maker, which provides that for purposes of Exchange rules, the term Market Maker includes Lead Market Makers, unless the context otherwise indicates.

designate either a Non-Routable Limit Order or an ALO Order as a quote and such quotes would be processed as described in proposed Rule 6.62P-O(e).<sup>136</sup> The similarities and differences between the proposed Non-Routable Limit Orders and ALO Orders on Pillar compared to the existing quote types (i.e., MMLO, MMALO and MMRP) are described in more detail above.<sup>137</sup> Because proposed Rule 6.62P-O(e)(1) and (2), described above, would set forth the treatment of a Non-Routable Limit Order or an ALO Order designated as a quote, the Exchange is not proposing to include a (duplicative) section in proposed Rule 6.37AP-O regarding the treatment of such quotes.

- Proposed Rule 6.37AP-O(b) - (e) would be substantively identical to current Rule 6.37A-O(b) - (e) with non-substantive differences to change the term “shall” to “will,” which is a stylistic preference that would add consistency to Exchange rules. Proposed Commentary .01 to Rule 6.37AP-O would be substantively identical to Commentary .01 to Rule 6.37A-O, with non-substantive differences to streamline the rule text.

The Exchange also proposes a non-substantive change to paragraph (b) of Rule

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<sup>136</sup> See discussion supra regarding proposed Rule 6.62P-O(e)(1) and (2), Non-Routable Limit Order and ALO Orders, respectively, being available as quote types and how such orders compare to the existing MMLO, MMRP, and MMALO quotation functionality.

<sup>137</sup> The Exchange notes that it is not proposing the functionality set forth in current Rule 6.37A-O(a)(4)(C) that provides for the cancellation of a Market Maker’s quote on the opposite side of the market whenever that Market Maker’s same-side quotation is cancelled because such quotation would lock or cross another options exchange is not designated to reprice (i.e., as an MMRP). This current functionality is based on a system limitation that would not exist under Pillar.

6.65A-O (Limit-Up and Limit-Down During Extraordinary Market Volatility) to correct a cross reference to Market Maker quoting obligations as set forth in Rule 6.37AP-O(b) and (c). Current Rule 6.65A(b) erroneously cross-references Rule 6.37B-O(b) and (c).

In connection with proposed Rule 6.37AP-O, the Exchange proposes to add the following preamble to Rule 6.37A-O: “This Rule is not applicable to trading on Pillar.” This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rule 6.37A-O would not be applicable to trading on Pillar.

Proposed Rule 6.40P-O: Pre-Trade and Activity-Based Risk Controls

For the OX system, current Rule 6.40-O sets forth the activity-based Risk Limitation Mechanisms for orders and quotes, which are designed to help OTP Holders and OTP Firms effectively manage risk during periods of increased and significant trading activity. With the transition to Pillar, the Exchange proposes to incorporate new risk control functionality that is based on both existing activity-based risk controls for options and pre-trade risk controls that are available on the Exchange’s cash equity platform. Proposed Rule 6.40P-O would describe the activity-based controls with updated functionality under Pillar and would also describe new optional pre-trade risk controls that are based on pre-trade risk controls available on the Exchange’s cash equity platform, as described in Rule 7.19-E, with proposed differences to reference quotes and proposed new Pillar functionality. The Exchange believes that adding pre-trade risk controls (together with the enhanced activity-based controls) for options trading, as described below, would provide greater flexibility to OTP Holders and OTP Firms in establishing risk controls to align with their risk tolerance for both orders and quotes.

Proposed Rule 6.40P-O(a) would set forth the following definitions that



would be used for purposes of the Rule:

- The term “Entering Firm” would mean an OTP Holder or OTP Firm (including those acting as Market Makers) (proposed Rule 6.40P-O(a)(1)). This proposed definition is based in part on the definition of “Entering Firm” in Rule 7.19-E(a)(1) and the Exchange believes that the addition of this term would add clarity to the proposed rule by using a single, defined term to describe which entities, including Market Makers, could avail themselves of the proposed pre-trade risk controls.
- The term “Pre-Trade Risk Controls” would refer to two optional limits that an Entering Firm may utilize with respect to its trading activity on the Exchange (excluding interest represented in open outcry except CTB Orders (proposed Rule 6.40P-O(a)(2))). These controls would be the “Single Order Maximum Notional Value Risk Limit” and the “Single Order Maximum Quantity Risk Limit.” The proposed Pre-Trade Controls are based on the substantially identical risk controls available on the Exchange’s cash equity market, as described in Rules 7.19-E(a)(3) and (4), respectively, but differ in that the proposed rule would also apply to quotes, which are unique to options trading, and specifies the exclusion of interest represented in open outcry, excluding CTB Orders, as well as the treatment of orders designated GTC, which orders are available for options trading but are not offered on the Exchange’s cash equity market.
  - The term “Single Order Maximum Notional Value Risk Limit”

would refer to a pre-established maximum dollar amount for a single order or quote to be applied one time (proposed Rule 6.40P-O(a)(2)(A)). This definition would also provide that orders designated GTC would be subject to this pre-trade risk control only once.

- The term “Single Order Maximum Quantity Risk Limit” would refer to a pre-established maximum number of contracts that may be included in a single order or quote before it can be traded (proposed Rule 6.40P-O(a)(2)(B)). This definition would also provide that orders designated GTC would be subject to this pre-trade risk control only once.
- The term “Activity-Based Risk Controls” would refer to three activity-based risk limits that an Entering Firm may apply to its orders and quotes in an options class (excluding those represented in open outcry except CTB Orders) based on specified thresholds measured over the course of an Interval (to be defined below) (proposed Rule 6.40P-O(a)(3)). The proposed Activity-Based Risk Controls are based on the substantially identical risk controls set forth in current Rule 6.40-O(b)-(d), except that on Pillar, a Market Maker’s orders and quotes would be aggregated and applied towards each risk limit (as opposed to current functionality, where a Market Maker’s orders and quotes are counted separately). The Exchange believes that aggregating a Market Maker’s quotes and orders for purposes of

calculating activity-based risk controls would better reflect the aggregate risk that a Market Maker has with respect to its quotes and orders. The proposed rule would also add detail to make clear that orders and quotes represented in open outcry, except CTB Orders, would not be subject to these controls, which is consistent with current functionality.

- The term “Transaction-Based Risk Limit” would refer to a pre-established limit on the number of an Entering Firm’s orders and quotes executed in a specified class of options per Interval (proposed Rule 6.40P-O(a)(3)(A)). This risk control is based on the substantially identical risk control set forth in current Rule 6.40-O(b), with the difference described above that a Market Maker’s orders and quotes would be aggregated.
- The term “Volume-Based Risk Limit” would refer to a pre-established limit on the number of contracts of an Entering Firm’s orders and quotes that could be executed in a specified class of options per Interval (proposed Rule 6.40P-O(a)(3)(B)). This risk control is based on the substantially identical risk control set forth in current Rule 6.40-O(c), with the difference described above that a Market Maker’s orders and quotes would be aggregated.
- The term “Percentage-Based Risk Limit” would refer to a pre-established limit on the percentage of contracts executed in a

specified class of options as measured against the full size of such Entering Firm's orders and quotes executed per Interval (proposed Rule 6.40P-O(a)(3)(C)). The proposed definition would also provide that to determine whether an Entering Firm has breached the specified percentage limit, the Exchange would calculate the percent of each order or quote in a specified class of option that is executed during an Interval (each, a "percentage"), and sum up those percentages. As further proposed, this definition would state that this risk limit would be breached if the sum of the percentages exceeds the pre-established limit. This risk control is based on the substantially identical risk control set forth in current Rule 6.40-O(d), with the difference described above that a Market Maker's orders and quotes would be aggregated.

- The term "Global Risk Control" would refer to a pre-established limit on the number of times an Entering Firm may breach its Activity-Based Risk Controls per Interval (proposed Rule 6.40P-O(a)(4)). This proposed definition is based on the substantially identical functionality set forth in current Rule 6.40-O(f).
- The term "Interval" would refer to the configurable time period during which the Exchange would determine if an Activity-Based Risk Control or the Global Risk Control has been breached (proposed

Rule 6.40P-O(a)(5)). This proposed definition is consistent with current Rule 6.40-O, which contains references throughout to a “time period” during which the Exchange will determine whether a breach has occurred. The Exchange believes this proposed definition would add clarity and transparency to Exchange rules.

Proposed Rule 6.40P-O(b) would set forth how the Pre-Trade, Activity-Based and Global Risk Controls could be set or adjusted. Proposed Rule 6.40P-O(b)(1) would provide that these risk controls may be set before the beginning of a trading day and may be adjusted during the trading day. Proposed Rule 6.40P-O(b)(2) would provide that Entering Firms may set these risk controls at the MPID level or at one or more sub-IDs associated with that MPID, or both. Proposed Rule 6.40P-O(b) is based on Rule 7.19-E(b)(3)(A)-(B) but differs in that the proposed rule would incorporate the existing options-based Activity-Based and Global Risk Controls in addition to the (new for options trading) Pre-Trade Risk Controls currently available on the Exchange’s cash equity platform. The Exchange notes that the Activity-Based and Global Risk Controls are unique to the options market and, at this time, the Exchange’s cash equities platform does not offer analogous controls.

Proposed Rule 6.40P-O(c) would set forth the Automated Breach Actions that the Exchange would take if a designated risk limit is breached. Proposed Rule 6.40P-O(c)(1)(A)(i)-(ii) would set forth the automated breach actions for the Pre-Trade Risk Controls.

- Proposed Rule 6.40P-O(c)(1)(A)(i) would provide that a Limit Order or quote that breaches the designated limit of either a Single Order

Maximum Notional Value Risk Limit or Single Order Maximum Quantity Risk Limit would be rejected.

- Proposed Rule 6.40P-O(c)(1)(A)(ii) would provide that a Market Order that breaches the designated limit of a Single Order Maximum Quantity Risk Limit would be rejected. The proposed rule would also provide that a Market Order that breaches the designated limit of a Single Order Notional Value Risk Limit would be rejected if the order arrived during continuous trading or canceled if the order was received during a pre-open state and the quantity remaining to trade after an Auction concludes breaches the designated limit.<sup>138</sup>

Proposed Rule 6.40P-O(c)(1)(A)(i)-(ii) is based on Rule 7.19-E(c)(2) but differs in that it specifies the treatment of Limit Orders and Market Orders (the latter having different treatment based on when such orders arrive at the Exchange) and expands application of the check to include quotes. The Exchange proposes to process Market Orders differently because, until a series is opened, the Exchange is not able to calculate the Single Order Notional Value Risk Limit for a Market Order. Accordingly, this risk limit would be applied only after a series opens, at which point, a Market Order would be cancelled if it fails the risk limit.

Proposed Rule 6.40P-O(c)(2) would set forth the automated breach actions for the Activity-Based Risk Controls.

- Proposed Rule 6.40P-O(c)(2)(A) would first specify that an Entering

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<sup>138</sup> The term “Auction” is defined in proposed Rule 6.64P-O(a)(1), described below in the discussion of proposed Rule 6.64P-O, to mean the opening or reopening of a series for trading either on a trade or quote.

Firm acting as a Market Maker would be required to apply one of the Activity-Based Risk Controls to all of its orders and quotes; whereas an Entering Firm that is not acting as a Market Maker would have the option, but would not be required, to apply one of the Activity-Based Risk Controls to its orders. The requirement that Market Makers utilize Activity-Based Risk Controls for all quotes mirrors the requirements set forth in Rule 6.40-O, Commentary .04(a); however, the proposed rule differs in that it likewise requires Market Makers to apply one of the Activity-Based Risk Controls to all of its orders. The Exchange believes that requiring that both Market Maker quotes and Market Maker orders be subject to one of the Activity-Based Controls would enhance Market Makers' ability to assess their total risk exposure on the Exchange. The proposed optionality of the Activity-Based Risk controls for orders sent by an Entering Firm not acting as a Market Maker mirrors current Rule 6.40-O, Commentary .04(b)).

- Proposed Rule 6.40P-O(c)(2)(B) would provide that to determine when an Activity-Based Risk Control has been breached, the Exchange would maintain Trade Counters that would be incremented every time an order or quote trades, including any leg of a Complex Order, and would aggregate the number of contracts traded during each such execution. As further proposed, an Entering Firm may opt to exclude any orders designated IOC or FOK from being considered by a Trade Counter. This is consistent with existing functionality set

forth in Rule 6.40-O(a) and Commentary .07, with a proposed difference to allow an Entering Firm to also exclude orders designated FOK, which, like orders designated IOC, cancel if not executed on arrival and is based on current functionality.<sup>139</sup> The Exchange believes that specifying that orders designated FOK could be excluded from being considered for a Trade Counter would add granularity and clarity to Exchange rules. In addition, as noted above, a Market Maker's quotes and orders in a given option class would be aggregated and therefore the Exchange proposes that there would not be separate Trade Counters for a Market Maker's quotes and orders.

- Proposed Rule 6.40P-O(c)(2)(C) would provide that each Entering Firm must select one of three Automated Breach Actions for the Exchange to take should the Entering Firm breach an Activity-Based Risk Control.
  - “Notification Only.” As set forth in proposed Rule 6.40P-O(c)(2)(C)(i), if this option is selected, the Exchange would continue to accept new order and quote messages and related instructions and would not cancel any unexecuted orders or quotes in the Consolidated Book. With the “Notification Only” action,

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<sup>139</sup> See Securities Exchange Act Release No. 81717 (September 25, 2017), 82 FR 45631 (September 29, 2017) (SR-NYSEArca-2017-96) (immediately effective filing to exclude IOC Orders from risk settings because such exclusion, among other things, would result in risk settings that may be better calibrated to suit the needs of certain market participants (i.e., those that routinely utilize IOC orders to access liquidity on the Exchange)).



the Exchange would provide such notifications, but would not take any other automated actions with respect to new or unexecuted orders. This proposed functionality is not currently available for options trading, but is available for breach of the Gross Credit Risk Limit on the Exchange's cash equity platform, as set forth in Rule 7.19-E(c)(3)(A)(i). The Exchange believes that making this Automated Breach Action available to Activity-Based Risk Controls, which are unique to options trading, would provide Entering Firms more control and flexibility over setting risk tolerance and, as such, over how Activity-Based Risk Controls are implemented.

- "Block Only." As set forth in proposed Rule 6.40P-O(c)(2)(C)(ii), if this option is selected, the Exchange would reject new order and quote messages and related instructions, provided that the Exchange would continue to process instructions from the Entering Firm to cancel one or more orders or quotes (including Auction-Only Orders) in full. The proposed rule would also provide that the Exchange would follow any instructions specified in paragraph (e) of the proposed Rule (and described below). This proposed functionality is not currently available for options trading under current Rule 6.40-O, but is available for breach of the Gross Credit Risk Limit on the Exchange's cash equity platform, as set forth in Rule 7.19-E(c)(3)(A)(ii). The Exchange

believes that making this Automated Breach Action available to Activity-Based Risk Controls, which are unique to options trading, would provide Entering Firms more control and flexibility over setting risk tolerance and, as such, over how Activity-Based Risk Controls are implemented.

- “Cancel and Block.” As set forth in proposed Rule 6.40P-O(c)(2)(C)(iii), if this option is selected, in addition to the Block Only actions described above, the Exchange would also cancel all unexecuted orders and quotes in the Consolidated Book other than Auction-Only Orders and orders designated GTC. This proposed Cancel and Block functionality is substantially similar to the automated breach action taken by the Exchange per current Rule 6.40-O(e) and Commentaries .01 and .02 thereto, except that under the current rules, this is default (not optional) functionality. Additionally, this proposed functionality is substantially identical to the Cancel and Block option set forth in Rule 7.19-E(c)(3)(A)(iii), which is available for breach of the Gross Credit Risk Limit on the Exchange’s cash equity platform. The Exchange believes that making this Automated Breach Action available to respond to a breach of Activity-Based Risk Controls, which are unique to options trading, would provide Entering Firms more control and flexibility over setting risk tolerance and, as such, over how Activity-Based Risk Controls are implemented.

- Finally, proposed Rule 6.40P-O(c)(2)(D) would provide that if an Entering Firm breaches an Activity-Based Risk Control, the Automated Breach Action selected would be applied to its orders and quotes in the affected class of options. This proposed action is consistent with current Rule 6.40-O(e) and Commentaries .01 and .02 thereto, which provide that, upon a breach, the Exchange will cancel existing and suspend new orders and quotes trading in the affected class.

Proposed Rule 6.40P-O(c)(2)(E) would provide that the Exchange would specify by Trader Update any applicable minimum, maximum and/or default settings for the Activity-Based Risk Controls, subject to the following:

- For the Transaction-Based Risk Limit, the minimum setting would not be less than one and the maximum setting would not be more than 2,000 (proposed Rule 6.40P-O(c)(2)(E)(i)), which settings are identical to the Exchange-determined settings provided under current Rule 6.40-O, Commentary .03.
- For the Volume-Based Risk Limit, the minimum setting would not be less than one and the maximum setting would not be more than 500,000 (proposed Rule 6.40P-O(c)(2)(E)(ii)), which settings are identical to the Exchange-determined settings provided under current Rule 6.40-O, Commentary .03.
- For the Percentage-Based Risk Limit, the minimum setting would not be less than 50 and the maximum setting would not be more than

200,000 (proposed Rule 6.40P-O(c)(2)(E)(iii)), which maximum setting is the same as the minimum Exchange-determined setting set forth in current Rule 6.40-O, Commentary .03. The Exchange proposes to increase the minimum setting from less than one (in current rule) to not be less than 50 to better reflect actual practice, because under current Rules, there are no OTP Holders or OTP Firms that have set their Percentage-Based Risk Limits below 50.

Proposed Rule 6.40P-O(c)(2)(F) would provide that the Exchange would specify by Trader Update the Interval for the Activity-Based Risk Controls, subject to the following:

- The Interval would not be less than 100 milliseconds and would not be greater than 300,000 milliseconds, inclusive of the duration of any trading halt occurring within that time (proposed Rule 6.40P-O(c)(2)(F)(i)), which minimum setting is identical to the Exchange-determined minimum set forth in current Rule 6.40-O, Commentary .03. Although the current rule does not include a maximum time period, the Exchange proposes to include a maximum allowable Interval to promote clarity in Exchange rules of the longest time an Interval could be.
- For transactions occurring in the Core Open Auction, per Rule 6.64P-O, the applicable time period would be the lesser of (i) the time between the Core Open Auction of a series and the initial transaction or (ii) the Interval (proposed Rule 6.40P-O(c)(2)(F)(ii)), which

proposed time period is identical to the timing provided under current Rule 6.40-O, Commentary .03.

Proposed Rule 6.40P-O(c)(3) would set forth the automated breach actions for the Global Risk Controls set by an Entering Firm.

- Proposed Rule 6.40P-O(c)(3)(A) would provide that if the Global Risk Control limit is breached, the Exchange would Cancel and Block, per proposed Rule 6.40P-O(c)(2)(C)(iii), which proposed functionality is substantively the same as the functionality provided under current Rule 6.40-O, Commentaries .01 (regarding cancellation of existing orders) and .02 (regarding block/rejection of new orders).
- Proposed Rule 6.40P-O(c)(3)(B) would provide that if an Entering Firm breaches the Global Risk Control, the Automated Breach Action would be applied to all orders and quotes of the Entering Firm in all classes of options regardless of which class(es) of options caused the underlying breach of Activity-Based Risk Controls, which proposed functionality is substantively the same as the functionality provided (in the last sentence) of current Rule 6.40-O, Commentary .02 in the event of a breach of current Rule 6.40-O(f) (i.e., breach of global risk setting).
- Proposed Rule 6.40P-O(c)(3)(C) would provide that the Exchange would specify by Trader Update any applicable minimum, maximum and/or default settings for the Global Risk Controls, provided that the minimum setting would not be less than 25 and the maximum setting would not be more than 100. These proposed settings are based on the Exchange-

determined setting provided under current rule 6.40-O, Commentary .03, except that the current rule allows for a minimum setting of one (1) whereas the proposed rule is increasing that minimum to twenty-five (25), which the Exchange believes would better reflect actual practice, because under current Rules, there are no OTP Holders or OTP Firms that have set their Global Risk Controls below 25.

- Proposed Rule 6.40P-O(c)(3)(D) would provide that the Exchange would specify by Trader Update the Interval for the Global Risk Controls, subject to the following:
  - The Interval would not be less than 100 milliseconds and would not be greater than 300,000 milliseconds, inclusive of the duration of any trading halt occurring within that time, per proposed Rule 6.40P-O(c)(3)(D)(i), which minimum setting is identical to the Exchange-determined minimum set forth in current Rule 6.40-O, Commentary .03. Although the current rule does not include a maximum time period, the Exchange proposes to include a maximum allowable Interval to allow an outside parameter by which the counters would be reset, which would promote transparency in Exchange rules regarding the maximum allowable Interval.
  - For transactions occurring in the Core Open Auction, per Rule 6.64P-O, the applicable time period is the lesser of (i) the time between the Core Open Auction of a series and the initial

transaction or (ii) the Interval, per proposed Rule 6.40P-O(c)(3)(D)(ii), which proposed time period is identical to the timing provided under current Rule 6.40-O, Commentary .03.

Proposed Rule 6.40P-O(d) describes how an Entering Firm's ability to enter orders, quotes, and related instructions would be reinstated after a "Block Only" or "Cancel and Block" Automated Breach Action has been triggered. In such case, proposed Rule 6.40P-O(d) provides that the Exchange would not reinstate the Entering Firm's ability to enter orders and quotes and related instructions on the Exchange (other than instructions to cancel one or more orders or quotes (including Auction-Only Orders and orders designated GTC) in full) without the consent of the Entering Firm, which may be provided via automated contact if it was a breach of an Activity-Based Risk Control. As further proposed, an Entering Firm that breaches the Global Risk Control would not be reinstated unless the Entering Firm provides consent via non-automated contact with the Exchange. This proposed functionality is consistent with current Rule 6.40-O, Commentary .02 regarding the need for an Entering Firm to make automated or non-automated contact with the Exchange, as applicable, prior to being reinstated. Proposed Rule 6.40P-O(d) is also substantively the same as the more granular level of risk control under Pillar functionality available for cash equity trading per Rule 7.19-E(d), except that the proposed rule does not reference Clearing Firms, which feature would remain specific to cash-equity trading and not be applied to options trading.

Proposed Rule 6.40P-O(e) would set forth new "Kill Switch Action" functionality, which would allow an Entering Firm to direct the Exchange to take certain bulk cancel or block actions with respect to orders and quotes. In contrast to the

Automated Breach Actions described above, which the Exchange would take automatically after the breach of a risk limit, the Exchange would not take any of the Kill Switch Actions without express direction from an Entering Firm. The Exchange believes that the proposed Kill Switch Action functionality would also provide OTP Holders and OTP Firms with greater flexibility to provide bulk instructions to the Exchange with respect to cancelling existing orders and quotes and blocking new orders and quotes.

Proposed Rule 6.40P-O(e) would specify that an Entering Firm could direct the Exchange to take one or more of the following actions with respect to orders and quotes (excluding those represented in open outcry except CTB Orders), at either an MPID, or if designated, sub-ID Level: (1) Cancel all Auction-Only Orders; (2) Cancel all orders designated GTC; (3) Cancel all unexecuted orders and quotes in the Consolidated Book other than Auction-Only Orders and orders designated GTC; or (4) Block the entry of any new order and quote messages and related instructions, provided that the Exchange would continue to accept instructions from Entering Firms to cancel one or more orders or quotes (including Auction-Only Orders and orders designated GTC) in full, and later, reverse that block. The proposed post-trade Kill Switch Actions are not currently available for options trading per Rule 6.40-O and are substantially identical to the Kill Switch Action available on the Exchange's cash equity platform pursuant to Rule 7.19-E(e), with a difference to address the handling of quotes as well as orders designated GTC, which are not available on the cash equity platform. The Exchange believes that offering this functionality for options trading under Pillar would give Entering Firms more flexibility in setting risk controls for options trading (as noted above) and add



consistency with the Exchange's risk control functionality available for cash equity trading. Providing "Kill Switch Action" functionality in Exchange rules is consistent with the rules of other options exchanges.<sup>140</sup>

Proposed Commentary .01 to Rule 6.40P-O would provide that the Pre-Trade, Activity-Based, and Global Risk Controls described in the proposed Rule 6.40P-O are meant to supplement, and not replace, the OTP Holder's or OTP Firm's own internal systems, monitoring, and procedures related to risk management and are not designed for compliance with Rule 15c3-5 under the Exchange Act.<sup>141</sup> Responsibility for compliance with all Exchange and SEC rules remains with the OTP Holder or OTP Firm. This proposed language is not included in existing Rule 6.40-O, and is based on Commentary .01 to Rule 7.19-E. The proposed rule makes clear that use of the proposed controls alone does not constitute compliance with Exchange rules or the Exchange Act.

In connection with proposed Rule 6.40P-O, the Exchange proposes to add the following preamble to Rule 6.40-O: "This Rule is not applicable to trading on Pillar." This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rule 6.40-O would not be applicable to trading on Pillar.

#### Proposed Rule 6.41P-O: Price Reasonability Checks - Orders and Quotes

The Exchange proposes to describe its Price Reasonability Checks for orders and

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<sup>140</sup> See, e.g., Cboe Rule 5.34(c)(6) (describing the optional "Kill Switch" functionality, which allows a Cboe participant to instruct Cboe to simultaneously cancel or reject all orders or quotes (or a subset thereof) as well as to instruct Cboe to block all orders or quotes (or a subset thereof), which block instructions will remain in effect until such participant contacts Cboe's trade desk to remove the block).

<sup>141</sup> 17 CFR 240.15c3-5.

quotes in proposed Rule 6.41P-O.<sup>142</sup> For the OX system, the concept of “Price Reasonability Checks” for Limit Orders are described in Rule 6.60-O(c) and the concept of price protection filters for quotes are described in Rule 6.61-O. The proposed “Price Reasonability Checks” on Pillar would be applicable to both orders and quotes and are designed to provide similar price protections as the current price checks for Limit Orders and price protection filters for quotes on the OX system, with differences as described in more detail below. The Exchange believes that applying the same Price Reasonability Checks to both orders and quotes and describing them in a single rule would make the Exchange’s rules easier to navigate, while continuing to provide price protection features for both orders and quotes. The Exchange proposes to locate the rule text for the proposed Price Reasonability Checks in Rule 6.41P-O to immediately follow Rule 6.40P-O regarding the Pre-Trade and Activity-Based Controls, as this placement would group the risk controls together and make Exchange rules easier to navigate.

Proposed Rule 6.41P-O(a)(1)-(3) would set forth the circumstances under which the proposed Price Reasonability Checks would apply. Proposed Rule 6.41P-O(a) would provide that the Exchange would apply the Price Reasonability Checks, as defined in proposed paragraphs (b) and (c), to all Limit Orders and quotes (excluding those represented in open outcry except CTB Orders), during continuous trading on each trading day, subject to the following:

- Proposed Rule 6.41P-O(a)(1) would provide that a Limit Order or quote received during a pre-open state would be subject to the proposed Price

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<sup>142</sup> Current Rule 6.41-O is held as Reserved. The Exchange proposes to renumber the proposed rule with the “P” modifier and remove reference to “Reserved.”

Reasonability Checks after an Auction concludes; that a Limit Order or quote that was resting on the Consolidated Book before a trading halt would be subject to the proposed Price Reasonability Checks again after the Trading Halt Auction; and that a put option message to buy would be subject to the Arbitrage Check regardless of when it arrives. This proposed rule is based on current Rule 6.60-O(c), which provides that the Price Reasonability Checks (for orders) are applied when a series opens or reopens for trading, and is similar to Rule 6.61-O(a)(1), which provides that Market Maker quote protection will be applied when an NBBO is available. NBBO protection is available when a series is opened for trading. Proposed Rule 6.41P-O(a)(1) includes additional detail and granularity regarding when the proposed Price Reasonability Checks would be applied under Pillar. The proposed Rule also adds new functionality that a put option message to buy would be subject to the Arbitrage Check even if a series is not open for trading. The Exchange believes that it is appropriate to apply this check to put option messages to buy at any time because the check is not dependent on an external reference price.

- Proposed Rule 6.41P-O(a)(2) would provide that if the calculation of the Price Reasonability Check is not consistent with the MPV for the series, it would be rounded down to the nearest price within the applicable MPV, which is consistent with current functionality. The Exchange believes this proposed rule would promote clarity and transparency in Exchange rules

regarding how the Price Reasonability Check would be calculated.

- Proposed Rule 6.41P-O(a)(3) would provide that the proposed Price Reasonability Checks would not apply to (i) any options series for which the underlying security has a non-standard cash or stock deliverable as part of a corporate action; (ii) any options series for which the underlying security is identified as over-the-counter (“OTC”); (iii) any option series on an index; and (iv) any option series for which the Exchange determines it is necessary to exclude underlying securities in the interests of maintaining a fair and orderly market, which the Exchange would announce by Trader Update. Proposed Rule 6.41P-O(a)(3) is based on current Commentary .01 to Rule 6.60-O (orders) and 6.61-O (quotes), with a non-substantive difference that the proposed rule no longer references Binary Return Derivatives (“ByRDs”) because ByRDs are no longer traded on the Exchange.

Proposed Rule 6.41P-O(b) would set forth the “Arbitrage Checks” for buy orders or quotes, which subset of Price Reasonability Checks are based on the principle that an option order or quote 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.

- Proposed Rule 6.41P-O(b)(1) relates to “puts” and would provide that order or quote messages to buy for put options would be rejected if the price of the order or quote is equal to or greater than the strike price of the option, which is substantively identical to current Rules 6.60-O(c)(1)(A) (for orders) and 6.61-O(a)(3) (for quotes).

- Proposed Rule 6.41P-O(b)(2) relates to “calls” and would provide that order or quote messages to buy for call options would be rejected or canceled (if resting) if the price of the order or quote is equal to or greater than the last sale price of the underlying security on the Primary Market, plus a specified threshold to be determined by the Exchange and announced by Trader Update. This proposed rule is substantially similar to current Rules 6.60-O(c)(1)(B) (for orders) and 6.61-O(a)(2)(B) (for quotes), with several differences. First, because the Exchange is monitoring last sales from the Primary Market, the Exchange proposes that the Exchange-specified threshold for the Checks would be based on the last sale on the Primary Market rather than on the Consolidated Last Sale.<sup>143</sup> The Exchange believes that the last sale on the Primary Market would be indicative of the price of the underlying security and that by using the last sale of the Primary Market rather than the Consolidated Last Sale, the Pillar system would need to ingest and process less data, thereby improving efficiency and performance of the system. The Exchange believes this proposed difference would not compromise the price protection feature of the proposed Arbitrage Checks. Second, current Rule 6.61-O(a)(2)(A) and (C) specifies which price would be used for Market

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<sup>143</sup> Per proposed Rule 1.1., the term “Primary Market” with respect to options traded on the Exchange means the principal market in which the underlying security is traded. The Exchange also notes a difference in that the proposed Rule refers to a “specified threshold,” whereas current Rule 6.60-O(c)(1)(B) refers to a “specified dollar amount,” which difference is designed to give the Exchange more flexibility in applying the Arbitrage Check to use a percentage-based threshold.

Maker bids made before the underlying security is open or during a trading halt, pause, or suspension of the underlying security. Because on Pillar the proposed Arbitrage Checks for calls (for orders and quotes) would be applied only once a series has opened or reopened for trading, the Exchange no longer needs to specify prices other than the last sale on the Primary Market for purposes of calculating the Arbitrage Check for calls. The Exchange proposes to reflect this difference from currently functionality in Rule 6.41P-O(b)(2).

Proposed Rule 6.41P-O(c) would set forth the “Intrinsic Value Checks” for orders or quotes to sell, which are designed to protect sellers of calls and puts from presumptively erroneous executions based on the “Intrinsic Value” of an option.

- Proposed Rule 6.41P-O(c)(1)-(2) would set forth how the Intrinsic Value of an option would be determined. Proposed Rule 6.41P-O(c)(1) would provide that the Intrinsic Value for a put option is equal to the strike price minus the last sale price of the underlying security on the Primary Market. Proposed Rule 6.41P-O(c)(2) would provide that the Intrinsic Value for a call option is equal to the last sale price of the underlying security on the Primary Market minus the strike price. Proposed Rule 6.41P-O(c)(1)-(2) is based on how the intrinsic value is calculated in current Rule 6.60-O(c)(2) for orders, with two differences. First, the proposed “Intrinsic Value Checks” would also apply to quotes, which would be new on Pillar and would provide Market Makers with additional protection for quotes to sell. Second, the Intrinsic Value of an option would be based on the last

sale on the Primary Market rather than on the Consolidated Last Sale for the same reasons discussed above, that it would enhance performance without compromising the price protection feature of the Intrinsic Value Checks.

- Proposed Rule 6.41P-O(c)(3) would provide that ISOs to sell would not be subject to the Intrinsic Value Check, which carve out is substantively identical to current Rule 6.60-O(c)(2).
- Proposed Rule 6.41P-O(c)(4) would describe the application of the Intrinsic Value Checks to puts and calls to sell.
  - Proposed Rule 6.41P-O(c)(4)(A) would provide that orders or quotes to sell for both puts and calls would be rejected or canceled (if resting) if the price of the order or quote is equal to or lower than its Intrinsic Value, minus a specified threshold to be determined by the Exchange and announced by Trader Update.
  - Proposed Rule 6.41P-O(c)(4)(B) would provide that the Exchange-determined threshold percentage (per paragraph (c)(4)(A)) would be based on the NBB, provided that, immediately following an Auction, it would be based on the Auction Price, or, if none, the lower Auction Collar price, or, if none, the NBB.<sup>144</sup> This proposed threshold percentage is similar to how the Reference Price would be determined for Trading Collars, as described above pursuant to

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<sup>144</sup> See discussion *infra*, regarding proposed Rule 6.64P-O(a) and proposed definitions for the terms “Auction,” “Auction Price,” “Auction Collar,” “pre-open state,” and “Trading Halt Auction.”

proposed Rule 6.64P-O(a)(4). As further proposed, Rule 6.41P-O(c)(4)(B) would provide that for purposes of determining the Intrinsic Value, the Exchange would not use an adjusted NBBO. The Exchange further proposes that the Intrinsic Value Check for sell orders and quotes would not be applied if the Intrinsic Value cannot be calculated.

Proposed Rule 6.41P-O(c)(4)(A)-(B) is substantially similar to current Rule 6.60-O(a)(2)(A), which describes the application of the Intrinsic Value check for orders, with the following differences:

- The proposed rule would extend this price protection to quotes, providing Market Makers with additional protection mechanisms;
- The proposed rule would provide additional detail regarding how the specified threshold percentage would be determined immediately following an Auction;
- The proposed rule would establish that an unadjusted NBBO would not be used to calculate the Intrinsic Value; and
- The proposed rule includes text providing that if the Intrinsic Value cannot be calculated, the Check would not be applied.

The Exchange believes that these additions would both add granularity to the rule and enhance the functionality for calculating and applying the Intrinsic Value. For the same reasons described above in connection with Limit Order Price Protection and Trading Collars, the Exchange believes that using an unadjusted NBBO would serve price protection purposes by using a more conservative view of the NBBO.



Proposed Rule 6.41P-O(d) would provide the Automated Breach Action to be applied when a Market Maker's order or quote fails one of the Price Reasonability Checks. As proposed, if a Market Maker's order or quote message is rejected or cancelled (if resting) pursuant to proposed paragraph (b) (Arbitrage Checks) or (c) (Intrinsic Value Checks) of proposed Rule 6.41P-O, the Exchange would Cancel and Block orders and quotes in the affected class of options as described in Rule 6.40P-O(c)(2)(C)(iii) (as described above in section "Proposed Rule 6.40P-O").

Proposed Rule 6.41P-O(d)(1) would provide that a breach of proposed Rule 6.41P-O(d) would count towards a Market Maker's Global Risk Control limit per Rule 6.40P-O(a)(4) (as described above in section "Proposed Rule 6.40P-O").

Proposed Rule 6.41P-O(d)(2) concerns how a Market Maker would be reinstated following an automated breach action. As proposed, the Exchange would not reinstate the Market Maker's ability to enter orders and quotes and related instructions on the Exchange in that class of options (other than instructions to cancel one or more orders/quotes (including Auction-Only Orders and orders designated GTC) in full) without the consent of the Market Maker, which may be provided via automated contact.

Rule 6.41P-O(d) is substantially similar to current Rule 6.61-O(b), except that the proposed rule applies to both the orders and quotes of a Market Maker (not just quotes) and provides the additional functionality that a breach of the Price Reasonability Checks would count towards a Market Maker's Global Risk Control limit under proposed Rule 6.40P-O(c)(3), which functionality would be new under Pillar. The Exchange believes that the proposed new functionality would provide OTP Holders and OTP Firms greater control and flexibility over setting risk tolerance and exposure for

both orders and quotes. In connection with proposed Rule 6.41P-O, the Exchange proposes to add the following preamble to Rules 6.60-O and 6.61-O: “This Rule is not applicable to trading on Pillar.” This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rules 6.60-O and 6.61-O would not be applicable to trading on Pillar.

Proposed Rule 6.64P-O: Auction Process

Current Rule 6.64-O, OX Opening Process, sets forth the opening process currently used on the Exchange’s OX system for opening trading in a series each day and reopening trading in a series following a trading halt. Current Rule 6.64-O(a) defines the term “Trading Auction” as the process by which trading is initiated in a specified options class that may be employed at the opening of the Exchange each business day or to reopen trading after a trading halt, and that Trading Auctions will be conducted automatically by the OX system. Current Rules 6.64-O (b) and (c) describe the manner for the automated Trading Auctions and provide that, once the primary market for the underlying security disseminates a quote and a trade that is at or within the quote, the OX System then conducts an Auction Process (“current Auction Process”) whereby the OX System determines a single price at which a series may be opened by looking to the price at which the greatest number of contracts can trade at or between the NBBO disseminated by OPRA.<sup>145</sup>

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<sup>145</sup> If the same number of contracts can trade at multiple prices, the opening price is the price at which the greatest number of contracts can trade that is at or nearest to the midpoint of the NBBO disseminated by OPRA; unless one such price is equal to the price of any resting Limit Order(s) in which case the opening price is the same price as the Limit Order(s) with the greatest size and, if the same size, the highest price and if there is a tie between price levels and no Limit Orders exist at either of the prices, the Exchange uses the higher price. See Rule 6.64-O(c).

As described in Rule 6.64-O(b)(D), the Exchange will not conduct the current Auction Process to open a series if the bid-ask differential for that series is not within an acceptable range, i.e., is not within the bid-ask differential guidelines established in Rule 6.37-O(b)(4).<sup>146</sup> If a series does not open for trading, market and limit orders entered in advance of the current Auction Process remain in the Consolidated Book and will not be routed, even if another exchange opens that series for trading and such resting orders become Marketable against the ABBO.<sup>147</sup>

The Exchange proposes that new Rule 6.64P-O would set forth the automated process for both opening and reopening trading in a series on the Exchange on Pillar. The Exchange proposes to specify that current Rule 6.64-O would not be applicable to trading on Pillar. With the transition to Pillar, the fundamental process of how an option series would be opened (or reopened) on the Exchange would not materially change because the Exchange would continue to assess whether a series can be opened based on whether the bid-ask differential for a series is within a specified range. However, with the availability of Pillar technology, the Exchange proposes differences to the proposed auction process that are designed to provide additional opportunities for an options series to open or reopen for trading even if the bid-ask differential is wider than the specified guidelines. While this proposed functionality would be new for options trading on the Exchange, it is not novel for an options exchange to provide additional opportunities for a

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<sup>146</sup> Because Rule 6.64-O(b)(D) cross-references the bid-ask differential requirement of Rule 6.37-O (b)(4), which relates to the obligations of Market Makers in appointed classes, the Exchange will not open a series for trading if the NBBO disseminated by OPRA in a series is not within such bid-ask differentials.

<sup>147</sup> The term “Marketable” is defined in proposed Rule 1.1 to mean for a Limit Order, an order that can be immediately executed or routed and Market Orders are always considered marketable.”

series to open after a specified period of time in a wide market.<sup>148</sup> In addition, the Exchange proposes to specify minimum time periods to allow a Market Maker(s) to quote in an assigned series before the series is opened or reopened. With the proposed Auction Process, described further below, the Exchange endeavors to attract the highest quality quote for each series at the open to attract order flow for the auction. While the Exchange does not require Market Makers assigned to a series to quote before a series can be opened (or reopened), the Exchange believes that providing time for such Market Makers to do so would provide both better and more consistent prices on executions to OTP Holders and OTP Firms in an Auction and a smoother transition to continuous trading. In addition, the Exchange believes that the proposed changes would enhance the opening/reopening process on the Exchange by providing a transparent and deterministic process for the Exchange to open additional series for trading.

Further, the Exchange proposes additional enhancements (and detail them in the rule) that are based on existing Pillar functionality for the Exchange's cash equity platform's electronic auctions relating to how orders and quotes would be processed if they arrive during the period when the Exchange is processing an Auction and how the Exchange would process orders and quotes when it transitions to continuous trading following an Auction. Because the Exchange would be using Pillar terminology, the

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<sup>148</sup> For example, Cboe recently amended Cboe Rule 5.31 relating to its opening process to provide for a "forced opening" process that is used if an option class is unable to open because it does not meet the applicable bid-ask differential. In such case, if the "Composite Market" is not crossed and there is no non-zero offer, within a specified time period, Cboe will open the series without a trade. See Securities Exchange Act Release No. 90967 (January 22, 2021), 86 FR 7249 (January 28, 2021) (SR-Cboe-2021-005) (Notice of filing and immediate effectiveness of proposed rule change to amend Cboe's opening process for simple orders).

Exchange proposes to structure proposed Rule 6.64P-O based in part on Rule 7.35-E, which is the Exchange's cash equity rule governing auctions (relating to separate sections describing definitions, order processing during an Auction Processing Period, and transition to continuous trading) and NYSE Rule 7.35, which is NYSE's rule governing auctions (relating to separate sections describing definitions, Auction Ranking, Auction Imbalance Information, order processing during an Auction Processing Period, and transition to continuous trading). In addition, the Exchange proposes to include in Rule 6.64P-O how the Exchange would process orders and quotes during a trading halt, which is structured based in part on Rule 7.18-E(b) and (c), which describe how the Exchange processes new and existing orders during a trading halt on its cash equity market. This text would be new and is designed to provide granularity and transparency in Exchange rules.

*Definitions.* Proposed Rule 6.64P-O(a) would provide that the Rule would be applicable to all series that trade on the Exchange other than Flex Options.<sup>149</sup> Proposed Rule 6.64P-O(a) would set forth the definitions that would be used for purposes of Rule 6-O Options Trading and applicable to trading on Pillar. Certain of the proposed definitions are the same as (or similar to) auction-related definitions used on the Exchange's cash equity platform, per Rule 7.35-E (Auctions), with differences noted herein. To the extent that a definition from Rule 7.35-E is not utilized in proposed Rule

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<sup>149</sup> With the transition to Pillar, the Exchange is not making any changes to how Flex Options trade. Rule 5.31-O provides that Flex Options transactions may be effected during normal Exchange options trading hours on any business day and there will be no trading rotations in Flex Options. Rule 5.33-O sets forth the procedures for trading Flex Options. The opening process for Electronic Complex Orders is set forth in Rule 6.91-O.

6.64P-O, the Exchange has determined that such definition(s) is either inapplicable to the opening process for options trading or that the relevant, analogous concept(s) is covered elsewhere in the proposed rule.

- Proposed Rule 6.64P-O(a)(1) would define the term “Auction” to mean the opening or reopening of a series for trading either with or without a trade. This proposed definition is based in part on current Rule 6.64-O(a), which defines the term “Trading Auction” to be a process by which trading is initiated in a specified options class that may be employed at the opening of the Exchange each business day or to re-open trading after a trading halt.<sup>150</sup> On Pillar, the Exchange proposes that the term “Auction” would refer to the point in the process where the Exchange determines that a series can be opened or reopened either with or without a trade. After an Auction concludes, the series then transitions to continuous trading. Proposed Rule 6.64P-O(a)(1)(A) would provide that a “Core Open Auction” means the Auction that opens trading after the beginning of Core Trading Hours and proposed Rule 6.64P-O(a)(1)(B) would provide that a “Trading Halt Auction” means the Auction that reopens trading following a trading halt. These are Pillar terms that would be new to options trading and are based on the same terms currently used in Rule 7.35-E(c) and (e) for the same purposes.

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<sup>150</sup> See also Rule 6.64-O(d) (providing that a Trading Auction to reopen an option class after a trading halt is conducted in the same manner as a Trading Auction to open each option class at the start of each trading day, i.e., as described in Rule 6.64-O(a) - (c)).

- Proposed Rule 6.64P-O(a)(2) would define the term “Auction Collar” to mean the price collar thresholds for the Indicative Match Price (defined below) for an Auction. As further proposed, the upper Auction Collar would be the offer of the Legal Width Quote (defined below) and the lower Auction Collar would be the bid of the Legal Width Quote, provided that if the bid of the Legal Width Quote is zero, the lower Auction Collar would be one MPV above zero for the series. The proposed rule would further provide that if there is no Legal Width Quote, the Auction Collars would be published in the Auction Imbalance Information (defined below) as zero.

The proposed terminology of “Auction Collar” would be new for options trading and is based on the same term used in Rule 7.35-E(a)(10) for trading cash equity securities. As proposed, the Auction Collars would be set at the Legal Width Quote (described below) and would prevent an Auction trade from occurring at a price outside of the Legal Width Quote. The Exchange believes that the concept of Auction Collars is similar to the current requirement that the Exchange will not open a series if the bid-ask differential is not within the bid-ask differential guidelines established under Rule 6.37-O(b)(4).<sup>151</sup> Thus, the proposed Auction Collars (based on a Legal Width Quote) would use Pillar terminology to prevent an Auction that results in a trade from being priced outside the bid-ask differential

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<sup>151</sup> See Rule 6.64-O(b)(D) and (E). The Exchange notes that in common parlance bid-ask differentials are known as “legal-width quotes.”

applicable to Auctions on Pillar.<sup>152</sup>

Proposed Rule 6.64P-O(a)(3) would define the term “Auction Imbalance Information” to mean the information that the Exchange disseminates about an Auction via its proprietary data feeds and includes the Auction Collars, Auction Indicator, Book Clearing Price, Far Clearing Price, Indicative Match Price, Matched Volume, Market Imbalance, and Total Imbalance.<sup>153</sup> With Pillar, the Exchange proposes to disseminate Auction Imbalance Information for its options market in the same manner that such information is disseminated for its cash equity market. The Exchange currently makes certain auction imbalance information available on its proprietary data feed and the Exchange believes that enhancing this information by disseminating the proposed Auction Collars, Auction Indicator, Book Clearing Price, and Far Clearing Price, which would be new for options trading on Pillar, would promote transparency. Accordingly, this proposed definition would be new and is based on the same term used in Rule 7.35-E(a)(4), with differences to reflect the options-specific content that would be included in Auction Imbalance Information for options trading. In addition, the Exchange proposes that

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<sup>152</sup> See also Cboe Rule 5.31(a) (defining the “Opening Collar” as the price range that establishes limits at or inside of which Cboe determines the opening trade price for a series).

<sup>153</sup> On the Exchange’s cash equity market, Auctions have an “Auction Imbalance Freeze,” which is a period in advance of the scheduled Auction. The Exchange does not currently provide for an analogous period to open or reopen options trading and does not propose to include such a period for options trading on Pillar. Accordingly, the Exchange does not propose terms based on “Auction Imbalance Freeze,” as described in Rule 7.35-E(a)(3), for options trading on Pillar.



the Auction Imbalance Information would reflect the orders and quotes eligible to participate in an Auction, which contribute to price discovery. As such, proposed Rule 6.64P-O(a)(3) would further provide that Auction Imbalance Information would be based on all orders and quotes (including the non-displayed quantity of Reserve Orders) eligible to participate in an Auction, excluding IO Orders.<sup>154</sup> The Exchange believes that specifying that non-displayed quantity of Reserve Orders would be included in the Auction Imbalance Information is consistent with current functionality that the full quantity of Reserve Orders are eligible to participate in the current Auction Process.

Proposed Rule 6.64P-O(a)(3)(A) would define the term “Auction Indicator” to mean the indicator that provides a status update of whether an Auction cannot be conducted because either (i) there is no Legal Width Quote, or (ii) a Market Maker quote has not been received during the parameters of the Opening MMQ Timer(s) (defined below). The Exchange currently disseminates an Auction Indicator on its cash equity market and proposes similar functionality for options trading on the Exchange.<sup>155</sup> This proposed definition would be new for options trading and uses Pillar terminology based on Rule 7.35-E(a)(13) and would

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<sup>154</sup> This is consistent with the order information included in Auction Imbalance Information for cash equity trading. See Rule 7.35-E(a)(7) and 7.35-E(a)(8). The Exchange proposes to exclude IO Orders because they are conditional offsetting orders that would not contribute to price discovery in the Auction Process.

<sup>155</sup> See Rule 7.35-E(a)(13).

provide transparency of when an Auction could not be conducted.<sup>156</sup>

While the Exchange's cash equity rule is written from the standpoint of when an auction *can* be conducted, the proposed rule is written from the standpoint of when an auction *cannot* be conducted. The Exchange believes this difference is appropriate because, for options trading, the proposed Auction (and its Auction Indicator) are impacted by the absence of necessary information (i.e., a Legal Width Quote or a Market Maker quote), rather than an auction in the cash equity market, where the determining factor of whether to conduct an auction is the quality (not the presence of) of information (i.e., the Imbalance).

Proposed Rule 6.64P-O(a)(3)(B) would define the term "Book Clearing Price" to mean the price at which all contracts could be traded in an Auction if not subject to the Auction Collar and states that the Book Clearing Price would be zero if a sell (buy) Imbalance cannot be filled by any buy (sell) interest. The Exchange proposes that the manner that the Book Clearing Price would be calculated for options trading would be the same as how it is calculated for cash equity trading. Accordingly, this proposed definition and functionality would be new for options trading and is based on the definition of "Book Clearing Price" set forth in Rule 7.35-E(a)(11), with differences to reflect options trading terminology (i.e., reference contracts instead of buy (sell) orders).

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<sup>156</sup> Consistent with the proposed rule, Rule 6.64-O(b)(D) provides that the Exchange will not conduct the current Auction Process if the bid-ask differential for a series is not within an acceptable range.

Proposed Rule 6.64P-O(a)(3)(C) would define the term “Far Clearing Price” to mean the price at which Auction-Only Orders could be traded in an Auction within the Auction Collar. The Exchange proposes that the manner that the Far Clearing Price would be calculated for options trading would be the same as how it is calculated for cash equity trading.

Accordingly, this proposed definition and functionality would be new for options trading and is based on the definition of “Far Clearing Price” set forth in Rule 7.35-E(a)(12).

Proposed Rule 6.64P-O(a)(3)(D) would define the term “Imbalance” to mean the number of buy (sell) contracts that cannot be matched with sell (buy) contracts at the Indicative Match Price at any given time. The Exchange proposes that the manner that the Imbalance would be calculated for options trading would be the same as how it is calculated for cash equity trading, which is consistent with current functionality that calculates the imbalance based on all interest eligible to participate in an auction. Accordingly, this proposed definition would be new rule text for options trading and is based on the definition of “Imbalance” set forth in Rule 7.35-E(a)(7), except that, unlike for cash equities, the proposed definition would not reference the non-displayed quantity of Reserve Orders. As discussed above, the Exchange believes that providing an overarching description of how the non-displayed quantity of Reserve Orders would be included in Auction Imbalance Information is more appropriately included in the proposed (more expansive) definition of

Auction Imbalance Information (per proposed Rule 6.64P-O(a)(3)) to reflect the Auction-eligible interest that contribute to price discovery.<sup>157</sup>

In addition, the proposed rule differs from Rule 7.35-E(a)(7) to reflect options trading terminology (i.e., contracts instead of shares).

Proposed Rule 6.64P-O(a)(3)(D)(i) would define the term “Total Imbalance” to mean the Imbalance of all buy (sell) contracts at the Indicative Match Price for all orders and quotes eligible to trade in an Auction. The Exchange proposes that the manner that the Total Imbalance would be calculated for options trading would be the same as how it is calculated for cash equity trading and is consistent with current functionality. Accordingly, this proposed definition would be new and is based on the definition of “Total Imbalance” set forth in Rule 7.35-E(a)(7)(A), except that the proposed definition does not include the superfluous modifier “net” in reference to Total Imbalance and includes options trading terminology (i.e., contracts instead of shares).

Proposed Rule 6.64P-O(a)(3)(D)(ii) would define the term “Market Imbalance” to mean the Imbalance of any remaining buy (sell) Market Orders and MOO Orders that are not matched for trading in the Auction. The Exchange proposes that the manner that the Market Imbalance would be calculated for options trading would be the same as how it is calculated

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<sup>157</sup> See supra note 144 (regarding consistency of proposed Rule 6.64P-O(a)(3) regarding Auction Imbalance Information with Rule 7.35-E(a)(7) and 7.35-E(a)(8)).

for cash equity trading, which differs from current options functionality.<sup>158</sup>

Accordingly, this proposed definition and functionality would be new and is based on the definition of “Market Imbalance” set forth in Rule 7.35-E(a)(7)(B), with a difference to add reference to MOO Orders (as defined in proposed Rule 6.62P-O(c)(2)).<sup>159</sup>

- Proposed Rule 6.64P-O(a)(4) would define the term “Auction Price” to mean the price at which an Auction that results in a trade is conducted. The Exchange proposes that this term would have the same meaning as the same term as used on NYSE, as described in NYSE Rule 7.35(a)(6), with a difference to add the phrase “that results in a trade” to be clear that an Auction Price is for an Auction that results in a trade. This would be a new term for options trading and is designed to add clarity and transparency to Exchange rules as this term would be used as a reference price in proposed Rules 6.62P-O(a)(3)(B) and 6.41P-O(c)(4)(B).<sup>160</sup>
- Proposed Rule 6.64P-O(a)(5) would define the term “Auction Process” to

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<sup>158</sup> On the OX system, the market imbalance is the difference between quantities of buy and sell market orders.

<sup>159</sup> Rule 7.35-E(a)(7)(B) does not separately reference MOO Orders because Rule 7.35-E(a) provides that, unless otherwise specified, the term “Market Orders” in Rule 7.35-E includes MOO Orders (for the Core Open Auction and Trading Halt Auction). The Exchange proposes that for options trading, the terms Market Order and MOO Order both be referenced in proposed Rule 6.64P-O.

<sup>160</sup> See also Cboe Rule 5.31(a) (defining the “Opening Trade Price” as the price at which Cboe executes opening trades in a series). The Exchange notes that the term “Auction Price” is distinguished from the proposed term of “Indicative Match Price,” as the latter term is the content included in the Auction Imbalance Information in advance of an Auction, and the Auction Price is the price of an Auction that results in a trade.

mean the process that begins when the Exchange receives an Auction Trigger (defined below) for a series and ends when the Auction is conducted. This would be a new term for options trading and is designed to add clarity and transparency to Exchange rules and address all steps in the process that culminates in an Auction, as described in proposed Rule 6.64P-O(d).

- Proposed Rule 6.64P-O(a)(6) would define the term “Auction Processing Period” to mean the period during which the Auction is being processed. The Exchange proposes that this new term would have the same meaning as the same term on its cash equity market. The Auction Processing Period is at the end of the Auction Process and is the period when the actual Auction is conducted and the Exchange transitions from a pre-open state (described below) to continuous trading. The end of the Auction Processing Period is the end of the Auction and, depending on the orders and quotes in the Consolidated Book, it concludes either with or without a trade. Accordingly, this proposed definition is substantively identical to the definition of “Auction Processing Period” set forth in Rule 7.35-E(a)(2).
- Proposed Rule 6.64P-O(a)(7) would define the term “Auction Trigger” to mean the information disseminated by the Primary Market in the underlying security that triggers the Auction Process for a series to begin. For a Core Open Auction, the proposed Auction Trigger would be when the Primary Market first disseminates at or after 9:30 a.m. Eastern Time

both a two-sided quote and a trade of any size that is at or within the quote per proposed Rule 6.64P-O(a)(7)(A). For a Trading Halt Auction, the proposed Auction Trigger would be when the Primary Market disseminates at the end of a trading halt or pause a resume message, a two-sided quote, and a trade of any size that is at or within the quote, per proposed Rule 6.64P-O(a)(7)(B). This proposed term is new and is not used on the cash equity platform. This proposed functionality, however, is not new and is based on how the Exchange currently opens or reopens a series for trading, as set forth in the last sentence of current Rule 6.64-O(b).<sup>161</sup> The proposed rule adds detail not found in the current rule by referring to a “two-sided quote” rather than a “quote,” without any changes to functionality. The Exchange also proposes a difference that an opening trade on the Primary Market may be “of any size,” which would make clear that an odd-lot transaction on the Primary Market could be used as an Auction Trigger, which would be new on Pillar. The Exchange believes that because it requires both a quote and a trade from the Primary Market before it can open/reopen trading in the overlying option, and because a Primary Market that has disseminated a quote for an underlying security is open for trading, allowing odd-lot sized trades to be included in the trigger would increase the opportunities to open/reopen trading options that overlay low-volume securities that have opened for trading on the

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<sup>161</sup> Rule 6.64-O(b) provides, in relevant part, that the related option series will be opened automatically “once the primary market for the underlying security disseminates a quote and a trade that is at or within the quote.”

Primary Market and would reduce the circumstances needed to manually trigger an Auction for a series.

- Proposed Rule 6.64P-O(a)(8) would define the term “Calculated NBBO” to mean the highest bid and lowest offer among all Market Maker quotes and the ABBO during the Auction Process. The Exchange proposes to use the term “Calculated NBBO” to specify which bids and offers the Exchange would consider for purposes of determining whether to proceed with an Auction on Pillar, as described in greater detail below. The Exchange believes the proposed term provides more clarity than referencing an “NBBO disseminated by OPRA” and is consistent with the proposed definition of ABBO, which by its terms is disseminated by OPRA.<sup>162</sup>
- Proposed Rule 6.64P-O(a)(9) would define the term “Indicative Match Price” to mean the price at which the maximum number of contracts can be traded in an Auction, including the non-displayed quantity of Reserve Orders, and excluding IO Orders, subject to the Auction Collars. This functionality is consistent with the current process for establishing a single opening price, as described in Rule 6.64-O(b)(A), but the proposed rule adds more granularity and uses Pillar terminology.<sup>163</sup> In addition, the term

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<sup>162</sup> The Exchange notes that the information used to calculate the proposed Calculated NBBO is consistent with the information that the Exchange receives from OPRA in advance of the Exchange opening or reopening trading (i.e., Market Maker rotational quotes from the Exchange and ABBO) and is similar to Cboe’s definition of “Composite Market,” as described in Cboe Rule 5.31(a), which includes Cboe Market Maker quotes and BBOs of other options exchanges.

<sup>163</sup> See Rule 6.64-O(b)(A), (c) (describing process for determining single opening



“Indicative Match Price” refers to the same functionality as the OX system’s reference to the term “reference price” in its imbalance information. This proposed definition is based on the Pillar definition of “Indicative Match Price” set forth in Rule 7.35-E(a)(8), with differences to refer solely to “price” as opposed to “best price” because proposed Rule 6.64P-O(a)(9)(A), described below, would provide specificity of how such price would be determined, and to reflect options trading terminology (i.e., contracts instead of shares). Proposed Rule 6.64P-O(a)(9) would further provide that if there is no Legal Width Quote, the Indicative Match Price included in the Auction Imbalance Information would be calculated without Auction Collars. This would be a new feature applicable only to options trading and an Indicative Match Price without Auction Collars would be accompanied with an Auction Indicator that the Auction cannot be conducted because there is no Legal Width Quote.<sup>164</sup>

Proposed Rule 6.64P-O(a)(9)(A) would provide that if there is more than one price level at which the maximum number of contracts can be traded within the Auction Collars, the Indicative Match Price would be the price closest to the midpoint of the Legal Width Quote, rounded to the nearest MPV for the series, provided that the Indicative Match Price would not be lower (higher) than the highest (lowest) price of a Limit Order to buy

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price).

<sup>164</sup> This would be new functionality because currently, if there is no legal width NBBO, the Exchange does not disseminate imbalance information and does not calculate an indicative match price.

(sell) ranked Priority 2 - Display Orders that is eligible to participate in the Auction. This functionality is similar to the current process for establishing a single opening price, as described in Rule 6.64-O(c), which provides that when the same number of contracts can trade at multiple prices, the opening price is the price at which the greatest number of contracts can trade that is at or nearest to the midpoint of the NBBO disseminated by OPRA. The proposed rule text uses Pillar terminology based on Rule 7.35-E(a)(8)(A) and adds more granularity, such as describing that the Exchange would round to the nearest MPV in the series, which is consistent with current functionality. The Exchange also proposes a difference compared to the cash equity rules to reflect that when there is more than one price level at which the maximum number of contracts can trade, the Indicative Match Price for options trading would be the price closest to the midpoint of the Legal Width Quote rather than (for cash equities) the price closest to an auction reference price. The Exchange believes that reference to the term Legal Width Quote reflects the proposed use of this term in the Auction Process rather than referring to the NBBO disseminated by OPRA.

Proposed Rule 6.64P-O(a)(9)(B) would provide that an Indicative Match Price that is higher (lower) than the upper (lower) Auction Collar would be adjusted to the upper (lower) Auction Collar and orders eligible to participate in the Auction would trade at the collared Indicative Match Price. Proposed Rule 6.64P-O(a)(9)(B)(i) would provide that Limit

Orders to buy (sell) with a limit price above (below) the upper (lower) Auction Collar would be included in the Auction Imbalance Information at the collared Indicative Match Price and would be eligible to trade at the Indicative Match Price. This proposed rule text provides granularity that, consistent with current functionality, orders willing to buy (sell) at a higher (lower) price than the Auction Price would participate in an Auction trade, which, by definition, would be required to be at or between the Auction Collars. Proposed Rule 6.64P-O(a)(9)(B)(ii) would provide that Limit Orders and quotes to buy (sell) with a limit price below (above) the lower (upper) Auction Collar would not be included in the Auction Imbalance Information and would not participate in an Auction. The Exchange proposes that the manner that orders and quotes priced outside of the Auction Collar would be included (or not) in the Indicative Match Price would be the same as how it is determined for cash equity trading. Accordingly, this proposed rule text is new for options trading (but the functionality is consistent with current functionality) and uses Pillar terminology based on Rules 7.35-E(a)(10)(A), (B), and (C) that is designed to add granularity to the proposed rule, and with a difference to reflect when the proposed rule would be applicable to quotes. Proposed Rule 6.64P-O(a)(9)(C) would provide that if the Matched Volume (defined below) for an Auction consists of only buy and sell Market Orders, the Indicative Match Price would be the midpoint of the Legal Width Quote, rounded to the MPV for the series, or, if, the Legal

Width Quote is locked, then the locked price. This proposed rule text is new and uses Pillar terminology based on Rule 7.35-E(a)(8)(C), with differences to reflect that options trading on Pillar would be based on a Legal Width Quote (as defined herein) to determine the Indicative Match Price when there are only Market Orders eligible to trade in an Auction. This proposed rule is designed to provide granularity of how the Indicative Match Price would be calculated if there are only Market Orders.

Proposed Rule 6.64P-O(a)(9)(D) would provide that if there is no Matched Volume, including if there are Market Orders on only one side of the Market, the Indicative Match Price and Total Imbalance for the Auction Imbalance Information would be zero. This proposed rule text is new and uses Pillar terminology based on Rule 7.35-E(a)(8)(D) and (E) with differences to reflect that on options, the Indicative Match Price would be zero in both circumstances. This proposed Rule is designed to provide granularity regarding how the Indicative Match Price and Total Imbalance for the Auction Imbalance Information would be calculated if there is no Matched Volume.

- Proposed Rule 6.64P-O(a)(10) would define a “Legal Width Quote” as a Calculated NBBO that: (A) may be locked, but not crossed; (B) does not contain a zero offer; and (C) has a spread between the Calculated NBBO for each option contract that does not exceed a maximum differential that is determined by the Exchange on a class by class basis and announced by Trader Update (as discussed further below, provided that a Trading

Official may establish differences other than the above for one or more series or classes of options.<sup>165</sup>

Requiring that the Legal Width Quote not be crossed is consistent with current Rule 6.64-O(b)(E), which requires an uncrossed NBBO disseminated by OPRA before a series can be opened (or reopened).<sup>166</sup>

The Exchange believes that the additional detail in proposed Rules 6.64P-O(a)(10)(A) and (B) regarding how to determine a Legal Width Quote provides clarity and granularity as to when a Calculated NBBO would be eligible to be considered a Legal Width Quote. In addition, requiring that the Calculated NBBO must not exceed a maximum differential before an Auction can proceed is based on the current OX Opening Process, which requires the bid-ask differential for a series to be in an acceptable range.<sup>167</sup> However, rather than specify maximum bid-ask differentials in proposed Rule 6.64P-O, the Exchange believes it is appropriate to instead retain flexibility to set the maximum differentials so that the Exchange may

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<sup>165</sup> See Rule 6.37-O(c) (Unusual Conditions - Opening Auction) (providing that “[i]f the interest of maintaining a fair and orderly market so requires, a Trading Official may declare that unusual market conditions exist in a particular issue and allow Market Makers in that issue to make auction bids and offers with spread differentials of up to two times, or in exceptional circumstances, up to three times, the legal limits permitted under Rule 6.37-O”).

<sup>166</sup> The proposed calculation of a Legal Width Quote is also similar to how Cboe determines whether to perform a “Forced Opening,” because Cboe requires a Composite Market that is not crossed with a non-zero offer. See Cboe Rule 5.31(e)(4).

<sup>167</sup> See Rule 6.64-O(b)(D) (providing that “[t]he OX System will not conduct an Auction Process if the bid-ask differential for that series is not within an acceptable range,” which “acceptable range shall mean within the bid-ask differential guidelines established pursuant to Rule 6.37-O(b)(4)”).

consider the different market models and characteristics of different classes, as well as modify amounts in response to then-current market conditions.<sup>168</sup> The proposed Rule would allow the Exchange to modify these bid-ask differentials at any time as it deems necessary and appropriate, which discretion the Exchange has today on the OX system.<sup>169</sup> In addition, allowing the Exchange to announce the maximum differentials by Trader Update (as opposed to by Rule) is consistent with the rules of several options exchanges that are able to change the amounts of valid opening widths by notice or circular and not by rule change.<sup>170</sup>

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<sup>168</sup> For example, Cboe recently amended Cboe Rule 5.31 relating to its opening process to amend the definition of “Maximum Composite Width” (i.e., the amount that the “Composite Width” of a series may generally not be greater than for the series to open), which term is used similarly to how the Exchange proposes to use the term “Legal Width Quote,” to delete the specified amounts for the Maximum Composite Width and to instead provide that Cboe may determine such amounts “on a class and Composite bid basis, which amount [Cboe] may modify during the opening auction process” and disseminate “to all subscribers of [Cboe’s] data feeds that delivery opening auction updates”). See Securities Exchange Act Release No. 90967 (January 22, 2021), 86 FR 7249 (January 28, 2021) (SR-Cboe-2021-005) (Notice of filing and immediate effectiveness of proposed rule change to remove specified spread differentials from Rule 5.31).

<sup>169</sup> See supra note 164 (regarding authority conferred on Trading Officials, per Rule 6.37-O(c), to make auction bids and offers with spread differentials of up to two times, or in exceptional circumstances, up to three times, the legal limits, “[i]f the interest of maintaining a fair and orderly market so requires”).

<sup>170</sup> See, e.g., Cboe Rule 5.31(a) (definition of Maximum Composite Width); Cboe EDGX Options Exchange, Inc. (“EDGX”) Rule 21.7(a) (same); BZX Rule 21.7(a) (same); Cboe C2 Exchange Inc. (“C2”) Rule 6.11(a) (same); see also Nasdaq Options Market (“NOM”) Options 3, Section 8(a)(6) (defining “Valid Width NBBO” as “the combination of all away market quotes and any combination of NOM-registered Market Maker orders and quotes received over the QUO or SQF Protocols within a specified bid/ask differential as established and published by the Exchange” and allowing the Valid Width NBBO to be “configurable by underlying, and tables with valid width differentials will be posted by Nasdaq on its website”) and MIAX Rule 503(f)(2) (which permits MIAX to determine by circular an acceptable range in which openings are permissible if there is no valid

The Exchange believes that the proposed definition relating to “Legal Width Quote” would promote clarity and transparency in Exchange rules regarding which quotes - both Market Maker quotes on the Exchange and the ABBO, i.e., the Calculated NBBO - that the Exchange would use to determine if there is a Legal Width Quote and provide direction that to be a Legal Quote Width, a Calculated NBBO may not exceed a maximum differential.

The Exchange also proposes to make a conforming change to Rule 6.37-O(c) to update the title from “Unusual Conditions - Opening Auction” to be “Unusual Conditions - Auctions,” which would align with the proposed definition of “Auctions” in proposed Rule 6.64P-O(a), which includes both opening and reopening auctions. This proposed change also promotes clarity, consistent with current functionality that Rule 6.37-O(c) is also applicable to reopenings. In addition, the Exchange proposes to amend Rule 6.37-O(c), which authorizes a Trading Official to widen the bid-ask differentials in the event of unusual conditions, to add a cross-reference to extend such authority to proposed Rule 6.64P-O(a)(9) (regarding the Legal Width Quote spreads). This proposed amendment would ensure that the existing procedures for auctions in the event of unusual conditions, as specified in Rule 6.37-O(c), would continue to be available for option symbols that have transitioned to Pillar (and subject to new Rule 6.64P-O(a)(10)).

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width national best bid or offer (“NBBO”).

- Proposed Rule 6.64P-O(a)(11) would define the term “Matched Volume” to mean the number of buy and sell contracts that can be matched at the Indicative Match Price, excluding IO Orders. The concept of Matched Volume on Pillar is consistent with the OX system’s concept of “paired quantity” in its imbalance information. This proposed rule text uses Pillar terminology based on the definition of “Matched Volume” set forth in Rule 7.35-E(a)(9), with a non-substantive difference to reference (option) contracts instead of shares and to be clear that the Matched Volume would not include IO Orders. The Exchange believes this proposed definition promotes granularity in Exchange rules.
- Proposed Rule 6.64P-O(a)(12) would define the term “pre-open state” to mean the period before a series is opened or reopened for trading and would provide that during the pre-open state, the Exchange would accept Auction-Only Orders, quotes, and orders designated Day or GTC, including orders ranked under the proposed category of “Priority 3 - Non-Display Orders” that are not eligible to participate in an Auction.<sup>171</sup> This proposed text is consistent with current Rule 6.64-O(b), which provides that the Exchange will accept market and limit orders for inclusion in the opening auction process and would add further granularity regarding

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<sup>171</sup> The Exchange notes that Cboe refers to a similar period as the “Queuing Period.” See Cboe Rule 5.31(b). Similar to Cboe’s Queuing Period, the proposed term of “pre-open state” means the period when the Exchange accepts orders and quotes but has not yet opened/reopened a series for continuous trading. The proposed “Auction Process,” defined above, is part of the pre-open state, but does not begin until the Exchange receives an Auction Trigger, as defined above.



which interest would be accepted by the Exchange (even if not eligible for an Auction) prior to the opening or reopening of each option series and during which time period. The proposed rule would further provide that the pre-open state for the Core Open Auction would begin at 6:00 a.m. Eastern Time and would end when the Auction Processing Period begins, which is similar to current functionality, which allows order and quote entry to begin at 5:30 a.m. Eastern Time. The Exchange believes that moving the start time to 6:00 a.m. Eastern Time would not materially impact the ability of OTP Holders to enter orders or quotes during the pre-open state. As further proposed, at the beginning of the pre-open state before the Core Open Auction, orders designated GTC that remain from the prior trading day will be included in the Consolidated Book, which is consistent with current functionality. The proposed rule would also provide that the pre-open state for a Trading Halt Auction would begin at the beginning of the trading halt and would end when the Auction Processing Period begins. This proposed definition of a pre-open state would be new for Pillar and is designed to distinguish the pre-open state (for a Core Open Auction or a Trading Halt Auction) from both the Auction Processing Period and the period when a given series opens for trading, which would add granularity to Exchange rules. As noted above, this proposed definition of pre-open state would also be used in proposed Rules 6.40P-O, 6.41P-O, and 6.62P-O.

- Proposed Rule 6.64P-O(a)(13) would define the term “Rotational Quote”

to mean the highest Market Maker bid and lowest Market Maker offer on the Exchange when the Auction Process begins and would provide that during the Auction Process, the Exchange would update the price and size of the Rotational Quote and that such Rotational Quote can be locked or crossed. The Exchange further proposes that, if there are no Market Maker quotes, the Rotational Quote would be published with a zero price and size. The Exchange notes that, although not specified in the current rule, it currently disseminates a “rotational quote” to OPRA when it is in the process of opening or reopening a series, i.e., a quote that is comprised only of Market Maker quotes and does not include orders. The Exchange proposes a difference on Pillar because currently, if the Market Maker Quotes are crossed, the Exchange flips the bid and offer prices. In Pillar, the Exchange would publish a Rotational Quote with the actual bid and offer prices, even if crossed, which would provide OTP Firms and OTP Holders with a more accurate view of whether a Rotational Quote is crossed. This proposed definition is new, uses Pillar terminology, and adds granularity to Exchange rules by codifying existing (albeit slightly modified) functionality.

*Auction Ranking.* Proposed Rule 6.64P-O(b) would describe the ranking for Auctions and would provide that orders and quotes on the side of the Imbalance are not guaranteed to participate in the Auction and would be ranked in price-time priority under proposed Rule 6.76P-O, consistent with the priority ranking associated with each order or quote, provided that: (1) Limit Orders, quotes, and LOO Orders would be ranked based

on their limit price and not the price at which they would participate in the Auction; (2) MOO Orders would be ranked under the proposed category of “Priority 1 - Market Orders”; (3) LOO Orders would be ranked under the proposed category of “Priority 2 - Display Orders”; and (4) IO Orders would be ranked based on time among IO Orders, subject to eligibility to participate at the Indicative Match Price based on their limit price.<sup>172</sup>

This proposed rule is based in part on current Rule 6.64-O(b)(B), which provides that “[o]rders and quotes in the system will be matched up with one another based on price-time priority, provided, however, that orders will have priority over Market Maker quotes at the same price.” The Exchange proposes a difference in Pillar that orders in the same priority category as quotes would not have priority over Market Maker quotes at the same price, which distinction is an artifact of the Exchange’s existing system limitation. Instead, the Exchange proposes that orders and Market Maker quotes in the same priority category would be ranked based on time, as proposed in Rule 6.76P-O. This equal ranking of orders and quotes is consistent with how other options markets handle orders and quotes during the opening process.<sup>173</sup> Because the Exchange proposes that orders and quotes in an options Auction would be processed in the same manner as on its cash equity platform, including that orders on the side of the Imbalance would not be guaranteed to participate in an Auction, the proposed rule text in this regard is based in

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<sup>172</sup> Unlike the Exchange’s cash equity rules, the Exchange proposes to describe Auction Ranking in a separate section of proposed Rule 6.64P-O, which is a stylistic choice similar to NYSE Rule 7.35(b), which also separates the concept of Auction Ranking from definitions.

<sup>173</sup> See Cboe Rule 5.31(e)(3)(i) (providing that Cboe “prioritizes orders and quotes in the following order: market orders, limit orders and quotes with prices better than the Opening Trade Price, and orders and quotes at the Opening Trade Price”).

part on Rule 7.35-E(a)(6)(A) - (D), with differences to reflect that options trading includes quotes and to be clear that IO Orders would be ranked based on working time among IO Orders, subject to such orders' eligibility to participate at the Indicative Match Price based on their limit price.<sup>174</sup>

*Auction Imbalance Information.* Proposed Rule 6.64P-O(c) would provide that Auction Imbalance Information would be updated at least every second until the Auction is conducted, unless there is no change to the information and would further provide that the Exchange would begin disseminating Auction Imbalance Information at the following times: (1) Core Open Auction Imbalance Information would begin at 8:00 a.m. Eastern Time; and (2) Trading Halt Auction Imbalance Information would begin at the beginning of the trading halt. Because the Exchange proposes to disseminate Auction Imbalance Information for its options market in the same manner that such information is disseminated for its cash equity market, this proposed rule text, which is new, is based in part on Rule 7.35-E(a)(4)(A) and (C).

*Auction Process.* Proposed Rule 6.64P-O(d) would set forth the Exchange's proposed Auction Process on Pillar. Similar to current OX system functionality, which requires that the bid-ask differential for a given series be within an acceptable range before conducting an auction, under Pillar, a series would not be opened or reopened on a trade if there is no Legal Width Quote, which concept, as described above, incorporates (almost identical) bid-ask differentials.<sup>175</sup> As described further below, the Exchange

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<sup>174</sup> See discussion supra, regarding proposed Rule 6.62P-O(c)(3) and how IO Orders would function. The Exchange notes that, unlike on the cash equity platform, IO Orders would not be limited to participating solely in Trading Halt Auctions and may likewise participate in Core Open Auctions as well.

<sup>175</sup> See supra note 145 (describing Rule 6.64-O(b)(D), which provides that the

proposes that for Pillar, a series should (ideally) also have Market Maker quotes and, as such, proposes to provide time for Market Makers assigned to a series to quote within the specified bid-ask differentials, and if Market Makers do not quote within those time frames, determine whether to open or reopen a series based on the ABBO. The Exchange notes that this proposed process is consistent with that used on other options exchanges.<sup>176</sup>

Proposed Rule 6.64P-O(d)(1) describes the process for disseminating the Rotational Quote and would provide that when the Exchange receives the Auction Trigger for a series, the Exchange would send a Rotational Quote to both OPRA and proprietary data feeds indicating that the Exchange is in the process of transitioning from a pre-open state to continuous trading for that series. This proposed rule is consistent with current functionality and is designed to promote granularity.

Proposed Rule 6.64P-O(d)(2) would provide that once a Rotational Quote has been sent, the Exchange would conduct an Auction provided there is both a Legal Width Quote and, if applicable, a Market Maker quote with a non-zero offer in the series (which would be subject to the proposed requirements relating to Market Maker quotes, including the proposed new Opening MMQ Timer(s), as discussed further below per

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Exchange will not conduct its current Auction Process if the bid-ask differential for a series is not “within an acceptable range”).

<sup>176</sup> See, e.g., Nasdaq PHLX (“PHLX”) Section 8(d), Options Opening Process (providing that the Opening Process begins when (a) a “valid width” (i.e., a bid/ask differential that is compliant with PHLX Rule 1014(c)(i)(A)(1)(a)) specialist quote is submitted, (b) valid width quotes from at least two PHLX market participants have been submitted within 30 seconds of the opening trade or quote in the underlying security from the primary exchange, or (c) after 30 seconds of the opening trade or quote in the underlying security from the primary exchange, one PHLX market participant has submitted a valid width quote).

proposed Rule 6.64P-O(d)(3)). The proposed rule would further provide that the Exchange would wait a minimum of two milliseconds after disseminating the Rotational Quote before an Auction could be conducted, which delay would be new and is designed to enhance market quality by promoting price-forming displayed liquidity to the benefit of all market participants. Because the Rotational Quote is intended to provide notice that the Exchange will begin transitioning from a pre-open state, the Exchange believes this short delay will provide market participants with an opportunity to participate in the Auction Process. This proposed rule text is designed to provide transparency and determinism in Exchange rules regarding the earliest potential time that a series could be opened (after the Exchange receives an Auction Trigger), and subject to the series meeting all other requirements for opening or reopening discussed herein.

Subject to the requirements specified in proposed Rule 6.64P-O(d)(2), proposed Rule 6.64P-O(d)(2)(A) would provide that if there is Matched Volume that can trade at or within the Auction Collars, the Auction would result in a trade at the Indicative Match Price. Proposed Rule 6.64P-O(d)(2)(B) would provide that if there is no Matched Volume that can trade at or within the Auction Collars, the Auction would not result in a trade and the Exchange would transition to continuous trading as described in proposed Rule 6.64P-O(f) below. This proposed rule text is new, uses Pillar terminology, and is designed to provide transparency of when an Auction would result in a trade.

Proposed Rule 6.64P-O(d)(3) would specify the parameters of the Opening MMQ Timers, which are designed to encourage (but would not require) Market Makers to submit Legal-Width Quotes in connection with the automated opening or reopening of a series. On the OX system, the Exchange does not impose on Market Makers assigned to

a series any special obligations in connection with the opening process. On Pillar, the Exchange will likewise not impose on such Market Makers any additional obligations at the open.<sup>177</sup> The Exchange believes that, rather than layer additional requirements on the Market Making community, it would be more beneficial to all market participants to employ alternative methods to help ensure an orderly transition to continuous trading. As such, the Exchange believes that the proposed so-called “waterfall” approach to opening, would offer a number of checks that are intended to provide adequate opportunity for a greater number of Market Makers to provide their liquidity interest and help ensure increased liquidity at a level commensurate with which the market is accustomed during continuous trading on the Exchange. In short, although the Exchange does not require a Market Maker assigned to a series to quote on the Exchange in order to open or reopen a series for trading, the Exchange believes that providing Market Makers assigned to a series the opportunity to do so would promote a fair and orderly Auction process and facilitate a fair and orderly transition to continuous trading.<sup>178</sup> Accordingly, the Exchange proposes a new process for Auctions on Pillar that would provide time for Market Makers assigned to a series to quote within the specified bid-ask differentials before a series would be opened or reopened for trading.

Overall, the Exchange believes that the proposed waterfall approach of setting

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<sup>177</sup> Although the Exchange does not require that Market Makers assigned to a series quote at the open, once a series is opened for trading, Market Makers are nonetheless required to continuously fulfill their obligations to engage in a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market.

<sup>178</sup> Currently, neither Market Makers nor LMMs are obligated to provide a quote before a series is opened or reopened, which is why the proposed Pillar options Auction rule is designed to provide Market Makers with time to submit their quotes so a series can be opened.

minimum time periods for a Market Maker assigned to a series to quote within the specified bid-ask differential before opening a series, even if there is a Legal Width Quote, would appropriately balance the benefits of increasing the opportunities for Market Makers assigned to a series to enter quotations within the specified bid-ask differential, with a timely series opening or reopening when there is a Legal Width Quote even when it does not include Market Makers assigned to the series.

In addition, the Exchange proposes to expand opportunities for its designated liquidity providers -- i.e., Market Makers -- to enter the market. As described in more detail below, the Exchange proposes different time lengths depending on the number of Market Makers assigned to a series. For example, if there are no Market Makers assigned to a series, there is no need to wait to open or reopen a series if there is a Legal Width Quote based upon the disseminated ABBO. If there is one Market Maker assigned to the series, the Exchange will delay opening (even if there is a Legal Width Quote based upon the ABBO) to give the Market Maker additional opportunity to provide liquidity. Furthermore, if there is more than one Market Maker assigned to a series, the Exchange designates longer periods to provide time for multiple Market Makers assigned to the series the chance to quote within the specified bid-ask differentials. The Exchange believes that providing additional opportunity for its liquidity providers to enter the market would result in deeper liquidity -- which market participants have come to expect in options with multiple assigned Market Makers, and a more stable trading environment.

The Exchange does not believe that the proposed waterfall approach would result in an undue burden on competition. Market Makers are encouraged but not required to quote in their assigned series at the open, thus they are not subject to additional



obligations. The Exchange believes that encouraging, rather than requiring, participation of such Market Makers at the open, may increase the availability of Legal Width Quotes in more series, thereby allowing more series to open. Improving the validity of the opening price benefits all market participants and also benefits the reputation of the Exchange as being a venue that provides accurate price discovery.

As part of the Auction Process the Exchange proposes to utilize “Opening MMQ Timers,” which will be 30 seconds unless otherwise specified by Trader Update. As proposed, once the Auction Process begins, the Exchange would begin one or more Opening MMQ Timer for the Market Maker(s) assigned to a series to (opt to) submit a quote with a non-zero offer.<sup>179</sup> The Opening MMQ Timers are designed to provide transparency in Exchange rules of the circumstances of when the Exchange would wait to open or reopen a series for trading if the assigned Market Maker(s) has not submitted a quote within the specified time periods, as follows:

- Proposed Rule 6.64P-O(d)(3)(A) would provide that if there are no Market Makers assigned to a series, the Exchange would conduct an Auction in that series based solely on a Legal Width Quote, without waiting for the Opening MMQ Timer to end. As set forth in proposed Rule 6.64P-O(d)(2)(A) and (B), if there is Matched Volume, this Auction would result in a trade, otherwise, the series would transition to continuous trading as

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<sup>179</sup> A Market Maker may send quotations only in the issues included in its appointment, i.e., in series to which such Market Maker is assigned. See proposed Rule 6.37AP-O(a). See also proposed Rule 6.37AP-O(b) and (c) (setting forth continuous quoting obligations of LMMs and Market Makers, respectively, which obligations are identical to those set forth in Rule 6.37A-O(b) and (c)).

described in proposed Rule 6.64P-O(f) below.

- Proposed Rule 6.64P-O(d)(3)(B) would provide that if there is only one Market Maker assigned to a series:
  - The Exchange would conduct the Auction, without waiting for the Opening MMQ Timer to end, as soon as there is both a Legal Width Quote and the assigned Market Maker has submitted a quote with a non-zero offer (proposed Rule 6.64P-O(d)(3)(B)(i)). As set forth in proposed Rule 6.64P-O(d)(2)(A) and (B), if there is Matched Volume, this Auction would result in a trade, otherwise, the series would transition to continuous trading as described in proposed Rule 6.64P-O(f) below.
  - If the Market Maker assigned to the series has not submitted a quote with a non-zero offer by the end of the Opening MMQ Timer and there is a Legal Width Quote, the Exchange would conduct the Auction (proposed Rule 6.64P-O(d)(3)(B)(ii)). As set forth in proposed Rule 6.64P-O(d)(2)(A) and (B), if there is Matched Volume, this Auction would result in a trade, otherwise, the series would transition to continuous trading as described in proposed Rule 6.64P-O(f) below.
- Proposed Rule 6.64P-O(d)(3)(C) would provide that if there are two or more Market Makers assigned to a series:
  - The Exchange would conduct the Auction, without waiting for the Opening MMQ Timer to end, as soon as there is both a Legal

Width Quote and at least two assigned Market Makers have submitted a quote with a non-zero offer (proposed Rule 6.64P-O(d)(3)(C)(i)). As set forth in proposed Rule 6.64P-O(d)(2)(A) and (B), if there is Matched Volume, this Auction would result in a trade, otherwise, the series would transition to continuous trading as described in proposed Rule 6.64P-O(f) below.

- If at least two Market Makers assigned to a series have not submitted a quote with a non-zero offer by the end of the Opening MMQ Timer, the Exchange would begin a second Opening MMQ Timer (of the same length) and during the second Opening MMQ Timer, the Exchange would conduct the Auction, if there is both a Legal Width Quote and at least one Market Maker assigned to the series has submitted a quote with a non-zero offer (proposed Rule 6.64P-O(d)(3)(C)(ii)). In such case, the Exchange would not wait for the second Opening MMQ Timer to end. Because the Exchange does not require a Market Maker assigned to a series to quote before conducting an Auction, to reduce the potential delay in opening or reopening a series, the Exchange believes that during the second Opening MMQ Timer, it is appropriate to wait for only one Market Maker, instead of two, to quote. As set forth in proposed Rule 6.64P-O(d)(2)(A) and (B), if there is Matched Volume, this Auction would result in a trade, otherwise, the series would transition to continuous trading as described in proposed

Rule 6.64P-O(f) below.

- If no Market Maker assigned to a series has submitted a quote with a non-zero offer by the end of the second Opening MMQ Timer and there is a Legal Width Quote, the Exchange would conduct the Auction (proposed Rule 6.64P-O(d)(3)(C)(iii)). As set forth in proposed Rule 6.64P-O(d)(2)(A) and (B), if there is Matched Volume, this Auction would result in a trade, otherwise, the series would transition to continuous trading as described in proposed Rule 6.64P-O(f) below.

As noted above, the proposed Auction Process is designed to attract the highest quality quote for each series at the open to attract order flow from any resting interest best quality quotes at the open of each series. As such, the Exchange believes it is reasonable to require more than one Opening MMQ Timer (with a maximum run time of one minute -- 30 seconds x 2) to run when there are at least two Market Markers because it allows the Exchange time to attract the best quote from these market participants, which in turn should attract order flow to the Exchange at the open (i.e., the Exchange can leverage the highest bid and lowest offer from the various Market Makers that submit quotes). The Exchange believes that if a Legal Width Quote is not obtained in the first 30-second Opening MMQ Timer, it is to the benefit of all market participants to begin a second Opening MMQ Timer to allow the bid-ask differential to tighten before a series is opened.

Proposed Rule 6.64P-O(d)(4) would provide that, unless otherwise specified by Trader Update, that for the first ninety seconds of the Auction Process (inclusive of the

30-second Opening MMQ Timer(s)), if there is no Legal Width Quote, the Exchange would not conduct an Auction, even if there is Matched Volume, i.e., the series would not transition to continuous trading. This proposed rule text provides transparency that, in the absence of a Legal Width Quote, the Exchange would not conduct an Auction that results in a trade even if there is Matched Volume. In such case, because there is Matched Volume, the Exchange could not open that series and would wait for a Legal Width Quote before conducting the Auction. Consistent with proposed Rule 6.64P-O(d)(3)(A), if at any time during this ninety-second period there is a Legal Width Quote, the Exchange would proceed immediately with an Auction and would not wait for the ninety-second period to end (subject to any applicable Opening MMQ Timer(s)). In other words, if there is a Legal Width Quote available 20 seconds after the Auction Trigger (for example), the requirements specified in proposed Rule 6.64P-O(d)(3) would need to be met before the series could be opened or reopened.

The Exchange proposes new functionality for Pillar to allow the Exchange to open a series without a trade after ninety seconds have elapsed without a Legal Width Quote, i.e., transition to continuous trading as described in proposed Rule 6.64P-O(f), when there is a Calculated NBBO that is wider than the Legal Width Quote. This option to open or reopen a series would not be available if there is Matched Volume. As proposed, ninety seconds after the Auction Process begins:

- Proposed Rule 6.64P-O(d)(4)(A) would provide that if there is no Matched Volume and the Calculated NBBO is wider than the Legal Width Quote, is not crossed, and does not contain a zero offer, the Exchange would transition to continuous trading as described below in paragraph (f)

of this Rule (as described below, a trade could occur during the transition to continuous trading, but there would not be a trade resulting from Matched Volume in the Auction). As further proposed, in such case, the Auction would not be intended to end with a trade, but it may result in a trade (even if there is no Legal Width Quote) if orders or quotes arrive when the Exchange is evaluating the status of orders and quotes, but before the Auction Processing Period begins.<sup>180</sup> The Exchange believes this proposed rule would facilitate the opening or reopening of a series so that it can begin continuous trading when there is a Calculated NBBO in a series that is wider than the Legal Width Quote and is not crossed and does not contain a zero offer.<sup>181</sup>

- Proposed Rule 6.64P-O(d)(4)(A)(i) would provide that any time a series is opened or reopened when there is no Legal Width Quote, i.e., the Auction would end without a trade, Market Orders and MOO Orders would not participate in the Auction and would be cancelled before the Exchange transitions to continuous trading, which would protect such orders from

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<sup>180</sup> The Exchange expects this to be a rare race condition that would result when the Exchange receives orders and quotes at virtually the same time that it is evaluating whether it can open a series on a quote based on a wide Calculated NBBO (and before the Auction Processing Period begins) and that, as a result of that race condition, those new orders or quotes are marketable against contra-side interest, i.e., results in Matched Volume for the Auction, at the same time that the Exchange concludes, based on interest that had previously been received, that it can proceed with an Auction in the absence of a Legal Width Quote. In such case, the Auction could result in a trade.

<sup>181</sup> Such opening is similar to Cboe's "Forced Opening" process because it allows a series to open without a trade after a specified time period when the market is wider than the specified bid-ask differentials. See Cboe Rule 5.31(e)(4).

trading at unintended prices.

- Proposed Rule 6.64P-O(d)(4)(B) would provide that if the Exchange still cannot conduct an Auction as provided under paragraph (A) (above), the Exchange would continue to evaluate both the Calculated NBBO and interest on the Consolidated Book until the earlier of: (i) a Legal Width Quote is established and an Auction can be conducted; (ii) the series can be opened as provided for in proposed Rule 6.64P-O(d)(4)(A); (iii) the series is halted; or (iv) the end of Core Trading Hours. The proposed rule provides transparency that the Exchange would continue to look for an opportunity to open or reopen a series based on changes to the Calculated NBBO or orders and quotes on the Consolidated Book.

Proposed Rule 6.64P-O(d)(5) would provide that the Exchange may deviate from the standard manner of the Auction Process, including adjusting the timing of the Auction Process in any option series or opening or reopening a series when there is no Legal Width Quote, when it believes it is necessary in the interests of a fair and orderly market. This proposed rule is based on Rule 6.64-O(b)(F) and, consistent with current functionality, is designed to provide the Exchange with flexibility to open a series even if there is no Legal Width Quote.<sup>182</sup> For example, a Floor Broker may have a two-sided open outcry order. If the series is not opened, that trade could not be consummated. Accordingly, this proposed rule would allow the Exchange to open a series for trading to

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<sup>182</sup> See Rule 6.64-O(b)(F) (providing that “[t]he Exchange may deviate from the standard manner of the Auction Process, including adjusting the timing of the Auction Process in any option class, when it believes it is necessary in the interests of a fair and orderly market”).

facilitate open outcry trading.

*Order Processing during an Auction Processing Period.* As described above, the Auction Processing Period is the abbreviated time period (i.e., generally measured in less than a second) when the Exchange conducts the Auction and therefore transitions a series from a pre-open state to continuous trading. For example, if there is a Legal Width Quote, Market Maker quotes, and Matched Volume, the Auction Processing Period is when that Matched Volume will trade at the Indicative Match Price. New orders and quotes received during the Auction Processing Period would not be eligible to participate in that Auction trade. Because the Exchange would be using the same Pillar auction functionality for options trading that is used for its cash equity market, the Exchange proposes that proposed Rule 6.64P-O(e) would be based on Rule 7.35-E(g) and subparagraphs (1) and (2), with differences only to reference quotes in addition to orders. The proposed rule promotes granularity and transparency of how orders and quotes that arrive during the Auction Processing Period would be processed.

Accordingly, as proposed, new order and quote messages received during the Auction Processing Period would be accepted but would not be processed until after such Auction Processing Period. As with Rule 7.35-E(g), for purposes of proposed Rule 6.64P-O(e) and (f), an “order instruction” would likewise refer to a request to cancel, cancel and replace, or modify an order or quote.

As further proposed, during the Auction Processing Period, order instructions would be processed as follows:

- An order instruction that arrives during the Auction Processing Period would not be processed until after the Auction Processing Period if it



relates to an order or quote that was received before the Auction Processing Period. Any subsequent order instructions relating to such order would be rejected (proposed Rule 6.64P-O(e)(1)).

- An order instruction that arrives during the Auction Processing Period would be processed on arrival if it relates to an order that was received during the Auction Processing Period (proposed Rule 6.64P-O(e)(2)).

*Transition to Continuous Trading.* After the Auction Processing Period concludes, i.e., once the Auction concludes either with or without a trade, the Exchange transitions to continuous trading. During this transition, the way in which orders, quotes, and order instructions are processed would differ depending on when such messages arrived at the Exchange. Proposed Rule 6.64P-O(f) would describe how the Exchange would transition to continuous trading after the Auction Processing Period concludes, which would detail new functionality for options trading under Pillar, and is based on how the Exchange transitions to continuous trading on its cash equity market following an Auction, as described in Rule 7.35-E(h). The Exchange believes that the proposed rule provides granularity regarding how orders and quotes would be processed in connection with the transition to continuous trading for options trading.<sup>183</sup> As proposed, the transition to continuous trading would proceed as follows.

Proposed Rule 6.64P-O(f)(1) would provide that orders that are no longer eligible to trade would be cancelled. This proposed rule text is based on Pillar terminology used in Rule 7.35-E(h)(1). For options trading, the only orders that would no longer be

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<sup>183</sup> See, e.g., Cboe Rule 5.31(f) (describing Cboe's process for orders and quotes not executed in its opening process).

eligible to trade after the Auction Processing Period concludes would be Auction-Only Orders and such orders would cancel (rather than “expire”).

Proposed Rule 6.64P-O(f)(2) would provide that order instructions would be processed as follows:

- An order instruction that relates to an order or quote that was received before the Auction Processing Period or that has already transitioned to continuous trading and that arrives during either the transition to continuous trading or the Auction Processing Period under paragraph (e)(1) of this Rule would be processed in time sequence with the processing of orders and quotes as specified in paragraphs (f)(3)(A) or (B) of this Rule. In addition, any subsequent order instructions relating to such order or quote would be rejected (proposed Rule 6.64P-O(f)(2)(A)). This proposed rule text is based on Rule 7.35-E(h)(2)(A), except that it does not include reference to order instructions received during an Auction Imbalance Freeze, which, as discussed above, is a concept on the cash equity platform that is not applicable to options trading. This proposed rule text provides transparency regarding how order instructions that arrived during the Auction Processing Period would be processed if they relate to orders or quotes that were received before the Auction Processing Period.<sup>184</sup>
- An order instruction that arrives during the transition to continuous trading

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<sup>184</sup> See *id.* (unexecuted orders and quotes will be entered into the Cboe book in time sequence).

would be processed on arrival if it relates to an order or quote that was entered during either the Auction Processing Period or the transition to continuous trading and such order or quote has not yet transitioned to continuous trading (proposed Rule 6.64P-O(f)(2)(B)). This proposed rule text is based on Rule 7.35-E(h)(2)(B) without any substantive differences.

Proposed Rule 6.64P-O(f)(3) would set forth how orders and quotes would be processed during the transition to continuous trading following an Auction. The proposed process for transitioning to continuous trading is consistent with current functionality (with differences described below) relating to draining the queue of unexecuted orders and quotes following the current Auction Process. The Exchange believes that the proposed rule provides granularity of this process as compared to the current Rule. Specifically, the Exchange proposes that it would process Auction-eligible orders and quotes that were received before the Auction Processing Period and orders ranked under the proposed category of “Priority 3- Non-Display Orders” (which interest was not eligible to participate in an Auction) received before a trading halt as follows:

- Proposed Rule 6.64P-O(f)(3)(A)(i) would provide that Limit Orders and quotes would be subject to the Limit Order Price Check, Arbitrage Check, and Intrinsic Value Check, as applicable. This proposed rule differs from current functionality, whereby risk checks are applied before an Auction. This proposed rule text is consistent with the proposed rule changes, described above, regarding when the Limit Order Price Check, Arbitrage Check, and Intrinsic Value Check (per proposed Rules 6.62P-O(a)(3) and 6.41P-O, respectively) would be applied to orders and quotes

that were received during a pre-open state. The Exchange proposes to apply these checks to orders and quotes before they become eligible for trading or routing during continuous trading.

- Proposed Rule 6.64P-O(f)(3)(A)(ii) would provide that Limit Orders and Market Orders would be assigned a Trading Collar. This proposed rule is consistent with the proposed changes to Trading Collars on Pillar, described above (per Rule 6.62P-O(a)(4)), that an order received during a pre-open state would be assigned a Trading Collar after an Auction concludes, or that an order would be reassigned a Trading Collar after a halt.
- Proposed Rule 6.64P-O(f)(3)(A)(iii) would provide that orders eligible to route that are marketable against Away Market Protected Quotations would route based on the ranking of such orders as set forth in Rule 6.76P-O(c). This proposed rule is consistent with current functionality and uses Pillar terminology based on Rule 7.35-E(h)(3)(A)(ii)(a), with differences to use the term “Away Market Protected Quotations” instead of “protected quotations on Away Markets” and to cross reference proposed Rule 6.76P-O(c).<sup>185</sup> As with current functionality, routable orders would be routed to Away Markets to avoid either trading through or locking or crossing an Away Market Protected Quotation.
- Proposed Rule 6.64P-O(f)(3)(A)(iv) would provide that after routing

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<sup>185</sup> See supra note 114 (citing definitions of “Protected Bid,” “Protected Offer,” and “Quotation” set forth in Rule 6.92-O(a)(15) and (16) and of “Away Market” as set forth in proposed Rule 1.1).

eligible orders, orders and quotes not eligible to route that are marketable against Away Market Protected Quotations would cancel. This functionality would be new for options trading (such orders and quotes would currently reprice) and this proposed rule is based on Rule 7.35-E(h)(3)(A)(ii)(b), with differences to use the term “Away Market Protected Quotations” instead of “protected quotations on Away Markets.” By cancelling non-routable orders and quotes marketable against Away Market Protected Quotations, the Exchange would avoid locking or crossing such Away Market Protected Quotations.

- Proposed Rule 6.64P-O(f)(3)(A)(v) would provide that once there are no more unexecuted orders marketable against Away Market Protected Quotations, orders and quotes that are marketable against other orders and quotes in the Consolidated Book would trade or be repriced. This proposed rule is based on Rule 7.35-E(h)(3)(A)(ii)(c), with a difference that an order could be repriced based on this assessment, which would be unique to options trading because as described above, an ALO Order that would be marketable against a contra-side order or quote on the Consolidated Book cannot take liquidity and in such case, the Exchange would reprice an ALO Order that is marketable as provided for in proposed Rule 6.62P-O(e)(2).<sup>186</sup> The Exchange further notes that,

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<sup>186</sup> As described above, the Exchange proposes a difference on Pillar because ALO Orders would be eligible to participate in an Auction. Currently, ALOs will be rejected if entered outside of Core Trading Hours or during a trading halt or, if resting, will be cancelled in the event of a trading halt. See discussion supra regarding Rule 6.62-O(t).

similar to the Exchange's cash equity market, the Exchange could transition to continuous trading without the Auction resulting in a trade, but that a trade(s) may occur during the transition to continuous trading, which trade(s) would be published to OPRA before the Exchange publishes a quote to OPRA.<sup>187</sup> The Exchange would not consider a trade that occurs during the transition to continuous trading to be an Auction that results in a trade.<sup>188</sup>

- Proposed Rule 6.64P-O(f)(3)(A)(vi) would provide that Market Orders received during a pre-open state would be subject to the validation specified in proposed Rule 6.62P-O(a)(1)(C). The Exchange notes that because such Market Orders would already have been received by the Exchange, if such orders fail one of those validations, they would be cancelled instead of rejected. This would be new rule text as compared to the Exchange's cash equity rules to reflect the validations that would be applicable to Market Orders for options trading on Pillar and would add transparency and granularity to Exchange rules.

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<sup>187</sup> For example, the Exchange may determine that, as described in proposed Rule 6.64P-O(d)(4)(A), if there is no Matched Volume but there is a Calculated NBBO that meets the requirements specified in that Rule, it can conduct an Auction without a trade and transition to continuous trading pursuant to proposed Rule 6.64P-O(f). In such case, there would not be an Auction that results in a trade, but a trade(s) could occur among orders and quotes that trade during the transition to continuous trading.

<sup>188</sup> OPRA does not distinguish between a trade that results from an opening auction and a trade that occurs during the transition to continuous trading. By contrast, the Exchange's proprietary data feed would distinguish a trade that resulted from an Auction from a trade that occurred during the transition to continuous trading.

- Proposed Rule 6.64P-O(f)(3)(A)(vii) would provide that the display quantity of Reserve Orders would be replenished. This proposed rule is based on Rule 7.35-E(h)(3)(A)(ii)(d), without any substantive differences. This proposed rule is based on current functionality and provides granularity in Exchange rules.
- Proposed Rule 6.64P-O(f)(3)(A)(viii) would describe the last step in this process regarding Auction-eligible interest received before the Auction Processing Period and orders ranked under the proposed category of “Priority 3 - Non-Display Orders” received before a trading halt. Specifically, the Exchange would send a quote to OPRA and proprietary data feeds representing the highest-priced bid and lowest-priced offer of any remaining, unexecuted Auction-eligible orders and quotes that were received before the Auction Processing Period. This proposed rule is consistent with current options functionality and is also based on current cash equity functionality, as set forth in Rule 7.35-E(h)(3)(A)(ii). Although the functionality would be the same for both markets, for options traded on the Exchange, the Exchange proposes to describe this aspect of the process in sequence, and reference both orders and quotes. The Exchange notes that this quote sent to OPRA would be different than the Rotational Quote sent at the beginning of the Auction Process because it could be comprised of both orders and quotes. At a high level, this represents current functionality because after a series opens, the Exchange disseminates its best bid and offer of its quotes and orders to

## OPRA.

Proposed Rule 6.64P-O(f)(3)(B) would provide that next, orders ranked under the proposed category of “Priority 3 - Non-Display Orders” that were received during a pre-open state would be assigned a new working time, in time sequence relative to one another based on original entry time, and would be subject to the Limit Order Price Check, Arbitrage Check, and Intrinsic Value Check, as applicable, and if not cancelled, would be traded or repriced. This proposed functionality would be new for Pillar and applicable only for options traded on the Exchange. Even though orders ranked Priority 3 - Non-Display Orders would not be eligible to trade in an Auction (other than the reserve interest of Reserve Orders), the Exchange proposes to accept such orders during a pre-open state. These orders would transition to continuous trading after any unexecuted Auction-eligible interest transitions to continuous trading, as described above in proposed Rule 6.64P-O(f)(3)(A)(i) - (viii). The Exchange believes that waiting to process non-displayed orders in this sequence would ensure that there is an NBBO against which such orders could be priced, as described in proposed Rule 6.62P-O(d) (regarding Orders with a Conditional or Undisplayed Price and/or Size) above.

Proposed Rule 6.64P-O(f)(3)(C) would provide that next, orders and quotes that were received during the Auction Processing Period would be assigned a new working time in time sequence relative to one another, based on original entry time and would be subject to the Limit Order Price Check, Pre-Trade Risk Controls, Arbitrage Check, Intrinsic Value Check, and validations specified in proposed Rule 6.62P-O(a)(1)(A), as applicable to certain Market Orders, and if not cancelled would be processed consistent with the terms of the order or quote. This proposed rule text is designed to reflect that



orders and quotes received during the Auction Processing Period would not be subjected to these price/risk validations until after the Exchange has transitioned to continuous trading, and that if such interest fails these validations, those orders or quotes would be cancelled instead of rejected. This proposed rule text is based on Rule 7.35-E(h)(3)(B), with differences to reflect the price/risk validations that would be applicable to orders and quotes for options trading.

Proposed Rule 6.64P-O(f)(3)(D) would further provide that when transitioning to continuous trading:

- The display price and working price of orders and quotes would be adjusted based on the contra-side interest in the Consolidated Book or ABBO, as provided for in Rule 6.62P-O (proposed Rule 6.64P-O(f)(3)(D)(i)). This proposed rule is based on Rule 7.35-E(h)(3)(C), with differences to reflect that, for options trading, the display price or working price of an order may be adjusted based either on contra-side interest on the Consolidated Book (e.g., for ALO Orders) or the ABBO (as opposed to the PBBO or NBBO for cash equities trading).
- The display price and working price of a Day ISO would be adjusted in the same manner as a Non-Routable Limit Order until the Day ISO is either traded in full or displayed at its limit price and the display price and working price of a Day ISO ALO would be adjusted in the same manner as an ALO Order until the Day ISO ALO is either traded in full or displayed at its limit price (proposed Rule 6.64P-O(f)(3)(D)(ii)). This proposed rule is new for options trading because, as described above, the

Exchange would be offering Day ISO and Day ISO ALO for options trading for the first time with the transition to Pillar. The rule text is based in part on Rule 7.35-E(h)(3)(D), with differences to reflect how a Day ISO ALO would be processed on options as compared to how similarly-named orders trade on the Exchange's cash equity market, as described in more detail above in connection with proposed Rule 6.62P-O(e)(3).

Proposed Rule 6.64P-O(g) would describe order processing during a trading halt. The proposed rule is based in part on Rule 7.18-E(c), with differences to reflect how options would trade on Pillar as described below. The proposed Rule is designed to provide granularity in Exchange rules about how new and existing orders, quotes, and order instructions would be processed during a trading halt. As proposed, the Exchange would process new and existing orders and quotes in a series during a trading halt as follows:

- Cancel any unexecuted quantity of orders for which the 500-millisecond Trading Collar timer has started and all resting Market Maker quotes (proposed Rule 6.64P-O(g)(1)). This proposed rule would be unique for options traded on the Exchange. The Exchange proposes to cancel resting Market Maker quotes when a trading halt is triggered, which represents current functionality, and as noted below, would accept new Market Maker quotes during a trading halt, which would be the basis for the Rotational Quote that would be published for a Trading Halt Auction. The Exchange also proposes to cancel any unexecuted quantity of orders for which the 500-millisecond Trading Collar has started because such timer

would have ended during a trading halt, and therefore such orders were subject to cancellation already. This would be new functionality on Pillar and reflects the proposed new Trading Collar behavior that orders would be priced at their collar for only 500 milliseconds and then would cancel.

- Re-price all other resting orders on the Consolidated Book to their limit price. This would be new functionality on Pillar for options trading; currently, during a halt, resting orders do not reprice to their limit price.<sup>189</sup> The repricing of a Non-Routable Limit Order, ALO Order, or Day ISO ALO to its limit price during a trading halt would not be counted toward the (limited) number of times such order may be repriced, and any subsequent repricing of such order during the transition to continuous trading would be permitted as the additional (uncounted) repricing event as provided for in proposed Rules 6.62P-O(e)(1)(B) and (e)(2)(C) (proposed Rule 6.64P-O(g)(2)). As described above, once resting, a Non-Routable Limit Order, ALO Order, or Day ISO ALO that was repriced on arrival is eligible to be repriced only one additional time. This proposed rule provides transparency that the repricing of such orders to their limit price during a trading halt would not count towards that “one” additional repricing, but that any subsequent repricing after the Auction concludes would count.
- Accept and process all cancellations (proposed Rule 6.64P-O(g)(3)). This

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<sup>189</sup> On its cash equities market, for trading halts in Exchange-listed securities, the Exchange reprices resting orders to their limit price. See Rule 7.18-E(c)(3).

proposed rule is based on Rule 7.18-E(c)(4), without any differences, and is consistent with current functionality.

- Reject incoming Limit Orders designated IOC or FOK (proposed Rule 6.64P-O(g)(4)). This proposed rule is based on Rule 7.18-E(c)(5), with a difference to add orders designated FOK and not include non-displayed orders and is consistent with current functionality.

Accept all other incoming order and quote messages and instructions until the Auction Processing Period for the Trading Halt Auction ends, at which point, paragraph (e) of proposed Rule 6.64P-O would govern the entry of incoming orders, quotes, and order instructions (proposed Rule 6.64P-O(g)(5)). This proposed rule is based on Rule 7.18-E(c)(6), with differences to cross reference the options rule relating to the transition to continuous trading and is consistent with current functionality.

- Disseminate a zero bid and zero offer quote to OPRA and proprietary data feeds (proposed Rule 6.64P-O(g)(6)). This proposed rule is based on current functionality and is designed to promote clarity and transparency in Exchange rules that when a trading halt begins, the Exchange will “zero” out the Exchange’s BBO.

Finally, proposed Rule 6.64P-O(h) would provide that whenever, in the judgment of the Exchange, the interests of a fair and orderly market so require, the Exchange may adjust the timing of or suspend the Auctions set forth in this Rule with prior notice to OTP Holders and OTP Firms. This proposed rule is based on Rule 7.35-E(i), with a difference to reference OTP Holders instead of ETP Holders and also reference OTP

Holders and OTP Firms.

In connection with proposed Rule 6.64P-O, the Exchange proposes to add the following preamble to Rule 6.64-O: “This Rule is not applicable to trading on Pillar.” This proposed preamble is designed to promote clarity and transparency in Exchange rules that Rule 6.64-O would not be applicable to trading on Pillar.

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As discussed above, because of the technology changes associated with the migration to the Pillar trading platform, subject to approval of this proposed rule change, 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 rulebook pending the full migration of Pillar will reduce confusion because it will ensure that the rules governing trading on the OX system will continue to be available pending the full migration to Pillar.

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “Act”),<sup>190</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>191</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

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<sup>190</sup> 15 U.S.C. 78f(b).

<sup>191</sup> 15 U.S.C. 78f(b)(5).

believes that the proposed rules to support Pillar would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed rules would promote transparency in Exchange rules by using consistent terminology governing trading on both the Exchange's cash equity and options trading platforms, thereby ensuring that members, regulators, and the public can more easily navigate the Exchange's rulebook and better understand how options trading is conducted on the Exchange.

Generally, the Exchange believes that 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 and a national market system by providing transparency of which rules would govern trading once a symbol has been migrated to the Pillar platform. The Exchange similarly believes that adding a preamble to those current rules that would not be applicable to trading on Pillar would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would promote transparency regarding which rules would govern trading on the Exchange during and after the transition to Pillar.

In addition, the Exchange believes that incorporating functionality currently available on the Exchange's cash equity market for options trading would remove impediments to and perfect the mechanism of a free and open market and a national market system because the Exchange would be able to offer consistent functionality across both its options and cash equity trading platforms, adapted as applicable for options trading. Accordingly, with the transition to Pillar, the Exchange will be able to offer additional features to its OTP Holders and OTP Firms that are currently available

only on the Exchange's cash equity platform. For similar reasons, the Exchange believes that using Pillar terminology for the proposed new rules would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would promote consistency in the Exchange's rules across both its options and cash equity platforms.

*Definitions and Applicability*

The Exchange believes that the proposed amendments to Rule 1.1, including copying certain definitions from Rule 6.1-O and Rule 6.1A-O to Rule 1.1, would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed changes are designed to promote clarity and transparency in Exchange rules by consolidating into Rule 1.1 definitions relating to both cash equity and options trading and specifying, where applicable, the differences in definitions for each trading platform. The Exchange believes that the proposed changes to eliminate definitions no longer applicable to options trading and to modify the text of certain existing definitions relating to options trading that are being copied to Rule 1.1, would further remove impediments to and perfect the mechanism of a free and open market and a national market system because it would ensure that the definitions used in Exchange rules are updated to accurately reflect functionality and are internally consistent. In particular, the Exchange believes that the proposed updates to definitions being copied to proposed Rule 1.1. from Rules 6.1-O(b) and 6.1A-O would add further granularity, clarity and transparency to Exchange rules making them easier for the investing public to navigate. The Exchange believes that new terms it proposes to include in Rule 1.1 for options trading (i.e., MPID, ABBO) would promote clarity and

transparency in Exchange rules.<sup>192</sup> Finally, the Exchange believes that organizing Rule 1.1 alphabetically and eliminating sub-paragraph numbering would make the proposed rules easier to navigate.

The Exchange further believes that proposed new Rule 6.1P-O relating to applicability would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed rule would include those elements of current Rule 6.1-O that would remain applicable to options trading and eliminates duplicative text that would no longer be necessary after the transition to Pillar. The Exchange further notes that proposed Rule 6.1P-O is similar to NYSE American Rule 900.1NY.

#### *Order Ranking and Display*

The Exchange believes that proposed new Rule 6.76P-O would remove impediments to and perfect the mechanism of a free and open market and a national market system because the Exchange is not proposing substantive changes to how the Exchange would rank and display orders and quotes on Pillar as compared to the OX system. Rather, the proposed revisions to the Exchange's options trading rules would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed changes are designed to simplify the structure of the Exchange's options rules and use consistent Pillar terminology for both cash equity and options trading, without changing the underlying functionality for options trading. For example, the Exchange believes the proposed definitions set forth in Rule 6.76P-O, i.e., display price, limit price, working price, working time, and Aggressing

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<sup>192</sup> See supra note 20 (regarding Cboe Rule 1.1. defined term "ABBO").



Order/Aggressing Quote, would promote transparency in Exchange rules and make them easier to navigate because these proposed definitions would be used in other proposed Pillar options trading rules. The Exchange notes that these proposed definitions are consistent with the definitions set forth in Rule 7.36-E for cash equity trading with terminology differences only as necessary to address functionality associated with options trading that are not applicable to cash equity trading, e.g., reference to quotes.

The Exchange further believes that copying descriptions of order type behavior, which are currently set forth in Rule 6.76-O, to proposed Rule 6.62P-O, and therefore not include such detail in proposed Rule 6.76P-O, 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 rulebook. The Exchange notes that this proposed structure is consistent with the Exchange's cash equity rules, which similarly set forth information relating to an order type's ranking in Rule 7.31-E.

Moreover, the Exchange is not proposing any functional changes to how it would rank and display orders and quotes on Pillar as compared to the OX system, except (as noted herein) with regard to the treatment of reduced quote sizes which would be handled the same as orders with reduced size under Pillar, which would add consistency and transparency to Exchange rules.<sup>193</sup> The Exchange believes that using new terminology to describe ranking and display, including the proposed priority categories of Priority 1 - Market Orders, Priority 2 - Display Orders, and Priority 3- Non-Display Orders, would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed rule would provide more granularity and

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<sup>193</sup> See supra note 48 (regarding existing handling of quotes with reduced size).

use Pillar terminology to describe functionality that is consistent with the OX system functionality currently referred to as the “Display Order Process” and the “Working Order Process” in Rule 6.76-O.

*Order Execution and Routing*

The Exchange believes that proposed new Rule 6.76AP-O would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed rule would set forth a price-time priority model for Pillar that is substantively the same as the Exchange’s current price-time priority model as set forth in Rule 6.76A-O. The proposed differences as compared to Rule 6.76A-O are designed to use Pillar terminology that is based in part on Rule 7.37-E, if applicable, without changing the functionality that is currently available for options trading.

The Exchange believes that the proposed modifications to the LMM Guarantee would remove impediments to and perfect the mechanism of a free and open market and a national market system because it provides clarity of how multiple quotes from an LMM would be allocated (i.e., only the first quote in time priority would be eligible for the LMM Guarantee and trade at an execution price equal to the NBBO). The Exchange similarly believes that eliminating Directed Order Market Makers and Directed Orders would remove impediments to and perfect the mechanism of a free and open market and a national market system because these features are not currently used on the Exchange, and therefore eliminating Directed Orders and Directed Order Market Makers would streamline the Exchange’s rules. The Exchange notes that the remaining differences in proposed Rule 6.76AP-O relating to the LMM Guarantee are designed to promote clarity and transparency in Exchange rules and would not introduce new functionality.

The Exchange believes that the structure and content of the rule text in proposed Rule 6.76AP-O promotes transparency by using consistent Pillar terminology. The Exchange also believes that adding more detail regarding current functionality in new Rule 6.76AP-O, as described above, would promote transparency by providing notice of when orders would be executed or routed by the Exchange.

#### *Orders and Modifiers*

The Exchange believes that proposed new Rule 6.62P-O would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would use existing Pillar terminology to describe the order types and modifiers that would be available on the Exchange's options Pillar trading system. As noted above, the Exchange proposes to offer order types and modifiers that are either based on existing order types available on the OX system as described in Rule 6.62-O, or orders and modifiers available on the Exchange's cash equity trading platform, as described in Rule 7.31-E, with differences as applicable to reflect differences in options trading from cash equity trading. The Exchange believes that structuring proposed Rule 6.62P-O based on the structure of Rule 7.31-E would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would promote transparency and consistency in the Exchange's rulebook.

In addition to the terminology changes to describe the order types and modifiers that are currently available on the Exchange, the Exchange further believes that the order types and modifiers proposed for options trading on Pillar that either differ from order types and modifiers available on the OX system or that would be new would remove impediments to and perfect the mechanism of a free and open market and national market

system because:

- Market Orders on Pillar would function similarly to how Market Orders function under current options trading rules, including being subject to Trading Collars. However, the proposed functionality would expand the circumstances under which Market Orders may be rejected, which functionality is designed to ensure that Market Orders do not execute either when there is no prevailing market in a series, which can occur if there is no NBO, no NBB and an NBO higher than \$0.50, or an absence of contra-side Market Maker quotations or the ABBO. In addition, the proposed functionality would provide that if the displayed prices are too wide to assure a fair and orderly execution of a Market Order, such Market Order would be rejected. The Exchange believes that the proposed “wide-spread” check for Market Orders is consistent with similar price protections on other options exchanges and is designed to prevent a Market Order trading at a price that could be considered a Catastrophic Error.<sup>194</sup> The Exchange believes that the proposed rule describing Market Orders would promote transparency by providing notice of when a Market Order would be subject to such validations.
- The Exchange is not proposing any new or different behavior for Limit Orders than is currently available for options trading on the Exchange, other than the application of Limit Order Price Protection and Trading

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<sup>194</sup> See supra note 63 (citing Cboe’s Market Order NBBO Width Protection, which similarly looks to the midpoint of the NBBO in applying this protection).

Collars, which would differ on Pillar. The Exchange believes using Pillar terminology based on Rule 7.31-E(a)(2) to describe Limit Orders would promote consistency and clarity in Exchange rules.

- The proposed Limit Order Price Protection functionality is based in part on the existing “Limit Order Filter” for orders and price protection filters for quotes because an order or quote would be rejected if it is priced a specified percentage away from the contra-side NBB or NBO. The proposed Limit Order Price Protection functionality is also based in part on the functionality available on the Exchange’s cash equity trading platform, and therefore is not novel. The Exchange believes that using the same mechanism for both orders and quotes would simplify the operation of the Exchange and achieve similar results as the current rules, which is to reject an order or quote that is priced too far away from the prevailing market. The Exchange believes that re-applying Limit Order Price Protection after an Auction concludes would ensure that Limit Orders and quotes continue to be priced consistent with the prevailing market, and that using an Auction Price (if available, and if not available, Auction Collars, and if not available, the NBBO) to assess Limit Orders and quotes after an Auction concludes would ensure that the Exchange would be applying the most recent price in a series in assessing whether such orders or quotes should be cancelled. The Exchange further believes that the proposed Specified Thresholds for determining whether to reject a Limit Order or quote would remove impediments to and perfect the mechanism

of a free and open market and a national market system because they are designed to be tailored to the applicable Reference Price, and thus more granular than the current thresholds.

The proposed Trading Collar functionality is based in part on how trading collars currently function on the Exchange because the proposed functionality would create a ceiling or floor price at which an order could be traded or routed. The Exchange believes that the proposed differences for Trading Collars on Pillar, including applying the same Trading Collar logic to both Limit Orders and Market Orders, applying them once per trading day (unless there is a trading halt), tailoring the specified thresholds to be within the current parameters for determining whether a trade would be an Obvious Error or Catastrophic Error, and canceling orders that have been displayed at their Trading Collar for 500 milliseconds, would remove impediments to and perfect the mechanism of a free and open market and a national market system because they are designed to provide a deterministic price protection mechanism for orders. In addition, the proposed Pillar Trading Collar functionality is designed to simplify the process by applying a static ceiling price (for buy orders) or floor price (for sell orders) at which such order could be traded or routed that would be applicable to the order until it is traded or cancelled. The Exchange believes that the proposal to explicitly add reference to Cross Orders being excluded from Trading Collars would add granularity to the proposed rule functionality. The Exchange believes that the proposed

functionality would provide greater determinism to an OTP Holder or OTP Firm of the Trading Collar that would be applicable to its orders and when such orders may be cancelled if it reaches its Trading Collar.

- The Exchange is not proposing any new or different Time-in-Force modifiers than are currently available for options trading on the Exchange. The Exchange believes using Pillar terminology based on Rule 7.31-E(b) to describe the time-in-force modifiers would promote consistency and clarity in Exchange rules.
- Auction-Only Orders, and specifically, the proposed MOO and LOO Orders, would operate no differently than how “Opening-Only Orders” currently function on the OX system. However, rather than refer to Opening-Only Orders, the Exchange proposes to use Pillar terminology that is based on Rule 7.31-E(c) terminology. The Exchange further believes that offering its IO Order type for Auctions on the options trading platform --both for Core Open Auctions and Trading Halt Auctions-- would provide OTP Holders and OTP Firms with new, optional functionality to offset an Imbalance in an Auction. The proposed availability of the IO Order on the options platform would be more expansive than is currently available on the Exchange’s cash equity platform, which (unlike options) does not account for quotes in determining an Imbalance and which limits the use of IO Orders solely to Trading Halt Auctions. The Exchange believes this proposed functionality would afford OTP Holders and OTP Firms with greater flexibility for all

Auctions on Pillar.

- The Exchange would continue to offer Reserve Orders, AON Orders, Stop Orders, and Stop Limit Orders, which are currently available on the OX system. The proposed differences to Reserve Orders for options trading would harmonize with how Reserve Orders function on the Exchange's cash equity market, with changes as applicable to address options trading (e.g., no round lot/odd lot concept for options trading). The proposal that the reserve interest of a Reserve Order could never have a working price that is more aggressive than the working price of the display quantity of the Reserve Order would remove impediments to and perfect the mechanism of a free and open market and a national market system because it is designed to ensure that the reserve interest of a Reserve Order to buy (sell) would never trade at a price higher (lower) than the working price of the display quantity of the Reserve Order. The proposed changes to AON Orders would provide greater execution opportunities for such orders by allowing them to be integrated in the Consolidated Book and once resting, trade with incoming orders and quotes. The changes are also based on how orders with an MTS Modifier, which are also conditional orders, function on the Exchange's cash equity market. The Exchange believes it is appropriate to opt not to support Market Orders designated as AON on Pillar because such functionality was not used often on the OX system, indicating a lack of market participant interest in this functionality. The proposed differences for Stop Orders and Stop Limit



Orders are designed to promote transparency by providing clarity of circumstances when either order may be rejected on arrival (in the case of Stop Limit Orders) or elected and make clear that, once elected, such orders are subject to the price protection and risk checks applicable to Market Orders and Limit Orders, respectively. Finally, the Exchange believes that offering Non-Displayed Limit Orders for options trading on Pillar, which are available on the Exchange's cash equity platform, would provide additional, optional trading functionality for OTP Holders and OTP Firms. The Exchange notes that the proposed Non-Displayed Limit Order would function similarly to how a PNP Blind Order that locks or crosses the contra-side NBBO would be processed because in such circumstances, a PNP Blind Order is not displayed. A Non-Displayed Limit Order would differ from a PNP Blind Order only because it would never be displayed, even if its limit price doesn't lock or cross the contra-side NBBO.

- The Exchange believes that the proposed orders (and quotes) with instructions not to route (i.e., Non-Routable Limit Order, ALO Order, and ISOs) would streamline the offerings available for options trading on the Exchange by making the functionality the same for both orders and quotes and consolidating the description of non-routable orders and quotes in proposed Rule 6.62P-O(e), thereby adding clarity and transparency. The Exchange believes that using Pillar terminology, including order type names (for orders and quotes), based on the terminology used for cash

equity trading would promote clarity and consistency across the Exchange's cash equity and options trading platforms.

The Exchange believes that the proposed Non-Routable Limit Order is not novel because it is based on how the PNP, RPNP, and MMRP orders and quotes currently function on the OX system, including the continued availability of the option to designate a non-routable order either to cancel or reprice if it is marketable against an ABBO.<sup>195</sup> As such, the Exchange believes that the proposed non-routable order/quote types would continue to provide OTP Holders and OTP Firms with the core functionality associated with existing non-routable order/quote types, including that the proposed rules would provide for the ability to either reprice or cancel such orders/quotes. The Exchange believes that providing additional options to cancel a resting Non-Routable Limit Order or ALO Order rather than reprice an additional time would provide additional choice to market participants. And the Exchange believes that not offering this second cancellation designation to Market Makers would assist Market Makers in maintaining quotes in their assigned series by reducing the potential to interfere with a Market Maker's ability to maintain their continuous quoting obligations.

Similarly, the proposed ALO Order is not novel because it is based in part on how the RALO and MMALO orders and quotes currently function on

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<sup>195</sup> As discussed supra, the proposed Non-Routable Limit Order functionality is also consistent with the treatment of Market Makers quotes not designated as MMRP (i.e., such quotes cancel if locking or crosses the NBBO). See supra note 92.

the OX system, including the continued availability of the option to cancel an ALO Order if it would lock or cross the ABBO.<sup>196</sup> As such, the Exchange believes that the proposed non-routable order/quote types would continue to provide OTP Holders and OTP Firms with the core functionality associated with existing non-routable order/quote types that would not be offered under Pillar, including that the proposed rules would provide for non-routable functionality and the ability to either reprice or cancel such orders/quotes. The Exchange believes the proposed functionality to allow an ALO Order (which can never be a liquidity taker) to lock non-displayed interest (which is consistent with the treatment of ALO Orders on the Exchange's cash equity platform) or to reprice if such order crosses non-displayed interest, would reduce potential repricing or cancellation events for an incoming ALO Order and would likewise reduce potential information leakage about non-displayed interest in the Consolidated Book. Further, the Exchange believes the proposed functionality to reprice an ALO Order when its limit price crosses non-displayed interest on the Consolidated Book, to have a working price and display price equal to the best-priced non-displayed interest on the Exchange, would remove impediments to and perfect the mechanism of a free and open market and a national market system because it would ensure that an ALO Order never trades as a liquidity-taker, thereby

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<sup>196</sup> As discussed supra, the proposed ALO Order functionality is also consistent with the treatment of Market Makers quotes not designated as MMALO (i.e., such quotes cancel if locking or crosses the NBBO). See supra note 92.

eliminating the potential for an ALO Order to cross non-displayed interest on the Consolidated Book. And the Exchange believes that not offering the second cancellation designation to Market Makers that designated an ALO Order as a quote would assist Market Makers in maintaining quotes in their assigned series by reducing the potential to interfere with a Market Maker's ability to maintain their continuous quoting obligations.

Finally, the proposed IOC ISO is not novel for options trading on the Exchange and the Exchange believes that the proposed Pillar terminology to describe the same functionality would promote transparency. The proposed Day ISO and Day ISO ALO functionality would be new for options trading and are based in part on how such order types function in the Exchange's cash equity market. In addition, the proposed Day ISO functionality is consistent with existing Rule 6.95-O(b)(3), which currently provides an exception to locking or crossing an Away Market Protected Quotation if the OTP Holder or OTP Firm simultaneously routed an ISO to execute against the full displayed size of any locked or crossed Protected Bid or Protected Offer. The Exchange notes that this exception is not necessary for IOC ISOs because such orders would never be displayed at a price that would lock or cross a Protected Quotation; they cancel if they cannot trade. Accordingly, this existing exception in the Exchange's rules contemplates an ISO that would be displayed, which would mean it would need a time-in-force modifier of "Day." In addition, Day ISOs are available for options trading on other options exchanges,

and therefore are not novel.<sup>197</sup>

- The Exchange believes that the proposed additional detail defining Complex Orders to define the “legs” and “components” of such orders would promote transparency in Exchange rules.
- On Pillar, the only electronically-entered crossing orders would be QCC Orders, which is consistent with current functionality. The Exchange believes that the proposed differences to how QCC Orders would function, including using Pillar terminology and consolidating rule text relating to QCC Orders in proposed Rule 6.62P-O, would promote transparency and clarity in Exchange rules. The proposed description of Complex QCC Orders is designed to distinguish such orders from single-leg QCC Orders and to promote clarity and transparency in Exchange rules regarding the price requirements for a Complex QCC Order. Further, Complex QCC are available for trading on other options exchanges, and therefore are not novel.<sup>198</sup>
- The Exchange believes that moving the descriptions of orders available only in open outcry from Rule 6.62-O to proposed Rule 6.62P-O(h) would ensure that these order types remain in the rulebook after the transition to Pillar is complete. For CTB Orders, the Exchange believes that, because Floor Brokers have an existing obligation to satisfy better-priced interest

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<sup>197</sup> See supra notes 115, 116 (citing to availability of Day ISO orders on Nasdaq and Cboe).

<sup>198</sup> See supra notes 118, 121 and 122 (citing Complex QCC Order type, as offered on MIAX and Cboe).

on the Consolidated Book, the proposed change to automate such priority on Pillar (i.e., to allow CTB Orders to satisfy any displayed interest (including non-Customer interest) at better prices than the latest-arriving displayed Customer interest) would not only make it easier for Floor Brokers to comply with Exchange priority rules, but would also increase execution opportunities and achieve the goal of a CTB Order. The Exchange also believes that codifying this order type and the associated regulatory obligations would add clarity and transparency in Exchange rules.

- The proposed Proactive if Locked/Crossed Modifier, STP Modifier, and MTS Modifier are not novel and are based on the Exchange's current cash equity modifiers of the same name. The Exchange believes that extending the availability of these existing modifiers to options trading would provide OTP Holders and OTP Firms with additional, optional functionality that is not novel and is based on existing Exchange rules. Further, such proposed optional functionality would afford OTP Holders and OTP Firms with greater flexibility in specifying how their trading interest should be handled. For example, the proposed MTS Modifier works similarly to the existing (and proposed) AON functionality, but provides the OTP Holder or OTP Firm with the alternative to designate a portion smaller than the full quantity as the minimum trade size. The Exchange further believes that extending the availability of STP Modifiers to all orders and quotes, and not just those of Market Makers, would

provide additional protections for OTP Holders and OTP Firms and facilitate their compliance and risk management by assisting them in avoiding unintentional wash-sale trading.

#### *Market Maker Quotations*

The Exchange believes that proposed Rule 6.37AP-O would remove impediments to and perfect the mechanism of a free and open market and a national market system because it is based on current Rule 6.37A-O, with such changes as necessary to clarify functionality and to use Pillar terminology. The Exchange believes that the proposed detail (consistent with current functionality) to make clear that same-side quotations sent by a Market Maker over the same order/quote entry port would be replaced would add clarity and transparency to Exchange rules.<sup>199</sup> The Exchange believes that consolidating into one rule functionality for orders and quotes, such that Non-Routable Limit Orders and ALO Orders may be designated as quotes per proposed Rule 6.37AP-O, would obviate the need to separately describe the same functionality in two rules and therefore streamline the Exchange's rules and promote transparency and consistency. As noted above, the Exchange believes that the quoting functionality available in the proposed Non-Routable Limit Order and ALO Order would continue to provide Market Makers with the core functionality associated with existing quote types, including that the proposed rules would provide for the ability to either reprice or cancel such quotes.

#### *Pre-Trade and Activity-Based Risk Controls*

The Exchange believes that the proposed Rule 6.40P-O, setting forth pre-trade

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<sup>199</sup> See supra note 132 (citing NYSE Arca Fee Schedule, Port Fees, and the ability for Market Makers to pay for upwards of forty order/quote entry ports per month).

and activity-based risk controls, would remove impediments to and perfect the mechanism of a free and open market and a national market system and promote just and equitable principles of trade because the proposed functionality would incorporate existing activity-based risk controls, without any substantive differences, and augment them with additional pre-trade risk controls and related functionality that are based on the pre-trade risk controls currently available on the Exchange's cash equity trading platform. The Exchange believes that the proposed differences are designed to provide greater flexibility to OTP Holders and OTP Firms in how to set risk controls for both orders and quotes. The Exchange believes that using Pillar terminology based on the cash equity rules, including using the term "Entering Firm" to mean OTP Holders and OTP Firms, including Market Makers, would promote transparency in Exchange rules. In addition, the proposed Single Order Maximum Notional Value Risk Limit and Single Order Maximum Quantity Risk Limit checks would provide Entering Firms with additional risk protection mechanisms on an individual order or quote basis. Moreover, the Exchange believes that aggregating a Market Maker's quotes and orders for purposes of calculating activity-based risk controls would better reflect the aggregate risk that a Market Maker has with respect to its quotes and orders. The Exchange further believes that the proposed Automated Breach Actions would provide Entering Firms with additional flexibility in how they could set their risk mechanisms and the automated responses if a risk mechanism is breached. The proposed Kill Switch Action functionality would also provide OTP Holders and OTP Firms with greater flexibility to provide bulk instructions to the Exchange with respect to cancelling existing orders and quotes and blocking new orders and quotes. Further, as noted herein, providing "Kill Switch Action" functionality



in Exchange rules is consistent with the rules of other options exchanges.<sup>200</sup>

*Price Reasonability Checks - Orders and Quotes*

The Exchange believes that the proposed Rule 6.41P-O, setting forth Price Reasonability Checks, would remove impediments to and perfect the mechanism of a free and open market and a national market system because they are based on existing functionality, with differences designed to use Pillar terminology and promote consistency and transparency in Exchange rules. Specifically, on Pillar, the Exchange proposes to apply the same types of Price Reasonability Checks to both orders and quotes, and therefore proposes to describe those checks in a single rule - proposed Rule 6.41P-O. The proposed rule would add an Intrinsic Value Check for quotes under Pillar (in addition to orders) and this check would enhance existing price protection features for quotes and provide Market Makers greater control and flexibility over setting risk tolerance and exposure for their quotes. The proposed rule also provides specificity regarding when the Price Reasonability Checks would be applied to an order or quote, which would promote transparency and clarity in Exchange rules. In addition, the Exchange believes that by utilizing the last sale on the Primary Market (rather than the Consolidated Last Sale) for the Price Reasonability Checks, the Pillar system would need to ingest and process less data, thereby improving efficiency and performance of the system without compromising the price protection features.

*Auction Process*

With the proposed Auction Process, the Exchange endeavors to attract the highest

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<sup>200</sup> See supra note 139 (citing optional “Kill Switch” functionality available on Cboe).

quality quote for each series at the open to attract order flow for the auction. While the Exchange does not require Market Makers assigned to a series to quote before a series can be opened (or reopened) -- which is consistent with the current rule -- the Exchange believes that providing time for such Market Makers to do so would promote a fair and orderly market by providing both better and more consistent prices on executions to OTP Holders and OTP Firms in an Auction and facilitate a fair and orderly transition to continuous trading.

The Exchange believes that proposed Rule 6.64P-O would remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed rule maintains the fundamentals of an auction process that is tailored for options trading while at the same time enhancing the process by incorporating certain Pillar auction functionality that is currently available on the Exchange's cash equity platform, as described in Rule 7.35-E. For example, the Exchange proposes to augment the imbalance information that would be disseminated in advance of an Auction to include fields available on the Exchange's cash equity market (e.g., Book Clearing Price, Fair Clearing Price, Auction Collars, and Auction Indicators), yet tailor such information to be specific to options trading (e.g., Auction Collars based on a Legal Width Quote and how the Auction Indicator would be determined). The Exchange believes that the proposed additional Auction Imbalance Information would promote transparency to market participants in advance of an Auction. The Exchange also proposes to transition to continuous trading following an Auction in a manner similar to how the Exchange's cash equity market transitions to continuous trading following a cash equity Trading Halt Auction, including how orders and quotes that are received during an

Auction Processing Period would be processed, which the Exchange believes would promote consistency across the Exchange's options and cash equity trading platforms. The proposed rule describing how orders and quotes that are received during the Auction Processing Period would be handled, and how unexecuted quotes and orders would be transitioned to continuous trading would provide granularity regarding the process, thereby providing transparency in Exchange rules. Because the Exchange would be harnessing Pillar technology to support Auctions for options trading, the Exchange believes that structuring proposed Rule 6.64P-O based on Rule 7.35-E (and NYSE Rule 7.35, in part, as well) would promote transparency in the Exchange's trading rules.

The Exchange further believes that the proposed Auction Process for options trading on Pillar would remove impediments to and perfect the mechanism of a free and open market and a national market system. The proposed process maintains the core functionality of the current options auction process, including that orders are matched based on price-time priority and that an Auction would not be conducted if the bid-ask differential is not within an acceptable range. As proposed, the Auction Process on Pillar would begin with the proposed Rotational Quote, which would provide notice not only of when the process would begin, but also whether Market Makers on the Exchange have quoted in a series. Similar to the current rule, the Exchange would require a "Calculated NBBO," which is calculated using information consistent with the information the Exchange receives from OPRA before the Exchange opens a series, to meet specified requirements, including that it not be crossed, not have a zero offer, and that it not exceed a maximum differential that is determined by the Exchange on a class by class basis and announced by Trader Update, i.e., be a "Legal Width Quote" before a series can be

opened with a trade.<sup>201</sup> Allowing the Exchange the flexibility to determine the maximum differential for the Calculated NBBO for a Legal Width Quote is consistent with functionality and accompanying discretion available on other options exchanges and allows the Exchange to consider the different market models and characteristics of different classes, as well as modify amounts in response to then-current market conditions.<sup>202</sup> In addition, the proposed discretion to modify acceptable bid-ask differential is also consistent with discretion Exchange has today on the OX system.<sup>203</sup> In addition, the Exchange believes that the proposed Auction Trigger, which would begin the Auction Process, is consistent with the current trigger for starting an auction. The Exchange believes that the proposed difference to allow the trade on the Primary Market to be odd-lot sized (in addition to having a quote from the Primary Market, which means that the underlying security would be open on the Primary Market), would allow for series overlaying low-volume securities to open automatically and reduce the need to manually trigger an Auction in a series.

As with the current rule, on Pillar, Market Makers are not obligated to quote in their assigned series for an Auction. However, the Exchange believes that providing Market Maker(s) assigned to a series the opportunity to quote within the bid-ask differential before opening a series for trading would promote fair and orderly Auctions and facilitate a fair and orderly transition to continuous trading. In particular, rather than

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<sup>201</sup> As noted herein, the concept of a Calculated NBBO is consistent with similar concepts utilized on other options exchanges and is therefore not new or novel. See, e.g., Cboe Rule 5.31(a) (regarding used of “Composite Market” concept).

<sup>202</sup> See supra notes 167, 169.

<sup>203</sup> See supra note 164.

layer additional quoting requirements on the Market Making community, the Exchange believes it would be more beneficial to all market participants to employ alternative methods to help ensure an orderly transition to continuous trading. As such, the Exchange believes that the proposed so-called “waterfall” approach to opening, would offer a number of checks that are intended to provide adequate opportunity for a greater number of Market Makers to provide their liquidity interest and help ensure increased liquidity at a level commensurate with which the market is accustomed during continuous trading on the Exchange. In short, although the Exchange does not require a Market Maker assigned to a series to quote on the Exchange in order to open or reopen a series for trading, the Exchange believes that providing Market Makers assigned to a series the opportunity to do so would promote a fair and orderly Auction process and facilitate a fair and orderly transition to continuous trading.<sup>204</sup>

Accordingly, the Exchange proposes a difference on Pillar to provide time for Market Maker(s) assigned to a series to enter quotes within the specified bid-ask differentials before a series could be opened or reopened for trading. The proposed Opening MMQ Timer(s) would each be 30 seconds. The proposed rule provides transparency of how many Market Makers assigned to a series would be required to quote in a series and in what time periods. As noted above, the proposed Auction Process is designed to attract the highest quality quote for each series at the open to attract order flow from any resting interest best quality quotes at the open of each series. As such, the

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<sup>204</sup> As noted, infra, although the Exchange does not require that Market Makers assigned to a series quote at the open, once a series is opened for trading, Market Makers are nonetheless required to continuously fulfill their obligations to engage in a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market

Exchange believes it is reasonable to require more than one Opening MMQ Timer (with a maximum run time of one minute -- 30 seconds x 2) to run when there are at least two Market Makers because it allows the Exchange time to attract the best quote from these market participants, which in turn should attract order flow to the Exchange at the open (i.e., the Exchange can leverage the highest bid and lowest offer from the various Market Makers that submit quotes). The Exchange believes that if a Legal Width Quote is not obtained in the first 30-second Opening MMQ Timer, it is to the benefit of all market participants to begin a second Opening MMQ Timer to allow the bid-ask differential to tighten before a series is opened. If Market Makers do not quote within those specified time periods, but at the end of the Opening MMQ Timer(s) there is a Legal Width Quote based on the ABBO, the Exchange would open or reopen that series for trading. The Exchange believes that the proposed waterfall approach (i.e., setting minimum time periods for a Market Maker assigned to a series to quote within the specified bid-ask differential before opening a series, even if there is a Legal Width Quote) would appropriately balance the benefits of increasing the opportunities for Market Makers assigned to a series to enter quotations within the specified bid-ask differential, with a timely series opening or reopening when there is a Legal Width Quote even when it does not include quotes of Market Makers assigned to the series. In addition, the Exchange believes that expanding the opportunities for Market Makers to enter the market would result in deeper liquidity -- which market participants have come to expect in options with multiple assigned Market Makers, and a more stable trading environment.

The Exchange believes that the proposed rule would promote transparency in Exchange rules of when the Exchange could open or reopen a series, including

circumstances of when the Exchange would wait to provide Market Makers time to submit a two-sided quotation in a series and when the Exchange would proceed with opening or reopening a series based on a Legal Width Quote even if there are no Market Maker quotes in that series.

The proposed rule would also provide transparency of when the Exchange would open or reopen a series for trading when the Calculated NBBO is wider than the Legal Width Quote for the series. The Exchange believes that the proposed process is designed to provide additional opportunities for a series to open or reopen not currently available on the OX system, while at the same time preserving the existing requirement that a series would not open on a trade if there is no Legal Width Quote. The proposed functionality to provide additional opportunities to open or reopen a series when the market is wider than the specified bid-ask differentials is not novel, and the Exchange believes that this proposed rule would allow for more automated Auctions on the Exchange for series that may already be opened on another exchange.<sup>205</sup>

Finally, the proposed rule describing how existing and new orders would be processed during a trading halt is designed to provide additional granularity in Exchange rules. Certain of the proposed functionality is based on current processes. The Exchange believes that the proposed differences in order/quote handling would remove impediments to and perfect the mechanism of a free and open market because they align with the proposed differences in behavior for specified orders and quotes on Pillar. For example, the Exchange believes that repricing resting non-routable orders and quotes during a trading halt to their limit price would be consistent with how such orders would

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<sup>205</sup> See, e.g., Cboe Rule 5.31.

be processed in an Auction if they arrived during a pre-open state. The proposed differences also reflect that on Pillar, ALO Orders would be eligible to participate in an Auction. In addition, the Exchange believes that canceling orders that are subject to the Trading Collar 500 millisecond timer would be consistent with the intent of such functionality, which is to cancel such collared orders after a specified time period.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange operates in a competitive market and regularly competes with other options exchanges for order flow. The Exchange believes that the transition to Pillar would promote competition among options exchanges by offering a low-latency, deterministic trading platform. The proposed rule changes would support that inter-market competition by allowing the Exchange to offer additional functionality to its OTP Holders and OTP Firms, thereby potentially attracting additional order flow to the Exchange. Otherwise, the proposed changes are not designed to address any competitive issues, but rather to amend the Exchange's rules relating to options trading to support the transition to Pillar. 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 and quotes. Rather, the Exchange believes that the proposed rule changes would promote consistent use of terminology to support both options and cash equity trading on the Exchange, making the Exchange's rules easier to navigate. The Exchange does not believe that the proposed rule changes would raise any intra-market competition as the proposed rule changes



would be applicable to all OTP Holders and OTP Firms, and reflects the Exchange's existing price-time priority model, including existing LMM Guarantee.

The Exchange does not believe that the proposed waterfall approach would result in an undue burden on intra-market competition. It would apply equally to all similarly-situated Market Makers regarding their assigned series. Market Makers are encouraged but not required to quote in their assigned series at the open, thus they are not subject to additional obligations. The Exchange believes that encouraging, rather than requiring, participation of such Market Makers at the open, may increase the availability of Legal Width Quotes in more series, thereby allowing more series to open. Improving the validity of the opening price benefits all market participants and also benefits the reputation of the Exchange as being a venue that provides accurate price discovery. With respect to inter-market competition, the Exchange notes that most options markets do not require Market Makers to quote during the opening.<sup>206</sup>

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:

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<sup>206</sup> See, e.g., Cboe and its affiliated exchanges.

- (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. 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 e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEARCA-2021-47 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-2021-47. This file number should be included on the subject line if e-mail 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-2021-47 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>207</sup>

Eduardo A. Aleman  
Deputy Secretary

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<sup>207</sup> 17 CFR 200.30-3(a)(12).

Additions: Underlined

Deletions: [Bracketed]

Amendment No. 3 added text in ***bold italics double-underlined***

Amendment No. 3 deleted text in ~~strikethrough~~

**Rules of NYSE Arca, Inc.**

\* \* \* \* \*

**Rule 1.1. Definitions**

Whenever and wherever used herein, unless the context requires otherwise, the following terms shall be deemed to have the meanings indicated:

\* \* \* \* \*

**Away Market BBO (“ABBO”)**

**With respect to options traded on the Exchange, the term “Away Market BBO” or “ABBO” refers to the best bid(s) or offer(s) disseminated by Away Markets and calculated by the Exchange based on market information the Exchange receives from OPRA. Unless otherwise specified, the Exchange may adjust its calculation of the ABBO based on information about orders it sends to Away Markets, execution reports received from those Away Markets, and certain orders received by the Exchange. The term “ABB” means the best Away Market bid and the term “ABO” means the best Away Market offer.**

\* \* \* \* \*

**Crowd Participants**

The term “Crowd Participants” means the Market Makers appointed to an option issue under Rule 6.35-O, and any Floor Brokers actively representing orders at the best bid or offer on the Exchange ~~for a particular option series.~~

\* \* \* \* \*

**Exercise Price**

The term “exercise price” in respect of an option contract means the stated price per share at which the underlying ~~stock or Exchange Traded Fund Shares~~ **security** may be purchased (in the case of a call) or sold (in the case of a put) upon the exercise of such option contract.

\* \* \* \* \*

**Floor, Trading Floor and Options Trading Floor**

[(s)] The terms “Floor,” “Trading Floor” and “Options Trading Floor” shall mean the options trading floor.

\* \* \* \* \*

### **Market Maker**

[(z)] With respect to cash equity securities[equities] traded on the Exchange, the term “Market Maker” shall refer to an ETP Holder that acts as a Market Maker pursuant to Rule 7-E.

With respect to options traded on the Exchange, the term “Market Maker” refers to an OTP Holder or OTP Firm that acts as a Market Maker pursuant to Rule 6.32-O.

For purposes of the NYSE Area *Exchange* rules, the term Market Maker includes Lead Market Makers, unless the context otherwise indicates.

\* \* \* \* \*

### **Market Participant Identifier (“MPID”)**

The term “Market Participant Identifier” or “MPID” refers to the ~~identification number(s)~~ *identifier* assigned to the orders and quotes of a single ETP Holder, OTP Holder, or OTP Firm for the execution and clearing of trades on the Exchange by that permit holder. An ETP Holder, OTP Holder, or OTP Firm may obtain multiple MPIDs and each such MPID may be associated with one or more sub-identifiers of that MPID.

\* \* \* \* \*

### **Minimum Price Variation or MPV**

The term “Minimum Price Variation” or “MPV” means the price variations established by the Exchange. The MPVs for quoting of cash equity securities traded on the Exchange are set forth in Rule 7.6-E. The MPVs for quoting and trading options traded on the Exchange are set forth in Rule 6.72-O(a).

\* \* \* \* \*

### **NBBO, Best Protected Bid, Best Protected Offer, Protected Best Bid and Offer (PBBO)**

[(dd)] With respect to cash equity securities[equities] traded on the Exchange, the term “NBBO” means the national best bid or offer. The terms “NBB” mean the national best bid and “NBO” means the national best offer. The terms “Best Protected Bid” or “PBB” means the highest Protected Bid, and “Best Protected Offer” or “PBO” means the lowest Protected Offer, and the term “Protected Best Bid and Offer” (“PBBO”) means the Best Protected Bid and the Best Protected Offer...With respect to options traded on the Exchange, the term “NBBO” means the national best bid or offer. The terms “NBB”

mean the national best bid and “NBO” means the national best offer. Unless otherwise specified, the Exchange may adjust its calculation of the NBBO based on information about orders it sends to Away Markets, execution reports received from those Away Markets, and certain orders received by the Exchange. The term “Away Market NBBO” refers to a calculation of the NBBO that excludes the Exchange’s BBO.

\* \* \* \* \*

### **Option Issue**

The term “option issue” means the security *option contract overlying a particular* underlying a class of options *security*.

\* \* \* \* \*

### **Routing Agreement**

[(uu) ]With respect to cash equity securities[equities] traded on the Exchange, the term “Routing Agreement” shall mean the form of Agreement between an ETP Holder and the broker-dealer affiliate of *the Exchange*NYSE Area, L.L.C., under which the broker-dealer affiliate of *the Exchange*NYSE Area, L.L.C., agrees to act as agent for routing orders of the ETP Holder and the ETP Holder's Sponsored Participants entered into the NYSE Arca Marketplace to other market centers or broker-dealers for execution, other than excluded by the terms of the Routing Agreement, whenever such routing is required.

\* \* \* \* \*

### **Series of Options**

The term “series of options,” “*option series,*” or “series” means all options contracts of the same class of options having the same expiration date and expiration price, and the same unit of trading.

\* \* \* \* \*

### **Uncovered**

The term “uncovered” in respect of a short position in an option contract means that the short position is not “covered” *as defined above*.

\* \* \* \* \*

## **Options Rules**

\* \* \* \* \*

### **Rule 6-O OPTIONS TRADING**

*Rules with a “P” modifier are operative for symbols that are trading on the Pillar trading platform. If a symbol is trading on the Pillar trading platform, a rule with the same number as a rule with a “P” modifier will no longer be operative for that symbol.*

The Exchange will announce by Trader Update when symbols are trading on the Pillar trading platform.

## **Rules Principally Applicable to Trading of Option Contracts**

### **Rule 6.1-O. Applicability, Definitions and References**

This Rule ~~will~~ is not ~~be~~ applicable to trading on Pillar.

\* \* \* \* \*

### **Rule 6.1A-O. Definitions and References – OX**

This Rule ~~will~~ is not ~~be~~ applicable to trading on Pillar.

\* \* \* \* \*

### **Rule 6.37-O. Obligations of Market Makers**

\* \* \* \* \*

(c) *Unusual Conditions - ~~Opening Auctions~~*. If the interest of maintaining a fair and orderly market so requires, a Trading Official may declare that unusual market conditions exist in a particular issue and allow Market Makers in that issue to make auction bids and offers with spread differentials of up to two times, or in exceptional circumstances, up to three times, the legal limits permitted under Rule 6.37-O or Rule 6.64P-O(a)(~~8~~10). In making such determinations to allow wider markets, the Trading Official should consider the following factors: (A) whether there is pending news, a news announcement or other special events; (B) whether the underlying security ~~or Exchange-Traded Fund Share~~ is trading outside of the bid or offer in such security then being disseminated; (C) whether OTP Holders and OTP Firms receive no response to orders placed to buy or sell the underlying security; and (D) whether a vendor quote feed is clearly stale or unreliable.

\* \* \* \* \*

### **Rule 6.37A-O. Market Maker Quotations.**

This Rule ~~will~~ is not ~~be~~ applicable to trading on Pillar.

\* \* \* \* \*

### **Rule 6.37AP-O. Market Maker Quotations.**

(a) A Market Maker may ~~enter~~ send quotations only in the issues included in its appointment.

(1) *Quote or Quotation.* The term “quote” or “quotation” means a bid or offer sent by a Market Maker that is not sent as an order. ~~Once received by the Exchange, a~~ A subsequent quotation sent by a Market Maker ~~replaces that Market Maker’s~~ will

replace a previously displayed same-side quotation **that was sent from the same order/quote entry port of that Market Maker.**

- (2) A Market Maker may designate ~~a quote it sends as~~ either a Non-Routable Limit Order or an ALO Order as a quote and such quote will be processed ~~in the same way as those orders are processed under~~ as described in Rule 6.62P-O(e).

\* \* \* \* \*

#### **Rule 6.40-O. Risk Limitation Mechanism**

This Rule ~~will~~ is not be applicable to trading on Pillar.

\* \* \* \* \*

#### **Rule 6.40P-O. Pre-Trade and Activity-Based Risk Controls**

(a) The following are definitions for purposes of this Rule:

- (1) “Entering Firm” means an OTP Holder or OTP Firm (including those acting as Market Makers).
- (2) “Pre-Trade Risk Controls” refer to the following optional limits, each of which an Entering Firm may utilize with respect to its trading activity on the Exchange **(excluding interest represented in open outcry, except CTB Orders).**
- (A) “Single Order Maximum Notional Value Risk Limit” means a pre-established maximum dollar amount for a single order or quote to be applied one time. Orders designated GTC will be subject to this check only once.
- (B) “Single Order Maximum Quantity Risk Limit” means a pre-established maximum number of contracts that may be included in a single order or quote before it can be traded. Orders designated GTC will be subject to this check only once.
- (3) “Activity-Based Risk Controls” refer to activity-based risk limits that may be applied to orders and quotes in an options class **(excluding those represented in open outcry, except CTB Orders)** based on specified thresholds measured over the course of an Interval. The Activity-Based Risk Controls available on the Exchange are:

\* \* \* \* \*

(c) Automated Breach Actions. The Exchange will automatically take the following actions.

\* \* \* \* \*



(3) Global Risk Controls

(A) If the Global Risk Control limit is breached, the Exchange will Cancel and Block, per paragraph (c)(2)(C) (iii) above.

\* \* \* \* \*

(e) Kill Switch Actions. An Entering Firm can direct the Exchange to take one or more of the following actions with respect to orders and quotes **(excluding those represented in open outcry, except CTB Orders)** at either an MPID or sub-ID level:

\* \* \* \* \*

**Rule 6.41P-O. [Reserved] Price Reasonability Checks - Orders and Quotes**

(a) The Exchange will apply Price Reasonability Checks defined in paragraphs (b) and (c) of this Rule to all Limit Orders and quotes during continuous trading on each trading day **(excluding those represented in open outcry, except CTB Orders)**, subject to the following:

\* \* \* \* \*

(b) Arbitrage Checks for buy orders or quotes.

\* \* \* \* \*

(2) Calls. Order or quote messages to buy for call options will be rejected or canceled (if resting) if the price of the order or quote is equal to or greater than the last sale price of the underlying security on the Primary Market, plus a specified ~~dollar amount~~ **threshold** to be determined by the Exchange and announced by Trader Update.

(c) Intrinsic Value Checks for sell orders or quotes.

\* \* \* \* \*

(4) Puts and calls.

(A) Orders or quotes to sell for both puts and calls will be rejected or canceled (if resting) if the price of the order or quote is equal to or lower than its Intrinsic Value, minus a **specified** ~~percentage~~ **threshold** to be determined by the Exchange and announced by Trader Update.

(B) The threshold percentage is based on the NBB, provided that, immediately following an Auction, it is based on the Auction Price ~~(per Rule 6.62P-O(a)(3))~~ or, if none, the lower Auction Collar price, or, if none, the NBB. For purposes of determining the Intrinsic Value, the Exchange will not use an adjusted NBBO.

The Intrinsic Value Check for sell orders and quotes will not be applied if the Intrinsic Value cannot be calculated.

\* \* \* \* \*

**Rule 6.62P-O. Orders and Modifiers**

(a) Primary Order Types

(1) Market Order. An unpriced order message to buy or sell a stated number of option contracts at the best price obtainable, subject to the Trading Collar assigned to the order. A Market Order may be designated Day or GTC. Unexecuted Market Orders are ranked Priority 1 - Market Orders. For purposes of processing Market Orders, the Exchange will not use an adjusted NBBO.

(A) A Market Order that arrives during continuous trading will be rejected, or that was routed, returns unexecuted, and has no resting quantity to join will be cancelled if:

\* \* \* \* \*

(iii) There are no contra-side Market Maker quotes on the Exchange or contra-side ~~Away Market NBBO~~**ABBO**, provided that a Market Order to sell will be accepted as provided for in paragraph (a)(1)(A)(ii) of this Rule; or

\* \* \* \* \*

(C) A Market Order will be cancelled before being displayed if there are no remaining contra-side Market Maker quotes on the Exchange or contra-side ~~Away Market NBBO~~**ABBO**.

\* \* \* \* \*

(2) Limit Order. An order message to buy or sell a stated number of option contracts at a specified price or better, subject to Limit Order Price Protection and the Trading Collar assigned to the order. A Limit Order may be designated Day, IOC, or GTC. Unless otherwise specified, the working price and the display price of a Limit Order is equal to the limit price of the order, is eligible to be routed, and is ranked Priority 2 - Display Orders.

(A) A marketable Limit Order to buy (sell) received by the Exchange will trade with all orders and quotes to sell (buy) on the Consolidated Book priced at or below (above) the NBO (NBB) before routing to an ~~Away Market NBO~~**the ABQ (NBBABB)**, and may route to prices higher (lower) than the NBO (NBB) only after trading with orders and quotes to sell (buy) on the Consolidated Book at each price point. Once no longer marketable, the Limit Order will be ranked and displayed on the Consolidated Book.

(3) Limit Order Price Protection.

(A) Each trading day, a Limit Order or quote to buy (sell) will be rejected or cancelled (if resting) if it is priced a Specified Threshold *equal to or* above (below) the Reference Price, rounded down to the nearest price within the MPV for the series (“Limit Order Price Protection”). Cross Orders ~~and~~, LOO Orders, *and orders represented in open outcry (except CTB Orders)* are not subject to Limit Order Price Protection. Limit Order Price Protection will not be applied to a Limit Order or quote if there is no Reference Price.

\* \* \* \* \*

(4) Trading Collar. A Market Order or Limit Order to buy (sell) will not trade or route to an Away Market at a price above (below) the Trading Collar assigned to that order. Auction-Only Orders, Limit Orders designated IOC or FOK, Cross Orders, ISOs, and Market Maker quotes are not subject to Trading Collars. Trading Collars will not be applicable during Auctions.

(A) *Assignment of Trading Collar.* A Trading Collar assigned to an order will be calculated once per trading day and will ~~not~~ be updated *only if the series is halted*. ~~A Market Order or Limit Order~~

(i) *An order* that is received during continuous trading will be assigned a Trading Collar before being processed for either trading, repricing, or routing. An order that is routed and returned unexecuted will use the Trading Collar *that was previously assigned to it* upon arrival. ~~A Market Order or Limit Order~~

(ii) *An order* received during a pre-open state will be assigned a Trading Collar after an Auction concludes.

(iii) *The Trading Collar for an order resting on the Consolidated Book before a trading halt will be calculated again after the Trading Halt Auction concludes.*

(B) *Reference Price.* The Reference Price for calculating the Trading Collar for an order to buy (sell) will be the NBO (NBB). For Auction-eligible orders to buy (sell) that were received during a pre-open state ~~and~~ *or orders that are re-assigned a Trading Collar after the Auction concludes a trading halt*, the Reference Price will be the Auction Price or, if none, the upper (lower) Auction Collar price or, if none, the NBO (NBB). For purposes of calculating a Trading Collar, the Exchange will not use an adjusted NBBO.

(i) A Trading Collar will not be assigned to a Limit Order if there is no Reference Price at the time of calculation.

(ii) ~~After an Auction, if a Market Order has not already been assigned a Trading Collar and there is no Reference Price, the order will be cancelled.~~

\* \* \* \* \*

(d) Orders with a Conditional or Undisplayed Price and/or Size

\* \* \* \* \*

(2) Non-Displayed Limit Order. A Limit Order that is not displayed, does not route, and is ranked Priority 3 - Non-Display Orders. A Non-Displayed Limit Order may be designated Day or GTC and does not participate in any Auctions.

\* \* \* \* \*

~~(B) A Non-Displayed Limit Order may be designated with a Non-Display Remove Modifier. If so designated, a resting Non-Displayed Limit Order to buy (sell) with a working price equal to the working price of an ALO Order or Day ISO ALO to sell (buy) will trade as the liquidity taker against such order.~~

(3) All-or-None (“AON”) Order. A Limit Order that is to be traded in whole on the Exchange at the same time or not at all. An AON Order that does not trade on arrival is ranked Priority 3 - Non-Display Orders. An AON Order may be designated Day or GTC, does not route, and will not participate in any Auctions.

\* \* \* \* \*

~~(F) An AON Order may be designated with a Non-Display Remove Modifier. If so designated, a resting AON Order to buy (sell) that can trade with an ALO Order or Day ISO ALO Order to sell (buy) will trade as the liquidity taking order.~~

\* \* \* \* \*

(e) Orders with Instructions Not to Route

(1) Non-Routable Limit Order. A Limit Order or quote that does not route and may be designated Day or GTC. A Non-Routable Limit Order with a working price different from the display price is ranked Priority 3-Non-Display Orders and a Non-Routable Limit Order with a working price equal to the display price is ranked Priority 2-Display Orders.

(A) A Non-Routable Limit Order will not be displayed at a price that would lock or cross an ~~Away Market NBB~~**the ABO**. A Non-Routable Limit Order to buy (sell) will trade with orders or quotes to sell (buy) in the Consolidated Book priced at or below (above) the ~~Away Market NBO~~**ABO (NBB**~~ABB)~~.

(i) A Non-Routable Limit Order can be designated to be cancelled if it would be displayed at a price other than its limit price.

(ii) If not designated to cancel, if the limit price of a Non-Routable Limit Order to buy (sell) would lock or cross an ~~Away Market NBO~~**the ABO (NBB**~~ABB)~~, it will be repriced to have a working price equal to the ~~Away~~

Market NBO~~ABO~~ (NBB~~ABB~~) and a display price one MPV below (above) that NBO~~ABO~~ (NBB~~ABB~~).

(B) The display price of a resting Non-Routable Limit Order to buy (sell) that has been repriced will be repriced higher (lower) only one additional time. If after that repricing, the display price could be repriced higher (lower) again, the order can be designated to either remain at its last working price and display price or be cancelled, provided that a resting Non-Routable Limit Order that is *designated as* a quote cannot be designated to be cancelled.

(i) If the limit price of the resting Non-Routable Limit Order to buy (sell) that has been repriced no longer locks or crosses the Away Market NBO~~ABO~~ (NBB~~ABB~~), it will be assigned a working price and display price equal to its limit price.

(ii) The working price of a resting Non-Routable Limit Order to buy (sell) that has been repriced will be adjusted to be equal to its display price if the Away Market NBO~~ABO~~ (NBB~~ABB~~) is equal to or lower (higher) than its display price. Once the working price and display price of a Non-Routable Limit Order to buy (sell) are the same, the working price will be adjusted higher (lower) only if the display price of the order is adjusted.

~~(C) A Non-Routable Limit Order may be designated with a Non-Display Remove Modifier. If so designated, a Non-Routable Limit Order to buy (sell) with a working price, but not display price, equal to the working price of an ALO Order or Day ISO ALO Order to sell (buy) will trade as the liquidity taker against such order.~~

~~(D) The designation to cancel a Non-Routable Limit Order will not be applicable in an Auction and such order will participate in an Auction at its limit price.~~

(2) ALO Order. An ALO Order is a Limit Order or quote that is a Non-Routable Limit Order that will not remove liquidity from the Consolidated Book.

(A) An ALO Order will not be displayed at a price that would lock or cross ~~an~~ Away Market NBO~~the ABO~~, would lock or cross displayed interest in the Consolidated Book, or would cross non-displayed interest in the Consolidated Book.

\* \* \* \* \*

(B) If not designated to cancel:

\* \* \* \* \*

(ii) If the limit price of an ALO Order to buy (sell) would lock or cross ~~an~~ Away Market NBO~~the ABO~~ (NBB~~ABB~~), it will be repriced to have a

working price equal to the ~~Away Market NBO~~**ABO** (~~NBB~~**ABB**) and a display price one MPV below (above) that ~~NBO~~**ABO** (~~NBB~~**ABB**);

\* \* \* \* \*

(C) The display price of a resting ALO Order to buy (sell) that has been repriced will be repriced higher (lower) only one additional time. If, after that repricing, the display price could be repriced higher (lower) again, the order can be designated to either remain at its last working price and display price or be cancelled, provided that a resting ALO Order that is a quote cannot be designated to be cancelled.

(i) If the limit price of an ALO Order to buy (sell) that has been repriced no longer locks or crosses displayed orders or quotes in the Consolidated Book, locks or crosses the ~~Away Market NBO~~**ABBO**, or crosses non-displayed orders or quotes in the Consolidated Book, it will be assigned a working price and display price equal to its limit price.

(D) The working price of a resting ALO Order to buy (sell) that has been repriced will be adjusted to be equal to its display price if:

(i) the ~~Away Market NBO~~**ABO** (~~NBB~~**ABB**) re-prices to be equal to or lower (higher) than the display price of the resting ALO Order to buy (sell); or

\* \* \* \* \*

~~(G) An ALO Order cannot be designated with a Non Display Remove Modifier.~~

\* \* \* \* \*

(f) Complex Orders. A Complex Order is any order involving the simultaneous purchase and/or sale of two or more option series in the same underlying security (the “legs” or “components” of the Complex Order), for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of executing a particular investment strategy.

~~(1) For the purpose of applying the aforementioned ratio to Complex Orders comprised of both mini options contracts and standard contracts, ten mini options will represent one standard contract.~~

~~(2) Orders comprised of both mini options contracts and standard contracts are not available for Electronic Complex Order trading pursuant to Rule 6.91 O.~~

(g) Cross Orders. **A Cross Order is a Qualified Contingent Cross (“OCC”) Order.** Two-sided order messages with instructions to match the identified buy side with the identified sell side at a specified price, which can either be designated as a limit price or at the market (“cross price”). A Cross Order that is not rejected per paragraph (g)(1) below will immediately trade in full at its cross price, does not route, and may be entered with an

MPV of \$0.01 regardless of the MPV of the options series. Cross Orders may be entered by Floor Brokers from the Trading Floor or routed to the Exchange from off Floor.

(1) QCC Orders.

(A) QCC Order must be comprised of an originating order to buy or sell at least 1,000 contracts that is identified as being part of a qualified contingent trade coupled with a contra-side order or orders totaling an equal number of contracts. If a QCC has more than one option leg (a “Complex QCC Order”), each option leg must have at least 1,000 contracts. A QCC Order that is not rejected per paragraph (g)(1)(C) or (D) below will immediately trade in full at its price, does not route, and may be entered with an MPV of \$0.01 regardless of the MPV of the options series. QCC Orders may be entered by Floor Brokers from the Trading Floor or routed to the Exchange from off-Floor. Rule 6.47A-O does not apply to QCC Orders.

(B) Qualified Contingent Trade. A “qualified contingent trade” is a transaction consisting of two or more component orders, executed as agent or principal, where:

(i) at least one component is an NMS Stock, as defined in Rule 600 of Regulation NMS under the Exchange Act;

(ii) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent;

(iii) the execution of one component is contingent upon the execution of all other components at or near the same time;

(iv) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed;

(v) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and

(vi) the transaction is fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade.

(1-C) Execution of Cross QCC Orders. A Cross QCC Order with one option leg will be rejected if received when the NBBO is crossed or if it will trade at a price that (i) is at the same price as a displayed Customer order on the Consolidated Book and (ii) is not at or between the NBBO. A QCC Order with one option leg will never trade at a price worse than the Exchange BBO. A Cross Order with a cross price at the market will execute at the midpoint of the

NBBO, provided that:

- (A) if there is no NBB, a zero bid will be used;
- (B) if there is displayed Customer interest priced equal to the NBB, NBO or both, the midpoint will be based on the BBO improved by \$0.01 for the side(s) containing displayed Customer interest;
- (C) if there is no NBO, such order will be rejected; or
- (D) if the midpoint of the NBBO is in sub pennies, the order will trade at the midpoint of the NBBO rounded down to the MPV for the series.

**(D) Execution of Complex QCC Orders. A Complex QCC Order must include a limit price, no option leg will trade at a price worse than the Exchange BBO, and will be rejected if:**

- (i) any option leg cannot execute in compliance with paragraph (g)(1)(C) of this Rule;**
- (ii) the best-priced Complex Order(s) on the Exchange contain(s) displayed Customer interest and the Complex QCC Order price does not improve such displayed Customer interest by \$0.01;**
- (iii) the price of the QCC Order is worse than the best-priced Complex orders in the Consolidated Book or the prices of the best-priced Complex Orders in the Consolidated Book are crossed; or**
- (iv) for any option leg there is no NBO.**

**(2) Qualified Contingent Cross (“QCC”) Order.** A QCC Order must be comprised of an originating order to buy or sell at least 1,000 contracts that is identified as being part of a qualified contingent trade coupled with a contra side order or orders totaling an equal number of contracts.

**(A) Qualified Contingent Trade.** A “qualified contingent trade” is a transaction consisting of two or more component orders, executed as agent or principal, where:

- (i) at least one component is an NMS Stock, as defined in Rule 600 of Regulation NMS under the Exchange Act;**
- (ii) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker dealer as principal or agent;**
- (iii) the execution of one component is contingent upon the execution of all other components at or near the same time;**



(iv) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed;

(v) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and

(vi) the transaction is fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade.

(B) OCC Orders entered from Trading Floor. While on the Trading Floor, only Floor Brokers can enter OCC Orders. Floor Brokers may not enter OCC Orders for their own account, the account of an associated person, or an account with respect to which it or an associated person thereof exercises investment discretion (each a “prohibited account”). When executing such orders, Floor Brokers will not be subject to Rule 6.47-O regarding “Crossing” orders. Floor Brokers must maintain books and records demonstrating that each OCC Order entered from the Floor was not entered for a prohibited account. Any OCC Order entered from the Floor that does not have a corresponding record required by this paragraph will be deemed to have been entered for a prohibited account in violation of this Rule.

(C) OCC Orders entered off-Floor. With respect to OCC Orders routed to the Exchange from off-Floor, OTP Holders must maintain books and records demonstrating that each such order was so routed.

\* \* \* \* \*

(h) Orders Available Only in Open Outcry.

(1) Clear-the-Book (“CTB”) Order. A CTB Order is a Limit IOC Order that may be entered only by a Floor Broker, subsequent to contemporaneous with executing an order in open outcry, that is approved by a Trading Official (the “TO Approval”). The CTB Order is eligible to trade only with contra-side orders and quotes that were resting in the Consolidated Book prior to the TO Approval.

\* \* \* \* \*

(D) Floor Brokers submitting CTB Orders must do so in a timely manner after receiving TO Approval. Because CTB Orders are non-routable, Floor Brokers are obligated to route orders to better-priced interest ~~to~~ Away Markets per Rule 6.94-O.

\* \* \* \* \*

(i) Additional Order Instructions and Modifiers.

\* \* \* \* \*

(2) Self Trade Prevention Modifier (“STP”). An Aggressing Order or Aggressing Quote to buy (sell) designated with one of the STP modifiers in this paragraph will be prevented from trading with a resting order or quote to sell (buy) also designated with an STP modifier from the same MPID, and, if specified, any sub-identifier of that MPID. The STP modifier on the Aggressing Order or Aggressing Quote controls the interaction between two orders and/or quotes marked with STP modifiers. Self-Trade Prevention will not be applicable during an Auction or to Cross Orders or when a Complex Order legs out. If the condition for a Limit Order designated FOK, an AON Order, or an *arriving* order with an MTS modifier *designated under paragraph (i)(3)(B)(i) of this Rule* cannot be met because of STP modifiers, such order will be cancelled or placed on the Consolidated Book, as applicable. Aggressing Orders or Aggressing Quotes will be processed as follows.

\* \* \* \* \*

### **Rule 6.64P-O. Auction Process**

(a) This Rule is applicable to all series that trade on the Exchange other than Flex Options. The following are definitions for purposes of Rule 6-O Options Trading that are applicable to trading on Pillar:

(1) “Auction” means the opening or reopening of a series for trading either ~~on~~*with or without* a trade ~~or quote~~.

\* \* \* \* \*

(3) “Auction Imbalance Information” means the information that the Exchange disseminates about an Auction via its proprietary data feeds and includes the Auction Collars, Auction Indicator, Book Clearing Price, Far Clearing Price, Indicative Match Price, Matched Volume, Market Imbalance, and Total Imbalance. Auction Imbalance Information will be based on all quotes and orders (including the non-displayed quantity of Reserve Orders) eligible to participate in an Auction, excluding IO Orders.

(A) “Auction Indicator” means the indicator that provides a status update of whether an Auction cannot be conducted because either (i) there is no Legal Width Quote, or (ii) a Market Maker quote has not been received during the Opening MMQ Time~~r(s)~~Parameter.

\* \* \* \* \*

(C) “Far Clearing Price” is the price at which ~~all~~ Auction-Only Orders could be traded in an Auction within the Auction Collar.

\* \* \* \* \*

(4) “Auction Price” means the price at which an Auction that results in a trade is conducted.

(5) “Auction Process” means the process that begins when the Exchange receives an Auction Trigger for a series and ends when the Auction is conducted.

(56) “Auction Processing Period” means the period during which the Auction is being processed.

(67) “Auction Trigger” means the information disseminated by the Primary Market in the underlying security that triggers the Auction Process for a series to begin.

\* \* \* \* \*

(78) “Calculated NBBO” means the highest bid and lowest offer among all Market Maker quotes and the ABBO during the Auction Process.

(9) “Indicative Match Price” means the price at which the maximum number of contracts can be traded in an Auction, including the non-displayed quantity of Reserve Orders and excluding IO Orders, subject to the Auction Collars. If there is no Legal Width Quote, the Indicative Match Price included in the Auction Imbalance Information will be calculated without Auction Collars.

\* \* \* \* \*

(810) A “Legal Width Quote” means the highest bid and lowest offer among all Market Maker quotes and the Away Market NBBO (together, “Calculated NBBO”) during the Auction Process. The *is a* Calculated NBBO *that* can be a Legal Width Quote if it:

(A) *may be* is locked, but not crossed;

(B) does not contain a zero offer; and

(C) has a spread between the Calculated NBBO for each option contract that does not exceed the following differentials, which can be widened as provided for in Rule 6.37 O(e):

(i) no more than .25 where the bid does not exceed \$2;

(ii) no more than .40 where the bid is more than \$2 but does not exceed \$5;

(iii) no more than .50 where the bid is more than \$5 but does not exceed \$10;

(iv) no more than .80 where the bid is more than \$10 but does not exceed \$20, and

(v) no more than \$1 where the bid is more than \$20, *a maximum differential*

that is determined by the Exchange on a class basis and announced by Trader Update, provided that a Trading Official may establish differences other than the above for one or more series or classes of options.

\* \* \* \* \*

(911) “Matched Volume” means the number of buy and sell contracts that can be matched at the Indicative Match Price, excluding IO Orders.

(1012) “Pre-open state” means the period before a series is opened or reopened *for trading*. During the pre-open state, the Exchange will accept Auction-Only Orders, quotes, and orders designated Day or GTC, including orders ranked Priority 3 - Non-Display Orders that are not eligible to participate in an Auction.

(A) The pre-open state for the Core Open Auction begins at 6:00 a.m. Eastern Time and ends when the Auction Processing Period begins. *During At the beginning of* the pre-open state before the Core Open Auction, ~~the Exchange will re-enter~~ orders designated GTC *that remain from the prior trading day will be included in the Consolidated Book.*

\* \* \* \* \*

(1113) “Rotational Quote” means the highest Market Maker bid and lowest Market Maker offer on the Exchange when the Auction Process begins. During the Auction Process, the Exchange will update the price and size of the Rotational Quote. A Rotational Quote can be locked or crossed. If there are no Market Maker quotes, the Rotational Quote will be published with a zero price and size.

\* \* \* \* \*

(d) Auction Process.

\* \* \* \* \*

(2) Once a Rotational Quote has been sent, the Exchange will conduct an Auction when there is both a Legal Width Quote and, if applicable, Market Maker quote with a non-zero offer in the series (subject to the Opening MMQ Timer(s) Parameter requirements in paragraph (d)(3) of this Rule). The Exchange will wait a minimum of two milliseconds after *disseminating* the Rotational Quote ~~has been sent~~ before an Auction can be conducted. *Subject to the above:*

\* \* \* \* \*

(B) If there is no Matched Volume that can trade at or within the Auction Collars, *the Auction will not result in a trade and* the Exchange will transition to continuous trading as described in paragraph (f) of this Rule and the Auction will result in a quote.

(3) *Opening MMQ Timers Parameter. Unless otherwise specified by Trader Update, each Opening MMQ Timer will be 30 seconds.* Once the Auction Process begins, the Exchange will begin a ~~one minute timer~~ *one or more Opening MMQ Timers* for the Market Maker(s) assigned to a series to submit a quote with a non-zero offer, subject to the following:

(A) If there are no Market Makers assigned to a series, the Exchange will conduct an Auction in that series based on only a Legal Width Quote, without waiting for the Opening MMQ Timer Parameter to end.

(B) If there is only one Market Maker assigned to a series:

(i) The Exchange will conduct the Auction, without waiting for the Opening MMQ Timer Parameter to end, as soon as there is both a Legal Width Quote and the assigned Market Maker has submitted a quote with a non-zero offer.

(ii) If the Market Maker *assigned to a series* has not submitted a quote with a non-zero offer by the end of the Opening MMQ Timer Parameter and there is a Legal Width Quote, the Exchange will conduct the Auction.

(C) If there are two or more Market Makers assigned to a series:

(i) The Exchange will conduct the Auction, without waiting for the Opening MMQ Timer Parameter to end, as soon as there is both a Legal Width Quote and at least two assigned Market Makers have submitted a quote with a non-zero offer.

(ii) If at least two Market Makers *assigned to a series* have not submitted a quote with a non-zero offer by the end of the Opening MMQ Timer Parameter, the Exchange will begin a second Opening MMQ Timer Parameter. During the second Opening MMQ Timer Parameter, the Exchange will conduct the Auction, without waiting for the second Opening MMQ Timer Parameter to end, if there is both a Legal Width Quote and at least one Market Maker has submitted a quote with a non-zero offer.

(iii) If no Market Maker *assigned to a series* has submitted a quote with a non-zero offer by the end of the second Opening MMQ Time Parameter and there is a Legal Width Quote, the Exchange will conduct the Auction.

(4) *Unless otherwise specified by Trader Update, F*for the first five minutes *ninety seconds* of the Auction Process, if there is no Legal Width Quote, the Exchange will not conduct an Auction, even if there is Matched Volume. *Five minutes Ninety seconds* after the Auction Process begins:

(A) If there is no Matched Volume and the Calculated NBBO is wider than the Legal Width Quote, is not crossed, and does not contain a zero offer, the Exchange will transition to continuous trading as described in paragraph (f) of this Rule. In such case, the Auction will *is not intended to end with a trade, but it*

may result in a quote, provided that there may be an Auction trade even if there is no Legal Width Quote if orders or quotes arrive during the period when the Exchange is evaluating the status of orders and quotes.

\* \* \* \* \*

(B) If the Exchange still cannot conduct an Auction *under paragraph (d)(4) of this Rule*, the Exchange will continue to evaluate both the Calculated NBBO and interest on the Consolidated Book until the earlier of:

\* \* \* \* \*

(f) *Transition to Continuous Trading*. After the Auction Processing Period concludes, the Exchange will transition to continuous trading as follows:

(1) Orders that are no longer eligible to trade will be cancelled.

(2) During the transition to continuous trading, order instructions will be processed as follows:

(A) An order instruction that *relates to an order or quote that was received before the Auction Processing Period or that has already transitioned to continuous trading and that* arrives during *either* the transition to continuous trading or the Auction Processing Period under paragraph (e)(1) of this Rule will be processed in time sequence with the processing of orders and quotes as specified in paragraphs (f)(3)(A) or (B) of this Rule ~~if it relates to an order or quote that was received before the Auction Processing Period or that has already transitioned to continuous trading~~. Any subsequent order instructions relating to such order *or quote* will be rejected.

\* \* \* \* \*

(3) When transitioning to continuous trading following an Auction, orders and quotes will be processed as follows:

(A) The Exchange will process Auction-eligible orders and quotes that were received before the Auction Processing Period and orders ranked Priority 3 - Non-Display Orders received before a trading halt as follows:

(i) Limit Orders and quotes will be subject to the Limit Order Price ~~Check~~**Protection**, Arbitrage Check, and Intrinsic Value Check, as applicable.

(ii) Limit Orders ~~that are not cancelled~~ and Market Orders will be *assigned a subject to the Trading Collar assigned to it*.

\* \* \* \* \*

(B) Next, orders ranked Priority 3 - Non-Display Orders that were received during a pre-open state will be assigned a new working time in time sequence relative to one another based on original entry time and will be subject to the Limit Order Price ~~Check~~**Protection**, Arbitrage Check, and Intrinsic Value Check, as

applicable, and if not cancelled, will be traded or repriced.

(C) Next, orders and quotes that were received during the Auction Processing Period will be assigned a new working time in time sequence relative to one another based on original entry time and will be subject to the Limit Order Price Check **Protection**, Pre-Trade Risk Controls, Arbitrage Check, Intrinsic Value Check, and validations specified in Rule 6.62P-O(a)(1)(A), as applicable, and if not cancelled, will be processed consistent with the terms of the order or quote.

(D) When transitioning to continuous trading:

(i) The display price and working price of orders and quotes will be adjusted based on the contra-side interest in the Consolidated Book or **ABBO** Away Market NBBQ, as provided for in Rule 6.62P-O.

\* \* \* \* \*

(g) *Order Processing During a Trading Halt.* The Exchange will process new and existing orders and quotes in a series during a trading halt as follows:

~~(1)~~ maintain any unexecuted portion of orders ranked Priority 3 – Non Display Orders;

~~(2)~~ cancel any unexecuted quantity of orders displayed at a *for which the 500-millisecond* Trading Collar *timer has started* and *all resting* Market Maker quotes;

~~(3)~~ re-price all other resting orders on the Consolidated Book to their limit price. The repricing of a Non-Routable Limit Order, ALO Order, or Day ISO ALO to its limit price during a trading halt will not be counted toward the number of times such order may be repriced. Any subsequent repricing of such order during the transition to continuous trading is permitted as the additional repricing event as provided for in Rule 6.62P-O(e)(1)(B) and (e)(2)(C);

~~(4)~~ accept and process all cancellations;

~~(5)~~ reject incoming Limit Orders designated IOC or FOK;

~~(6)~~ accept all other incoming order and quote messages and instructions until the Auction Processing Period for the Trading Halt Auction, at which point, paragraph (e) of this Rule will govern the entry of incoming orders, quotes, and order instructions; and

~~(7)~~ disseminate a zero bid and zero offer quote to OPRA and proprietary data feeds.

(h) Whenever in the judgment of the Exchange the interests of a fair and orderly market so require, the Exchange may adjust the timing of or suspend the Auctions set forth in this Rule with prior notice to **AQTP** Holders *and OTP Firms*.

\* \* \* \* \*

**Rule 6.76P-O. Order Ranking and Display**

\* \* \* \* \*

(b) Display. The Exchange displays all non-marketable Limit Orders and quotes ranked Priority 2 - Display Orders, unless the order or modifier instruction specifies that all or a portion of the order is not to be displayed.

(1) Except as otherwise permitted by Rule 6.76AP-O, all non-marketable displayed interest will be displayed on an anonymous basis.

(2) The Exchange will disseminate current consolidated quotations/last sale information, and such other market information as may be made available from time to time pursuant to agreement between the Exchange and other Market Trading Centers, consistent with the Plan for Reporting of Consolidated Options Last Sale Reports and Quotation Information.

\* \* \* \* \*

(g) Ranking Restrictions. The Exchange will apply ranking restrictions applicable to specific order, quote, or modifier instructions as provided for in Rule 6.62P-O.

\* \* \* \* \*

**Rule 6.76AP-O. Order Execution and Routing**

(a) Order Execution. An Aggressing Order or Aggressing Quote in an option series that is open for trading will be matched for execution against contra-side orders or quotes in the Consolidated Book according to the price-time priority ranking of the resting interest, per Rule 6.76P-O, subject to the following.

(1) When the execution price is equal to the NBB (NBO), and there is no displayed Customer interest in time priority at the NBBO in the Consolidated Book, the Aggressing Order or Aggressing Quote will be matched against the quote of the LMM for an amount equal to 40% of the Aggressing Order or Aggressing Quote, up to the size of the LMM's quote (the "LMM Guarantee").

(A) If an LMM has more than one quote at a price, the LMM Guarantee will be applied among such quotes *only to the first LMM quote* in time priority; ~~provided there is no displayed Customer interest with time priority at each quote.~~

\* \* \* \* \*

**Rule 6.96-O. Operation of Routing Broker**

(a) The term "Routing Broker" means the broker-dealer affiliate of *the Exchange* NYSE Area, Inc. and/or any other non-affiliate that provides services *acts as a facility of the*



*Exchange* for routing orders submitted to the Exchange to other Trading ~~Facilities~~  
*Centers* for execution whenever such routing is required by NYSE Area *Exchange* Rules  
and federal securities laws.

\* \* \* \* \*

Additions: Underlined  
Deletions: [Bracketed]

## **Rules of NYSE Arca, Inc.**

\* \* \* \* \*

### **Rule 1.1. Definitions**

Whenever and wherever used herein, unless the context requires otherwise, the following terms shall be deemed to have the meanings indicated:

#### **Affiliate**

[(a) ]An “affiliate” of, or person “affiliated” with a specific person, is a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified.

#### **Aggregate Exercise Price**

The term “aggregate exercise price” in respect of an option contract means, if the underlying security is a stock or an Exchange-Traded Fund Share, the exercise price of an option contract multiplied by the number of shares of the underlying security covered by such option contract.

#### **[Reserved**

(b) Reserved.]

#### **Approved Person**

[(c) ]The term “Approved Person” shall refer to a person who is not an OTP Holder or ETP Holder, nor an employee of an OTP Firm, and who:

\* \* \* \* \*

#### **Associated Person**

[(d) ]The term “Associated Person” shall refer to a person who is a partner, officer, director, member of a limited liability company, trustee of a business trust, employee of an OTP Firm, OTP Holder or ETP Holder or any person directly or indirectly controlling, controlled by or under common control with an OTP Firm, OTP Holder or ETP Holder.

#### **Authorized Trader**

[(e) With respect to equities traded on the Exchange, t]The term “Authorized Trader” or “AT” shall mean a person who may submit orders to the Exchange's Trading Facilities on behalf of his or her ETP Holder, OTP Holder or Sponsored Participant.

### **Away Market**

[(f) ]With respect to cash equity securities[equities] traded on the Exchange, the term “Away Market” means any exchange, alternative trading system (“ATS”) or other broker-dealer (1) with which the NYSE Arca Marketplace maintains an electronic linkage and (2) which provides instantaneous responses to orders routed from the NYSE Arca Marketplace. The Exchange will designate from time to time those ATS's or other broker-dealers that qualify as Away Markets.

With respect to options traded on the Exchange, the term “Away Market” means any Trading Center (1) with which the Exchange maintains an electronic linkage, and (2) that provides instantaneous responses to orders routed from the Exchange.

### **Away Market BBO (“ABBO”)**

With respect to options traded on the Exchange, the term “Away Market BBO” or “ABBO” refers to the best bid(s) or offer(s) disseminated by Away Markets and calculated by the Exchange based on market information the Exchange receives from OPRA. Unless otherwise specified, the Exchange may adjust its calculation of the ABBO based on information about orders it sends to Away Markets, execution reports received from those Away Markets, and certain orders received by the Exchange. The term “ABB” means the best Away Market bid and the term “ABO” means the best Away Market offer.

### **BBO**

[(g) ]With respect to cash equity securities[equities] traded on the Exchange, the term “BBO” means the best bid or offer that is a protected quotation on the NYSE Arca Marketplace. The term “BB” means the best bid on the NYSE Arca Marketplace and the term “BO” means the best offer on the NYSE Arca Marketplace.

With respect to options traded on the Exchange, the term “BBO” means the best displayed bid or best displayed offer on the Exchange.

### **Board and Board of Directors**

[(h) ]The terms “Board” and “Board of Directors” shall mean the Board of Directors of NYSE Arca, Inc.

### **Call**

The term “call” means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from the Options Clearing

Corporation the number of shares of the underlying security covered by the option contract.

### **Class of Options**

The term “class of options” or “class” means all series of options, both puts and calls, overlying the same underlying security.

### **Clearing Member**

The term “Clearing Member” means an OTP Firm or OTP Holder that has been admitted to membership in the Options Clearing Corporation pursuant to the provisions of the Rules of the Options Clearing Corporation.

### **Closing Purchase Transaction**

The term “closing purchase transaction” means a transaction in a series in which the purchaser intends to reduce or eliminate a short position in such series.

### **Closing Sale Transaction**

The term “closing sale transaction” means a transaction in a series in which the seller intends to reduce or eliminate a long position in such series.

### **Consolidated Book**

For options traded on the Exchange, the term “Consolidated Book” means the Exchange’s electronic book of orders and quotes. All orders and quotes that are entered into the Consolidated Book will be ranked and maintained in accordance with the rules of priority, as provided in Rule 6.76P-O.

### **Control**

[(i) ]The term “control” shall mean the power, directly or indirectly, to direct the management or policies of a person, whether through ownership of securities, by contract, or otherwise. A person shall be presumed to control another person if such person:

\* \* \* \* \*

### **Core Trading Hours**

[(j) ]With respect to equities traded on the Exchange, t]The term “Core Trading Hours” [shall ]means the hours of 9:30 am Eastern Time through 4:00 pm (Eastern Time) or such other hours as may be determined by the Exchange from time to time.

For options traded on the Exchange, transactions may be effected on the Exchange for an equity options class until close of trading of the primary market for the securities underlying an options class.

**Covered**

The term “covered” in respect of a short position in a call option contract means that the writer’s obligation is secured by a “specific deposit” or an “escrow deposit” meeting the condition of Rule 610(f) or 610(h), respectively, of the Rules of the Options Clearing Corporation, or the writer holds in the same account as the short position, on a share-for-share basis, a long position either in the underlying security or in an option contract of the same class of options where the exercise price of the option contract in such long position is equal to or less than the exercise price of the option contract in such short position. The term “covered” in respect of a short position in a put option contract means that the writer holds in the same account as the short position, on a share-for-share basis, a long position in an option contract of the same class of options where the exercise price of the option contract in such long position is equal to or greater than the exercise price of the option contract in such short position.

**Crowd Participants**

The term “Crowd Participants” means the Market Makers appointed to an option issue under Rule 6.35-O, and any Floor Brokers actively representing orders at the best bid or offer on the Exchange.

**Customer and Professional Customer**

For options traded on the Exchange, the term “Customer” does not include a broker or dealer.

For options traded on the Exchange, the term “Professional Customer” means an individual or organization that (i) is not a broker or dealer, as defined Sections 3(a)(4) and 3(a)(5) of the Exchange Act and rules thereunder, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).

Except as noted below, each order of any order type counts as one order for Professional Customer order counting purposes.

**(a) Complex Orders:**

- (1) A complex order comprised of eight (8) option legs or fewer counts as a single order;
- (2) A complex order comprised of nine (9) option legs or more counts as multiple orders with each option leg counting as its own separate order;

**(b) “Parent”/“Child” Orders:**

- (1) Same Side and Same Series: A “parent” order that is placed for the beneficial account(s) of a person that is not a broker or dealer in securities that is broken into multiple “child” orders on the same side (buy/sell) and

series as the “parent” order by a broker or dealer, or by an algorithm housed at a broker or dealer or by an algorithm licensed from a broker or dealer, but which is housed with the customer, counts as one order even if the “child” orders are routed across multiple exchanges.

(2) Both Sides and/or Multiple Series: A “parent” order (including a strategy order) that is broken into multiple “child” orders on both sides (buy/sell) of a series and/or multiple series counts as multiple orders, with each “child” order counting as a new and separate order.

(c) Cancel/Replace:

(1) Except as provided in paragraph (c)(2) below, any order that cancels and replaces an existing order counts as a separate order (or multiple new orders in the case of a complex order comprised of nine (9) option legs or more).

(2) Same Side and Same Series: An order that cancels and replaces any “child” order of a “parent” order that is placed for the beneficial account(s) of a person or entity that is not a broker, or dealer in securities that is broken into multiple “child” orders on the same side (buy/sell) and series as the “parent” order by a broker or dealer, by an algorithm housed at a broker or dealer, or by an algorithm licensed from a broker or dealer, but which is housed with the customer, does not count as a new order.

(3) Both Sides and/or Multiple Series: An order that cancels and replaces any “child” order of a “parent” order (including a strategy order) that generates “child” orders on both sides (buy/sell) of a series and/or in multiple series counts as a new order.

(4) Pegged Orders: Notwithstanding the provisions of paragraph (c)(2) above, an order that cancels and replaces any “child” order resulting from a “parent” order being “pegged” to the BBO or NBBO or that cancels and replaces any “child” order pursuant to an algorithm that uses BBO or NBBO in the calculation of “child” orders and attempts to move with or follow the BBO or NBBO of a series counts as a new order each time the order cancels and replaces in order to attempt to move with or follow the BBO or NBBO.

**Derivative Securities Product and UTP Derivative Securities Product**

[(k) ]With respect to cash equity securities[equities] traded on the Exchange, the term “Derivative Securities Product” means a security that meets the definition of “derivative securities product” in Rule 19b-4(e) under the Securities Exchange Act of 1934 and a “UTP Derivative Securities Product” means one of the following Derivative Securities Products that trades on the Exchange pursuant to unlisted trading privileges:

\* \* \* \* \*

### **Effective National Market System Plan, Regular Trading Hours**

[(l) ]With respect to cash equity securities[equities] traded on the Exchange, for purposes of Rule 7-E, the terms “effective national market system plan” and “regular trading hours,” shall have the meanings set forth in Rule 600(b) of Regulation NMS under the Securities Exchange Act of 1934.

### **Electronic Order Capture System (“EOC”)**

For options traded on the Exchange, the term “Electronic Order Capture System” (“EOC”) means the Exchange’s electronic audit trail and order tracking system that provides an accurate time-sequenced record of all orders and transactions on the Exchange. EOC records the receipt of an order and documents the life of the order through the process of execution, partial execution, or cancellation. This system includes the electronic communications interface between EOC booth terminals and the Floor Broker Hand Held applications. Each OTP Holder or OTP Firm’s EOC booth terminal and each Floor Broker Hand Held Terminal contains an electronic order entry screen that displays the terms and conditions of each order received by that OTP Holder or OTP Firm.

### **Eligible Security**

[(m) ]The term “Eligible Security” shall mean any cash equity security (i) either listed on the Exchange or traded on the Exchange pursuant to a grant of unlisted trading privileges under Section 12(f) of the Exchange Act and (ii) specified by the Exchange to be traded on the NYSE Arca Marketplace, NYSE Arca Equities Application or other facility, as the case may be.

### **ETP**

[(n) ]The term “ETP” shall refer to an Equity Trading Permit issued by the Exchange for effecting approved securities transactions on the Exchange's Trading Facilities. An ETP may be issued to a sole proprietor, partnership, corporation, limited liability company or other organization which is a registered broker or dealer pursuant to Section 15 of the Securities Exchange Act of 1934, as amended, and which has been approved by the Exchange.

### **ETP Holder**

[(o) ]The term “ETP Holder” shall refer to a sole proprietorship, partnership, corporation, limited liability company or other organization in good standing that has been issued an ETP. An ETP Holder must be a registered broker or dealer pursuant to Section 15 of the Securities Exchange Act of 1934. An ETP Holder shall agree to be bound by the Certificate of Incorporation, Bylaws and Rules of the Exchange, and by all applicable rules and regulations of the Securities and Exchange Commission.

\* \* \* \* \*

**Exchange**

[(p) ]The term “Exchange” shall mean the NYSE Arca, Inc., a Delaware corporation as described in the company’s Certificate of Incorporation and Bylaws. The NYSE Arca, Inc. is a national securities exchange as that term is defined by Section 6 of the Securities Exchange Act of 1934, as amended.

**Exchange Act**

[(q) ]“Exchange Act” shall mean the Exchange Act of 1934, as amended.

**Exchange Option Transaction and Exchange Transaction**

The term “Exchange option transaction” and the term “Exchange transaction”, as used in Rules 6.6-O, 6.15-O, 6.22-O, 6.36-O, and 6.79-O means a transaction effected on a national securities exchange which has qualified for participation in the Options Clearing Corporation pursuant to the provisions of the Bylaws of Options Clearing Corporation, between members of such exchange or exchanges, for the purchase or sale of an option contract, or for the closing out of a long or short position in an option contract, and as used elsewhere in this Rule means a transaction effected on the Exchange between Exchange OTP Holders or OTP Firms for the purchase or sale of an options contract, or for the closing out of a long or short position in an option contract.

**Exchange-Traded Fund Share**

For options traded on the Exchange, the term “Exchange-Traded Fund Share” means Exchange-listed securities representing interests in open-end unit investment trusts or open-end management investment companies that hold securities (including fixed income securities) based on an index or a portfolio of securities.

**Exercise Price**

The term “exercise price” in respect of an option contract means the stated price per share at which the underlying security may be purchased (in the case of a call) or sold (in the case of a put) upon the exercise of such option contract.

**Expiration Date**

For options traded on the Exchange, unless separately defined elsewhere in these Rules with regard to a particular option contract, the term “expiration date” in respect of an option contract or Exchange-Traded Fund Share means the third Friday of the expiration month of such option contract, or if such Friday is a day on which the Exchange is not open for business, the preceding day on which the Exchange is open for business; unless, in either case, expiration is accelerated pursuant to Options Clearing Corporation Rule 807. For a One Week Option Series the term “expiration date” shall mean the close of business on the next Friday that is a business day. If a Friday is not a business day, the “expiration date” shall be the close of business on the first business day immediately



prior to that Friday. For a Quarterly Options Series, the term “expiration date” shall mean the close of business on the last business day of a calendar quarter.

### **Expiration Month**

The term “expiration month” in respect of an option contract means the month and year in which such option contract expires.

### **FINRA**

[(r) ]The term “FINRA” shall mean the Financial Industry Regulatory Authority, Inc.

### **Firm**

For options traded on the Exchange, the term “Firm” means a broker-dealer that is not registered as a dealer-specialist or market maker on a registered national securities exchange or association.

### **Floor, Trading Floor and Options Trading Floor**

[(s) ]The terms “Floor,” “Trading Floor” and “Options Trading Floor”[shall] mean the options trading floor.

### **Freely Transferable Security**

[(t) ]The term “Freely transferable security” means any security which, on its face, may be transferred without it being necessary that the Board of Directors of the Exchange approved the transferee.

### **General Authorized Trader**

[(u) ]With respect to cash equity securities[equities] traded on the Exchange, the term “General Authorized Trader” or “GAT” shall mean an authorized trader who performs only non-market making activities on behalf of an ETP Holder.

### **Good Standing**

[(v) ]The term “good standing” shall refer to an ETP Holder, OTP Holder or OTP Firm who is not in violation of any of its agreements with the Exchange or any of the provisions of the Rules or Bylaws of the Exchange, and who has maintained all of the conditions for approval of the ETP or OTP.

### **Lead Market Maker**

[(w) ]With respect to cash equity securities[equities]traded on the Exchange, the term “Lead Market Maker” shall mean a registered Market Maker that is the exclusive Designated Market Maker in listings for which the Exchange is the primary market.

With respect to options traded on the Exchange, the term “Lead Market Maker” or “LMM” means a person that has been deemed qualified by the Exchange for the purpose of making transactions on the Exchange in accordance with Rule 6.82-O. Each LMM must be registered with the Exchange as a Market Maker. Any OTP Holder or OTP Firm registered as a Market Maker with the Exchange is eligible to be qualified as an LMM.

### **Listed**

[(x) ]The terms “Listed” or “Listed Securities” means securities admitted to dealings on the Exchange.

### **Long Position**

The term “long position” means the number of outstanding option contracts of a given series of options held by a person (purchaser).

### **Marketable**

[(y) ]With respect to equities traded on the Exchange, t]The term “Marketable” means, for a Limit Order, an order that can be immediately executed or routed. Market Orders are always considered marketable.

### **Market Maker**

[(z) ]With respect to cash equity securities[equities] traded on the Exchange, the term “Market Maker” shall refer to an ETP Holder that acts as a Market Maker pursuant to Rule 7-E.

With respect to options traded on the Exchange, the term “Market Maker” refers to an OTP Holder or OTP Firm that acts as a Market Maker pursuant to Rule 6.32-O.

For purposes of Exchange rules, the term Market Maker includes Lead Market Makers, unless the context otherwise indicates.

### **Market Maker Authorized Trader**

[(aa) ]With respect to cash equity securities[equities] traded on the Exchange, the term “Market Maker Authorized Trader” or “MMAT” shall mean an authorized trader who performs market making activities pursuant to Rule 7-E on behalf of a Market Maker.

With respect to options traded on the Exchange, the term “Market Maker Authorized Trader” or “MMAT” means an Authorized Trader who performs market making activities pursuant to Rule 6-O on behalf of an OTP Firm or OTP Holder registered as a Market Maker.

### **Market Participant**

[(bb) ]With respect to cash equity securities[equities] traded on the Exchange, for the purposes of Rule 7-E, the term “Market Participant” shall include electronic communications networks (“ECN”), dealer-specialists registered with a national securities exchange, and market makers registered with a national securities association.

### **Market Participant Identifier (“MPID”)**

The term “Market Participant Identifier” or “MPID” refers to the identifier assigned to the orders and quotes of a single ETP Holder, OTP Holder, or OTP Firm for the execution and clearing of trades on the Exchange by that permit holder. An ETP Holder, OTP Holder, or OTP Firm may obtain multiple MPIDs and each such MPID may be associated with one or more sub-identifiers of that MPID.

### **Minimum Price Variation or MPV**

The term “Minimum Price Variation” or “MPV” means the price variations established by the Exchange. The MPVs for quoting of cash equity securities traded on the Exchange are set forth in Rule 7.6-E. The MPVs for quoting and trading options traded on the Exchange are set forth in Rule 6.72-O(a).

### **Nasdaq**

[(cc) ]The term "Nasdaq" means The NASDAQ Stock Market LLC.

### **NBBO, Best Protected Bid, Best Protected Offer, Protected Best Bid and Offer (PBBO)**

[(dd) ]With respect to cash equity securities[equities] traded on the Exchange, the term “NBBO” means the national best bid or offer. The terms “NBB” mean the national best bid and “NBO” means the national best offer. The terms “Best Protected Bid” or “PBB” means the highest Protected Bid, and “Best Protected Offer” or “PBO” means the lowest Protected Offer, and the term “Protected Best Bid and Offer” (“PBBO”) means the Best Protected Bid and the Best Protected Offer.

With respect to options traded on the Exchange, the term “NBBO” means the national best bid or offer. The terms “NBB” mean the national best bid and “NBO” means the national best offer. Unless otherwise specified, the Exchange may adjust its calculation of the NBBO based on information about orders it sends to Away Markets, execution reports received from those Away Markets, and certain orders received by the Exchange.

### **NMS Stock**

[(ee) ]The term “NMS stock” shall mean any security, other than an option, for which transaction reports are collected, processed, and made available pursuant to an effective transaction reporting plan.

### **Nominee**

[(ff) ]The term “Nominee” means an individual who is authorized by an OTP Firm, in accordance with Rule 2.4, to conduct business on the Exchange’s Trading Facilities and to represent such OTP Firm in all matters relating to the Exchange. As long as a nominee remains effective, the nominee will have status as a “member” of the NYSE Arca, Inc. as that term is defined in Section 3 of the Securities Exchange Act of 1934, as amended. A nominee shall agree to be bound by the Bylaws and Rules of the Exchange, and by all applicable rules and regulations of the Securities and Exchange Commission.

### **Non-OTP Firm or Non-OTP Holder Market Maker**

For options traded on the Exchange, the terms “Non-OTP Firm or Non-OTP Holder Market Maker” include specialists, designated primary market makers, lead market makers, market makers, registered options traders, primary market makers and competitive market makers registered on an exchange other than the NYSE Arca.

### **Non-Resident Organization**

[(gg) ]The term “non-resident organization” shall mean:

\* \* \* \* \*

### **Notice of Consent**

[(hh) ]With respect to cash equity securities[equities] traded on the Exchange, the term “Notice of Consent” shall mean a written statement provided to the Exchange by a Sponsoring ETP Holder by which the Sponsoring ETP Holder acknowledges responsibility for the orders, executions and actions of its Sponsored Participant(s).

### **NYSE Arca**

[(ii) ]The term “NYSE Arca” shall have the same meaning as “Exchange” as that term is defined in Rule 1.1.

### **NYSE Arca Book**

[(jj) ]For cash equity securities traded on the Exchange, [T]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.

### **NYSE Arca Marketplace**

[(kk) ]For cash equity securities traded on the Exchange, the term “NYSE Arca Marketplace” shall mean the electronic securities communications and trading facility designated by the Board of Directors through which orders of Users are consolidated for execution and/or display.

### **Official Closing Price**

[(ll) ]With respect to cash equity securities [equities] traded on the Exchange, the term “Official Closing Price” means the reference price to determine the closing price in a security for purposes of Rule 7-E Equities Trading. The Official Closing Price is determined as follows:

\* \* \* \* \*

### **Opening Purchase Transaction**

The term “opening purchase transaction” means a transaction in a series in which the purchaser intends to create or increase a long position in such series.

### **Opening Writing Transaction**

The term “opening writing transaction” means a transaction in a series in which the seller (writer) intends to create or increase a short position in such series.

### **Options Clearing Corporation or OCC**

The term “Options Clearing Corporation” means The Options Clearing Corporation, a subsidiary of the Participating Exchanges.

### **Option Contract**

The term “option contract” means a put or a call issued, or subject to issuance, by the Options Clearing Corporation pursuant to the Rules of the Options Clearing Corporation. Option contracts are included within the definition of “security” or “securities” as such terms are used in the Bylaws and Rules of the Exchange.

### **Option Issue**

The term “option issue” means the option contract overlying a particular underlying security.

### **Options Trading**

The term “options trading,” when not preceded by the word “Exchange,” means trading in any option contract, whether or not approved for trading on the Exchange.

### **Order Flow Provider or OFP**

With respect to options traded on the Exchange, the term ““Order Flow Provider” (“OFP”) means any OTP Holder that submits, as agent, orders to the Exchange.

### **OTP**

[(mm) ]The term “OTP” shall refer to an Options Trading Permit issued by the Exchange for effecting approved securities transactions on the Exchange’s Trading Facilities. An OTP may be issued to a sole proprietor, partnership, corporation, limited liability company or other organization which is a registered broker or dealer pursuant to Section

15 of the Securities Exchange Act of 1934, as amended, and which has been approved by the Exchange.

### **OTP Holder**

[(nn)] The term “OTP Holder” shall refer to a natural person, in good standing, who has been issued an OTP, or has been named as a Nominee. An OTP Holder must be a registered broker or dealer pursuant to Section 15 of the Securities Exchange Act of 1934, or a nominee or an associated person of a registered broker or dealer that has been approved by the Exchange to conduct business on the Exchange’s Trading Facilities. An OTP Holder shall agree to be bound by the Bylaws and Rules of the Exchange, and by all applicable rules and regulations of the Securities and Exchange Commission.

\* \* \* \* \*

### **OTP Firm**

[(oo)] The term “OTP Firm” shall refer to a sole proprietorship, partnership, corporation, limited liability company or other organization in good standing who holds an OTP or upon whom an individual OTP Holder has conferred trading privileges on the Exchange’s Trading Facilities pursuant to and in compliance with these Rules. An OTP Firm must be a registered broker or dealer pursuant to Section 15 of the Securities Exchange Act of 1934. An OTP Firm shall agree to be bound by the Certificate of Incorporation, Bylaws and Rules of the Exchange, and by all applicable rules and regulations of the Securities and Exchange Commission.

\* \* \* \* \*

### **Outstanding**

The term “outstanding” in respect of an option contract means an option contract that has been issued by the Options Clearing Corporation and has not been the subject of a closing sale transaction, exercised, or expired.

### **Parent**

[(pp)] A “parent” of a specified person or organization is an affiliate controlling such person or organization directly, or indirectly through one or more intermediaries.

### **Participant**

[(qq)] The term “Participant” shall mean any ETP Holder or OTP Holder, partner, approved person, stockholder associate, registered employee or other full-time employee of an ETP Holder or OTP Firm.

### **Participating Exchange**

With respect to options traded on the Exchange, the term “Participating Exchange” means a national securities exchange that has qualified for participation in the Options Clearing Corporation pursuant to the provisions of the Rules of the Options Clearing Corporation.

### **Person**

[(rr) ]The term “person” shall refer to a natural person, corporation, partnership, limited liability company, association, joint stock company, trustee of a trust fund, or any organized group of persons whether incorporated or not.

### **Primary Market**

With respect to options traded on the Exchange, the term “primary market” means the principal market in which the underlying security is traded.

### **Protected Bid, Protected Offer, Protected Quotation**

[(ss) ]With respect to cash equity securities[equities] traded on the Exchange, the term “Protected Bid” or “Protected Offer” shall mean a quotation in an NMS stock that is (i) displayed by an Automated Trading Center; (ii) disseminated pursuant to an effective national market system plan; and (iii) an Automated Quotation that is the best bid or best offer of a national securities exchange, the best bid or best offer of The Nasdaq Stock Market, Inc. or the best bid or best offer of a national securities association that is not the best bid or best offer of The Nasdaq Stock Market, Inc. The term “Protected Quotation” shall mean a quotation that is a Protected Bid or Protected Offer. For purposes of the foregoing definitions, the terms “Automated Trading Center,” “Automated Quotation,” “Manual Quotation,” “Best Bid,” and “Best Offer,” shall have the meanings ascribed to them in Rule 600(b) of Regulation NMS under the Securities Exchange Act.

### **Put**

The term “put” means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to sell to the Options Clearing Corporation the number of shares of the underlying security covered by the option contract.

### **Quarterly Options Series**

The term “Quarterly Options Series” means a series in an options class that is approved for listing and trading on the Exchange in which the series is opened for trading on any business day and that expires at the close of business on the last business day of a calendar quarter.

### **Registered Employee**

[(tt) ]The term “Registered Employee” shall mean any person soliciting or conducting business in securities on behalf of an ETP Holder, OTP Firm or OTP Holder.

## **Routing Agreement**

[(uu) ]With respect to cash equity securities[equities] traded on the Exchange, the term “Routing Agreement” shall mean the form of Agreement between an ETP Holder and the broker-dealer affiliate of the Exchange[NYSE Arca, L.L.C.], under which the broker-dealer affiliate of the Exchange[NYSE Arca, L.L.C.] agrees to act as agent for routing orders of the ETP Holder and the ETP Holder's Sponsored Participants entered into the NYSE Arca Marketplace to other market centers or broker-dealers for execution, other than excluded by the terms of the Routing Agreement, whenever such routing is required.

## **Rules of the Options Clearing Corporation**

The term “Rules of the Options Clearing Corporation” means the By-laws and the Rules of the Options Clearing Corporation, and all written interpretations thereof, as the same may be in effect from time to time.

## **Security**

[(vv) ]The term “security” shall mean any security as defined in Rule 3(a)(10) under the Securities Exchange Act of 1934, provided, however, that for purposes of Rule 7-E such term means any NMS stock.

## **Self-Regulatory Organization (“SRO”)**

[(ww) ]The terms “self-regulatory organization” and “SRO” shall have the same meaning as set forth in the provisions of the Securities Exchange Act of 1934 relating to national securities exchanges.

## **Series of Options**

The term “series of options,” “options series,” or “series” means all options contracts of the same class of options having the same expiration date and expiration price, and the same unit of trading.

## **Short Position**

The term “short position” means the number of outstanding option contracts of a given series of options with respect to which a person is obligated as a writer (seller).

## **Sponsored Participant**

[(xx) ]With respect to cash equity securities[equities] traded on the Exchange, the term “Sponsored Participant” shall mean a person which has entered into a sponsorship arrangement with a Sponsoring ETP Holder pursuant to Rule 7.29-E.

## **Sponsoring ETP Holder**



[(yy) ]With respect to cash equity securities[equities] traded on the Exchange, the term “Sponsoring ETP Holder” shall mean a broker-dealer that has been issued an ETP by the Exchange who has been designated by a Sponsored Participant to execute, clear and settle transactions resulting from the NYSE Arca Marketplace. The Sponsoring ETP Holder shall be either (i) a clearing firm with membership in a clearing agency registered with the Commission that maintains facilities through which transactions may be cleared or (ii) a correspondent firm with a clearing arrangement with any such clearing firm.

### **Sponsorship Provisions**

[(zz) ]With respect to cash equity securities[equities] traded on the Exchange, the term “Sponsorship Provisions” shall mean the provisions set forth in Rule 7.29-E(b)(2). For a Sponsored Participant to obtain authorized access to the NYSE Arca Marketplace, the Sponsored Participant and its Sponsoring ETP Holder must enter into an agreement which incorporates the Sponsorship Provisions.

### **Stockholder Associate**

[(aaa) ]With respect to cash equity securities[equities] traded on the Exchange, the term “Stockholder Associate” means a person who is the employee of an ETP Holder, who is actively engaged in its business and devotes the major portion of his or her time thereto, who is not an ETP Holder, and who, as a holder of cash equity securities, has been approved by the Exchange as a stockholder associate.

### **Trade-Through**

[(bbb) ]With respect to cash equity securities[equities] traded on the Exchange, the term “trade-through” shall mean 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.

### **Trading Center**

[(ccc) ]With respect to cash equity securities[equities] traded on the Exchange, for purposes of Rule 7-E, the term “Trading Center” shall mean a national securities exchange or a national securities association that operates an SRO trading facility, an alternative trading system, an exchange market maker, an OTC market maker or any other broker or dealer that executes orders internally by trading as principal or crossing orders as agent. For purposes of this definition, the terms “SRO trading facility,” “alternative trading system,” “exchange market maker” and “OTC market maker” shall have the meanings ascribed to them in Rule 600(b) of Regulation NMS under the Securities Exchange Act.

With respect to options traded on the Exchange, for purposes of Rule 6-O, the term “Trading Center” means a national securities exchange that has qualified for participation in the Options Clearing Corporation pursuant to the provisions of the rules of the Options Clearing Corporation.

**Trading Crowd**

With respect to options traded on the Exchange, the term “trading crowd” means all Market Makers and Floor Brokers at the trading post where such trading crowd is located and all Market Makers who regularly effect transactions in person for their Market Maker accounts at that trading post, but generally will consist of the individuals present at the trading post.

**Trading Facilities**

[(ddd) ]The term “Trading Facilities” shall refer to the Exchange's facilities for the trading of cash equity securities[equities], options, office space provided by the Exchange to ETP Holders, OTP Holders and OTP Firms in connection with their floor trading activities, and any and all electronic or automated order execution systems and reporting services provided by the Exchange to ETP Holders, OTP Holders and OTP Firms.

**Trading Official**

For options traded on the Exchange, a “Trading Official” will be an Exchange employee or officer, who is designated by the Chief Executive Officer, or its designee or by the Chief Regulatory Officer or its designee. Any Exchange employee or officer designated as a Trading Official will from time to time as provided in these rules have the ability to recommend and enforce rules and regulations relating to trading access, order, decorum, health, safety and welfare on the Exchange.

**Type of Option**

The term “type of option” means the classification of an option contract as either a put or a call.

**Uncovered**

The term “uncovered” in respect of a short position in an option contract means that the short position is not “covered” as defined above.

**Underlying Stock or Underlying Security**

The terms “underlying stock” or “underlying security” in respect of an option contract means the security that the Options Clearing Corporation shall be obligated to sell (in the case of a call) or purchase (in the case of a put) upon the valid exercise of such option contract.

**User**

[(eee) ]With respect to cash equity securities[equities] traded on the Exchange, the term “User” shall mean any ETP Holder or Sponsored Participant who is authorized to obtain access to the NYSE Arca Marketplace pursuant to Rule 7.29-E.

With respect to options traded on the Exchange, the term “User” means any OTP Holder or OTP Firm who is authorized to obtain access to the Exchange pursuant to Rule 6.2A-O.

### **User Agreement**

[(fff) ]With respect to cash equity securities[equities] traded on the Exchange, the term “User Agreement” shall mean an appropriate subscription agreement entered into by the User with the Exchange[NYSE Arca, L.L.C].

### **UTP Listing Market**

[(ggg) ]With respect to cash equity securities[equities] traded on the Exchange, the term “UTP Listing Market” means the primary listing market for a UTP Security.

### **UTP Regulatory Halt**

[(hhh) ]With respect to cash equity securities[equities] traded on the Exchange, the term “UTP Regulatory Halt” means a trade suspension, halt, or pause called by the UTP Listing Market in a UTP Security that requires all market centers to halt trading in that security.

### **UTP Security**

[(iii) ]The term “UTP Security” means a cash equity security that is listed on a national securities exchange other than the Exchange and that trades on the NYSE Arca Marketplace pursuant to unlisted trading privileges.

### **Wholly Owned Subsidiary**

[(jjj) ]The term “wholly owned subsidiary” means a subsidiary substantially all of whose outstanding voting securities are owned by its parent and/or the parent's other wholly owned subsidiaries.

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## **Options Rules**

\* \* \* \* \*

### **Rule 6-O OPTIONS TRADING**

Rules with a “P” modifier are operative for symbols that are trading on the Pillar trading platform. If a symbol is trading on the Pillar trading platform, a rule with the same number as a rule with a “P” modifier will no longer be operative for that symbol. The Exchange will announce by Trader Update when symbols are trading on the Pillar trading platform.

### **Rules Principally Applicable to Trading of Option Contracts**

**Rule 6.1-O. Applicability, Definitions and References**

*This Rule is not applicable to trading on Pillar.*

\* \* \* \* \*

**Rule 6.1P-O. Applicability**

(a) Rule 6-O is applicable to the trading on the Exchange of options contracts issued by the Options Clearing Corporation, the terms and conditions of such contracts, the exercise and settlement thereof, the handling of orders, and the conduct of accounts and other matters relating to options trading. Except to the extent that specific provisions of Rule 6-O govern, or unless the context otherwise requires, the provisions of the Bylaws and of all other Rules and policies of the Board of Directors shall be applicable to the trading on the Exchange of option contracts.

(b) *Applicability of Other Exchange Rules.* Unless stated otherwise, Exchange rules are applicable to transactions on the Exchange in option contracts.

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**Rule 6.1A-O. Definitions and References – OX**

*This Rule is not applicable to trading on Pillar.*

\* \* \* \* \*

**Rule 6.37-O. Obligations of Market Makers**

\* \* \* \* \*

(c) *Unusual Conditions - [Opening ]Auctions.* If the interest of maintaining a fair and orderly market so requires, a Trading Official may declare that unusual market conditions exist in a particular issue and allow Market Makers in that issue to make auction bids and offers with spread differentials of up to two times, or in exceptional circumstances, up to three times, the legal limits permitted under Rule 6.37-O or Rule 6.64P-O(a)10). In making such determinations to allow wider markets, the Trading Official should consider the following factors: (A) whether there is pending news, a news announcement or other special events; (B) whether the underlying security [or Exchange-Traded Fund Share] is trading outside of the bid or offer in such security then being disseminated; (C) whether OTP Holders and OTP Firms receive no response to orders placed to buy or sell the underlying security; and (D) whether a vendor quote feed is clearly stale or unreliable.

\* \* \* \* \*

**Rule 6.37A-O. Market Maker Quotations.**

*This Rule is not applicable to trading on Pillar.*

\* \* \* \* \*

**Rule 6.37AP-O. Market Maker Quotations.**

(a) A Market Maker may send quotations only in the issues included in its appointment.

(1) *Quote or Quotation.* The term “quote” or “quotation” means a bid or offer sent by a Market Maker that is not sent as an order. A quotation sent by a Market Maker will replace a previously displayed same-side quotation that was sent from the same order/quote entry port of that Market Maker.

(2) A Market Maker may designate either a Non-Routable Limit Order or an ALO Order as a quote and such quote will be processed as described in Rule 6.62P-O(e).

(b) *Lead Market Makers.* A Lead Market Maker (“LMM”) must provide continuous two-sided quotations throughout the trading day in its appointed issues for 90% of the time the Exchange is open for trading in each issue. Such quotations must meet the legal quote width requirements of Rule 6.37-O. These obligations will apply to all of the LMMs appointed issues collectively, rather than on an issue-by-issue basis. Compliance with this obligation will be determined on a monthly basis.

(1) If a technical failure or limitation of a system of the Exchange prevents a LMM from maintaining, or prevents a LMM from communicating to the Exchange, timely and accurate electronic quotes in an issue, the duration of such failure will not be considered in determining whether the LMM has satisfied the 90% quoting standard with respect to that option issue. The Exchange may consider other exceptions to this continuous electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances.

(c) *Market Makers.* A Market Maker must provide continuous two-sided quotations throughout the trading day in its appointed issues for 60% of the time the Exchange is open for trading in each issue. Such quotations must meet the legal quote width requirements of Rule 6.37-O. These obligations will apply to all of the Market Maker's appointed issues collectively, rather than on an issue-by-issue basis. Compliance with this obligation will be determined on a monthly basis.

(1) If a technical failure or limitation of a system of the Exchange prevents a Market Maker from maintaining, or prevents a Market Maker from communicating to the Exchange, timely and accurate electronic quotes in an issue, the duration of such failure shall not be considered in determining whether the Market Maker has satisfied the 60% quoting standard with respect to that option issue. The Exchange may consider other exceptions to this continuous electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances.

(d) *Required Submission of Quotations.* A Market Maker may be called upon by a Trading Official to submit a single quote or maintain continuous quotes in one or more

series of an option issue within its appointment whenever, in the judgment of such Trading Official, it is necessary to do so in the interest of maintaining fair and orderly markets.

(e) Firm Quotes. A Market Maker will be compelled to buy/sell a specified quantity of option contracts at the disseminated bid/offer pursuant to his obligations under Rule 6.86-O.

**Commentary:**

.01 The obligations set forth in subsections (b) and (c) of this Rule do not apply to Market Makers with respect to adjusted option series, to series of options on cash equity securities with a time to expiration of nine months or greater, or to series of options on Index Options with a time to expiration of twelve months or greater. For purposes of this Rule, an adjusted option series is a series of options wherein, as a result of a corporate action by the issuer of the underlying security, one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares.

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**Rule 6.40-O. Risk Limitation Mechanism**

This Rule is not applicable to trading on Pillar.

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**Rule 6.40P-O. Pre-Trade and Activity-Based Risk Controls**

(a) The following are definitions for purposes of this Rule:

- (1) “Entering Firm” means an OTP Holder or OTP Firm (including those acting as Market Makers).
- (2) “Pre-Trade Risk Controls” refer to the following optional limits, each of which an Entering Firm may utilize with respect to its trading activity on the Exchange (excluding interest represented in open outcry, except CTB Orders).
  - (A) “Single Order Maximum Notional Value Risk Limit” means a pre-established maximum dollar amount for a single order or quote to be applied one time. Orders designated GTC will be subject to this check only once.
  - (B) “Single Order Maximum Quantity Risk Limit” means a pre-established maximum number of contracts that may be included in a single order or quote before it can be traded. Orders designated GTC will be subject to this check only once.
- (3) “Activity-Based Risk Controls” refer to activity-based risk limits that may be

applied to orders and quotes in an options class (excluding those represented in open outcry, except CTB Orders) based on specified thresholds measured over the course of an Interval. The Activity-Based Risk Controls available on the Exchange are:

(A) “Transaction-Based Risk Limit” refers to a pre-established limit on the number of an Entering Firm’s orders and quotes executed in a specified class of options per Interval;

(B) “Volume-Based Risk Limit” refers to a pre-established limit on the number of contracts of an Entering Firm’s orders and quotes that can be executed in a specified class of options per Interval; or

(C) “Percentage-Based Risk Limit” refers to a pre-established limit on the percentage of contracts executed in a specified class of options as measured against the full size of an Entering Firm’s orders and quotes executed per Interval. To determine whether an Entering Firm has breached the specified percentage limit, the Exchange calculates the percent of each order or quote in a specified class of option that is executed during an Interval (each, a “percentage”), and sums up those percentages. This risk limit will be breached if the sum of the percentages exceeds the pre-established limit.

(4) “Global Risk Control” refers to a pre-established limit on the number of times an Entering Firm may breach its Activity-Based Risk Controls per Interval.

(5) “Interval” refers to the configurable time period during which the Exchange will determine if an Activity-Based Risk Control or the Global Risk Control has been breached.

(b) *Setting and Adjusting Pre-Trade, Activity-Based, and Global Risk Controls.*

(1) Pre-Trade, Activity-Based and Global Risk Controls may be set before the beginning of a trading day and may be adjusted during the trading day.

(2) Pre-Trade, Activity-Based and Global Risk Controls can be set at the MPID level or at one or more sub-IDs associated with that MPID, or both.

(c) *Automated Breach Actions.* The Exchange will automatically take the following actions.

(1) *Pre-Trade Risk Controls.*

(A) *Breach Action for Pre-Trade Risk Controls.*

(i) A Limit Order or quote that breaches the designated limit of either a Single Order Maximum Notional Value Risk Limit or Single Order Maximum Quantity Risk Limit will be rejected.

(ii) A Market Order that breaches the designated limit of a Single Order Maximum Quantity Risk Limit will be rejected. A Market Order that breaches the designated limit of a Single Order Notional Value Risk Limit will be rejected if the order arrived during continuous trading or canceled if the order was received during a pre-open state and the quantity remaining to trade after an Auction concludes breaches the designated limit.

(2) Activity-Based Risk Controls

- (A) An Entering Firm acting as a Market Maker is required to apply one of the Activity-Based Risk Controls to all of its orders and quotes. An Entering Firm that is not acting as a Market Maker may, but is not required to, apply one of the Activity-Based Risk Controls to its orders.
- (B) To determine when an Activity-Based Risk Control has been breached, the Exchange will maintain a Trade Counter that will be incremented every time an order or quote trades, including any leg of a Complex Order, and will aggregate the number of contracts traded during each such execution. An Entering Firm may opt to exclude any orders designated IOC or FOK from being considered by a Trade Counter.
- (C) When designating one of the three Activity-Based Risk Controls, the Entering Firm must indicate which of the following actions it wishes the Exchange to take if an Activity-Based Risk Limit is breached:
- (i) Notification Only: The Exchange will continue to accept new order and quote messages and related instructions and will not cancel any unexecuted orders or quotes in the Consolidated Book.
- (ii). Block Only: The Exchange will reject new order and quote messages and related instructions, provided that the Exchange will continue to process instructions from the Entering Firm to cancel one or more orders or quotes (including Auction-Only Orders) in full or any of the instructions specified in paragraph (e) of this Rule.
- (iii) Cancel and Block: In addition to the restrictions defined above for “Block Only,” the Exchange will cancel all unexecuted orders and quotes in the Consolidated Book other than Auction-Only Orders and orders designated GTC.
- (D) If an Entering Firm breaches an Activity-Based Risk Control, the Automated Breach Action will be applied to its orders and quotes in the affected class of options.
- (E) The Exchange will specify by Trader Update any applicable minimum, maximum and/or default settings for the Activity-Based Risk Controls, subject to the following:



(i) For the Transaction-Based Risk Limit, the minimum setting will not be less than one and the maximum setting will not be more than 2,000.

(ii) For the Volume-Based Risk Limit, the minimum setting will not be less than one and the maximum setting will not be more than 500,000.

(iii) For the Percentage-Based Risk Limit, the minimum setting will not be less than 50 and the maximum setting will not be more than 200,000.

(F) The Exchange will specify by Trader Update the Interval for the Activity-Based Risk Controls, subject to the following:

(i) The Interval will not be less than 100 milliseconds and will not be greater than 300,000 milliseconds, inclusive of the duration of any trading halt occurring within that time.

(ii) For transactions occurring in the Core Open Auction, per Rule 6.64P-O, the applicable time period is the lesser of (i) the time between the Core Open Auction of a series and the initial transaction or (ii) the Interval.

(3) Global Risk Controls

(A) If the Global Risk Control limit is breached, the Exchange will Cancel and Block, per paragraph (c)(2)(C)(iii) above.

(B) If an Entering Firm breaches the Global Risk Control, the Automated Breach Action will be applied to all orders and quotes of the Entering Firm in all classes of options regardless of which class(es) of options caused the underlying breach of Activity-Based Risk Controls.

(C) The Exchange will specify by Trader Update any applicable minimum, maximum and/or default settings for the Global Risk Control, provided that the minimum setting will not be less than 25 and the maximum setting will not be more than 100.

(D) The Exchange will specify by Trader Update the Interval for the Global Risk Controls, subject to the following:

(i) The Interval will not be less than 100 milliseconds and will not be greater than 300,000 milliseconds, inclusive of the duration of any trading halt occurring within that time.

(ii) For transactions occurring in the Core Open Auction, per Rule 6.64P-O, the applicable time period is the lesser of (i) the time between the Core Open Auction of a series and the initial transaction or (ii) the Interval.

(d) Reinstatement of Entering Firm After Automated Breach Action. If either a “Block Only” or “Cancel and Block” Automated Breach Action has been triggered, the

Exchange will not reinstate the Entering Firm's ability to enter orders and quotes and related instructions on the Exchange (other than instructions to cancel one or more orders or quotes (including Auction-Only Orders and orders designated GTC) in full) without the consent of the Entering Firm, which may be provided via automated contact if it was a breach of an Activity-Based Risk Control. An Entering Firm that breaches the Global Risk Control will not be reinstated unless the Entering Firm provides consent via non-automated contact with the Exchange.

(e) Kill Switch Actions. An Entering Firm can direct the Exchange to take one or more of the following actions with respect to orders and quotes (excluding those represented in open outcry, except CTB Orders) at either an MPID or sub-ID level:

- (1) Cancel all Auction-Only Orders;
- (2) Cancel all orders designated GTC;
- (3) Cancel all unexecuted orders and quotes in the Consolidated Book other than Auction-Only Orders and orders designated GTC; or
- (4) Block the entry of any new order and quote messages and related instructions, provided that the Exchange will continue to accept instructions from the Entering Firm to cancel one or more orders or quotes (including Auction-Only Orders and orders designated GTC) in full, and later, reverse that block.

**Commentary:**

.01 The Pre-Trade, Activity-Based, and Global Risk Controls described in this Rule are meant to supplement, and not replace, the OTP Holder's or OTP Firm's own internal systems, monitoring, and procedures related to risk management and are not designed for compliance with Rule 15c3-5 under the Exchange Act. Responsibility for compliance with all Exchange and SEC rules remains with the OTP Holder or OTP Firm.

**Rule 6.41P-O. [Reserved]Price Reasonability Checks - Orders and Quotes**

(a) The Exchange will apply Price Reasonability Checks defined in paragraphs (b) and (c) of this Rule to all Limit Orders and quotes during continuous trading on each trading day (excluding those represented in open outcry, except CTB Orders), subject to the following:

- (1) A Limit Order or quote received during a pre-open state will be subject to the Price Reasonability Checks after an Auction concludes. A Limit Order or quote that was resting on the Consolidated Book before a trading halt will be subject to the Price Reasonability Checks again after the Trading Halt Auction. A put option message to buy will be subject to the Arbitrage Check regardless of when it arrives.
- (2) If the calculation of the Price Reasonability Check is not consistent with the MPV

for the series, it will be rounded down to the nearest price within the applicable MPV.

(3) The Price Reasonability Checks will not apply to:

(i) any options series for which the underlying security has a non-standard cash or stock deliverable as part of a corporate action;

(ii) any options series for which the underlying security is identified as over-the-counter (“OTC”);

(iii) any option series on an index; and

(iv) any option series for which the Exchange determines it is necessary to exclude underlying securities in the interests of maintaining a fair and orderly market, which the Exchange will announce by Trader Update.

(b) Arbitrage Checks for buy orders or quotes.

(1) Puts. Order or quote messages to buy for put options will be rejected if the price of the order or quote is equal to or greater than the strike price of the option.

(2) Calls. Order or quote messages to buy for call options will be rejected or canceled (if resting) if the price of the order or quote is equal to or greater than the last sale price of the underlying security on the Primary Market, plus a specified threshold to be determined by the Exchange and announced by Trader Update.

(c) Intrinsic Value Checks for sell orders or quotes.

(1) The Intrinsic Value for a put option is equal to the strike price minus the last sale price of the underlying security on the Primary Market.

(2) The Intrinsic Value for a call option is equal to the last sale price of the underlying security on the Primary Market minus the strike price.

(3) ISOs to sell are not subject to the Intrinsic Value Check described in this paragraph (c).

(4) Puts and calls.

(A) Orders or quotes to sell for both puts and calls will be rejected or canceled (if resting) if the price of the order or quote is equal to or lower than its Intrinsic Value, minus a specified threshold to be determined by the Exchange and announced by Trader Update.

(B) The threshold percentage is based on the NBB, provided that, immediately following an Auction, it is based on the Auction Price or, if none, the lower Auction Collar price, or, if none, the NBB. For purposes of determining the

Intrinsic Value, the Exchange will not use an adjusted NBBO. The Intrinsic Value Check for sell orders and quotes will not be applied if the Intrinsic Value cannot be calculated.

(d) Automated Breach Action for Maker Makers. If a Market Maker's order or quote message is rejected or cancelled (if resting) pursuant to paragraph (b) or (c) of this Rule, the Exchange will Cancel and Block orders and quotes in the affected class of options per Rule 6.40P-O(c)(2)(iii).

(1) Global Risk Control Trigger. This breach will be counted towards the Market Maker's Global Risk Control limit per Rule 6.40P-O(a)(4).

(2) Reinstatement of Market Maker After Automated Breach Action. The Exchange will not reinstate the Market Maker's ability to enter orders and quotes and related instructions on the Exchange in that class of options (other than instructions to cancel one or more orders/quotes (including Auction-Only Orders and orders designated GTC) in full) without the consent of the Market Maker, which may be provided via automated contact.

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#### **Rule 6.60-O. Price Protection - Orders**

This Rule is not applicable to trading on Pillar.

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#### **Rule 6.61-O. Price Protection - Quotes**

This Rule is not applicable to trading on Pillar.

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#### **Rule 6.62-O. Certain Types of Orders Defined**

This Rule is not applicable to trading on Pillar.

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#### **Rule 6.62P-O. Orders and Modifiers**

##### (a) Primary Order Types

(1) Market Order. An unpriced order message to buy or sell a stated number of option contracts at the best price obtainable, subject to the Trading Collar assigned to the order. A Market Order may be designated Day or GTC. Unexecuted Market Orders are ranked Priority 1 - Market Orders. For purposes of processing Market Orders, the Exchange will not use an adjusted NBBO.

(A) A Market Order that arrives during continuous trading will be rejected, or that was routed, returns unexecuted, and has no resting quantity to join will be cancelled if:

- (i) There is no NBO.
- (ii) There is no NBB and the NBO is higher than \$0.50 (for sell Market Orders only). If there is no NBB and the NBO is \$0.50 or below, a Market Order to sell will not be rejected and will have a working price and display price one MPV above zero and will not be subject to a Trading Collar. A Market Order to sell will be cancelled if it was assigned a Trading Collar, routed, and when it returns unexecuted, it has no resting portion to join and there is no NBB, regardless of the price of the NBO;
- (iii) There are no contra-side Market Maker quotes on the Exchange or contra-side ABBO, provided that a Market Order to sell will be accepted as provided for in paragraph (a)(1)(A)(ii) of this Rule; or
- (iv) the NBBO is not locked or crossed and the spread is equal to or greater than the following:

<u>The midpoint of the NBBO</u>	<u>Spread Parameter</u>
<u>\$0.00 to \$2.00</u>	<u>\$0.75</u>
<u>Above \$2.00 to and including \$5.00</u>	<u>\$1.25</u>
<u>Above \$5.00 to and including \$10.00</u>	<u>\$1.50</u>
<u>Above \$10.00 to and including \$20.00</u>	<u>\$2.50</u>
<u>Above \$20.00 to and including \$50.00</u>	<u>\$3.00</u>
<u>Above \$50.00 to and including \$100.00</u>	<u>\$4.50</u>
<u>Above \$100.00</u>	<u>\$6.00</u>

(B) An Aggressing Market Order to buy (sell) will trade with all orders or quotes to sell (buy) on the Consolidated Book priced at or below (above) the Trading Collar before routing to Away Market(s) at each price. After trading or routing, or both, the Market Order will be displayed at the Trading Collar, subject to paragraph (a)(1)(C).

(C) A Market Order will be cancelled before being displayed if there are no remaining contra-side Market Maker quotes on the Exchange or contra-side

ABBO.

(D) After being displayed at its Trading Collar, a Market Order will be cancelled if there ceases to be a contra-side NBBO.

(E) A resting, displayed Market Order that is locked or crossed by an Away Market will be routed to that Away Market.

(2) Limit Order. An order message to buy or sell a stated number of option contracts at a specified price or better, subject to Limit Order Price Protection and the Trading Collar assigned to the order. A Limit Order may be designated Day, IOC, or GTC. Unless otherwise specified, the working price and the display price of a Limit Order is equal to the limit price of the order, is eligible to be routed, and is ranked Priority 2 - Display Orders.

(A) A marketable Limit Order to buy (sell) received by the Exchange will trade with all orders and quotes to sell (buy) on the Consolidated Book priced at or below (above) the NBO (NBB) before routing to the ABO (ABB), and may route to prices higher (lower) than the NBO (NBB) only after trading with orders and quotes to sell (buy) on the Consolidated Book at each price point. Once no longer marketable, the Limit Order will be ranked and displayed on the Consolidated Book.

(3) Limit Order Price Protection.

(A) Each trading day, a Limit Order or quote to buy (sell) will be rejected or cancelled (if resting) if it is priced a Specified Threshold equal to or above (below) the Reference Price, rounded down to the nearest price within the MPV for the series ("Limit Order Price Protection"). Cross Orders, LOO Orders, and orders represented in open outcry (except CTB Orders) are not subject to Limit Order Price Protection. Limit Order Price Protection will not be applied to a Limit Order or quote if there is no Reference Price.

(i) A Limit Order or quote that arrives when a series is open will be evaluated for Limit Order Price Protection on arrival.

(ii) A Limit Order or quote received during a pre-open state will be evaluated for Limit Order Price Protection after an Auction concludes.

(iii) A Limit Order or quote resting on the Consolidated Book before a trading halt will be evaluated for Limit Order Price Protection again after the Trading Halt Auction concludes.

(B) Reference Price. The Reference Price for calculating Limit Order Price Protection for an order or quote to buy (sell) will be the NBO (NBB), provided that, immediately following an Auction, the Reference Price will be the Auction Price or, if none, the upper (lower) Auction Collar price, or, if none, the NBO (NBB). For purposes of calculating Limit Order Price Protection, the

Exchange will not use an adjusted NBBO.

(C) Specified Threshold. Unless determined otherwise by the Exchange and announced to OTP Holders and OTP Firms by Trader Update, the Specified Threshold applicable to Limit Order Price Protection will be:

<u>Reference Price</u>	<u>Specified Threshold</u>
<u>\$0.00 to \$1.00</u>	<u>\$0.30</u>
<u>\$1.01 to \$10.00</u>	<u>50%</u>
<u>\$10.01 to \$20.00</u>	<u>40%</u>
<u>\$20.01 to \$50.00</u>	<u>30%</u>
<u>\$50.01 to \$100.00</u>	<u>20%</u>
<u>\$100.01 and higher</u>	<u>10%</u>

(4) Trading Collar. A Market Order or Limit Order to buy (sell) will not trade or route to an Away Market at a price above (below) the Trading Collar assigned to that order. Auction-Only Orders, Limit Orders designated IOC or FOK, Cross Orders, ISOs, and Market Maker quotes are not subject to Trading Collars. Trading Collars will not be applicable during Auctions.

(A) Assignment of Trading Collar. A Trading Collar assigned to an order will be calculated once per trading day and will be updated only if the series is halted.

(i) An order that is received during continuous trading will be assigned a Trading Collar before being processed for either trading, repricing, or routing. An order that is routed and returned unexecuted will use the Trading Collar that was previously assigned to it.

(ii) An order received during a pre-open state will be assigned a Trading Collar after an Auction concludes.

(iii) The Trading Collar for an order resting on the Consolidated Book before a trading halt will be calculated again after the Trading Halt Auction concludes.

(B) Reference Price. The Reference Price for calculating the Trading Collar for an order to buy (sell) will be the NBO (NBB). For Auction-eligible orders to buy (sell) that were received during a pre-open state or orders that are re-assigned a Trading Collar after a trading halt, the Reference Price will be the Auction

Price or, if none, the upper (lower) Auction Collar price or, if none, the NBO (NBB). For purposes of calculating a Trading Collar, the Exchange will not use an adjusted NBBO.

(i) A Trading Collar will not be assigned to a Limit Order if there is no Reference Price at the time of calculation.

(C) Calculation of the Trading Collar. The Trading Collar for an order to buy (sell) will be a specified amount above (below) the Reference Price, as follows: (1) for orders with a Reference Price of \$1.00 or lower, \$0.25; or (2) for orders with a Reference Price above \$1.00, the lower of \$2.50 or 25%.

(i) If the calculation of a Trading Collar is not in the MPV for the series, it will be rounded down to the nearest price within the applicable MPV.

(ii) For orders to sell, if subtracting the Trading Collar from the Reference Price would result in a negative number, the Trading Collar for Limit Orders will be the limit price and the Trading Collar for Market Orders will be one MPV above zero.

(D) Application of the Trading Collar. If an order to buy (sell) would trade or route above (below) the Trading Collar or would have its working price repriced to a Trading Collar that is below (above) its limit price, the order will be added to the Consolidated Book at the Trading Collar for 500 milliseconds and if not traded within that period, will be cancelled. Once the 500-millisecond timer begins for an order, the order will be cancelled at the end of the timer even if it repriced or has been routed to an Away Market during that period, in which case any portion of the order returned unexecuted will be cancelled.

(b) Time in Force Modifiers

(1) Day Modifier. Any order or quote to buy or sell designated Day, if not traded, will expire at the end of the trading day on which it was entered. A Day Modifier cannot be combined with any other Time in Force Modifier.

(2) Immediate-or-Cancel ("IOC") Modifier. A Limit Order may be designated IOC or Routable IOC, as described in paragraphs (A) and (B) of this paragraph (b)(2). A Limit Order designated IOC is not eligible to participate in any Auctions.

(A) Limit IOC Order. A Limit Order designated IOC will be traded in whole or in part on the Exchange as soon as such order is received, and the unexecuted quantity cancelled. A Limit IOC Order does not route.

(B) Limit Routable IOC Order. A Limit Order designated Routable IOC will be traded in whole or in part on the Exchange as soon as such order is received, and the unexecuted quantity routed to Away Market(s). Any quantity not immediately traded either on the Exchange or an Away Market will be



cancelled.

(3) Fill-or-Kill (“FOK”) Modifier. A Limit Order designated FOK will be traded in whole on the Exchange as soon as such order is received and, if not so traded, cancelled. A Limit Order designated FOK does not route and does not participate in any Auctions.

(4) Good-‘Til-Cancelled (“GTC”) Modifier. A Limit or Market Order designated GTC remains in force until the order is filled, cancelled, the MPV in the series changes overnight, the option contract expires, or a corporate action results in an adjustment to the terms of the option contract.

(c) Auction-Only Orders. A Limit Order or Market Order that is to be traded only in an Auction pursuant to Rule 6.64P-O. An Auction-Only Order will not be accepted when a series is opened for trading and any portion of an Auction-Only Order that is not traded in a Core Open Auction or Trading Halt Auction will be cancelled.

(1) A Limit-on-Open Order (“LOO Order”). A LOO Order is a Limit Order that is to be traded only in an Auction.

(2) A Market-on-Open Order (“MOO Order”). A MOO Order is a Market Order that is to be traded only in an Auction.

(3) An Imbalance Offset Order (“IO Order”). An IO Order is a Limit Order that is to be traded only in an Auction.

(A) An IO Order will participate in an Auction only if: (1) there is an Imbalance in the series on the opposite side of the market from the IO Order after taking into account all other orders and quotes eligible to trade at the Indicative Match Price; and (2) the limit price of the IO Order to buy (sell) is at or above (below) the Indicative Match Price.

(B) The working price of an IO Order to buy (sell) will be adjusted to be equal to the Indicative Match Price, provided that the working price of an IO Order will not be higher (lower) than its limit price.

(d) Orders with a Conditional or Undisplayed Price and/or Size

(1) Reserve Order. A Limit Order with a quantity of the size displayed and with a reserve quantity of the size (“reserve interest”) that is not displayed. The displayed quantity of a Reserve Order is ranked Priority 2 - Display Orders and the reserve interest is ranked Priority 3 - Non-Display Orders. Both the display quantity and the reserve interest of an arriving marketable Reserve Order are eligible to trade with resting interest in the Consolidated Book or route to Away Markets, unless designated as a Non-Routable Limit Order. The working price of the reserve interest of a resting Reserve Order to buy (sell) will be adjusted in the same manner as a Non-Displayed Limit Order, as provided for in paragraph (d)(2)(A) of this Rule, provided that it will never be priced higher (lower) than the working price of the display quantity of the Reserve Order.

- (A) The displayed portion of a Reserve Order will be replenished when the display quantity is decremented to zero. The replenish quantity will be the minimum display size of the order or the remaining quantity of the reserve interest if it is less than the minimum display quantity.
- (B) Each time the display quantity of a Reserve Order is replenished from reserve interest, a new working time will be assigned to the replenished quantity.
- (C) A Reserve Order may be designated as a Non-Routable Limit Order. If so designated, the reserve interest that replenishes the display quantity will be assigned a display price and working price consistent with the instructions for the order.
- (D) A routable Reserve Order will be evaluated for routing both on arrival and each time the display quantity is replenished.
- (i) If routing is required, the Exchange will route from reserve interest before publishing the display quantity.
- (ii) Any quantity of a Reserve Order that is returned unexecuted will join the working time of the reserve interest. If there is no reserve interest to join, the returned quantity will be assigned a new working time.
- (E) A request to reduce the size of a Reserve Order will cancel the reserve interest before cancelling the display quantity.
- (F) A Reserve Order may be designated Day or GTC, but it may not be designated as an ALO Order.
- (2) Non-Displayed Limit Order. A Limit Order that is not displayed, does not route, and is ranked Priority 3 - Non-Display Orders. A Non-Displayed Limit Order may be designated Day or GTC and does not participate in any Auctions.
- (A) The working price of a Non-Displayed Limit Order will be assigned on arrival and adjusted when resting on the Consolidated Book. The working price of a Non-Displayed Limit Order to buy (sell) will be the lower (higher) of the limit price or the NBO (NBB).
- (3) All-or-None (“AON”) Order. A Limit Order that is to be traded in whole on the Exchange at the same time or not at all. An AON Order that does not trade on arrival is ranked Priority 3 - Non-Display Orders. An AON Order may be designated Day or GTC, does not route, and will not participate in any Auctions.
- (A) The working price of an AON Order will be assigned on arrival and adjusted when resting on the Consolidated Book. The working price of an AON Order to buy (sell) will be the lower (higher) of the limit price or NBO (NBB).
- (B) An Aggressing AON Order to buy (sell) will trade with sell (buy) orders and quotes that in the aggregate can satisfy the AON Order in its entirety.

(C) A resting AON Order to buy (sell) will trade with an Aggressing Order or Aggressing Quote to sell (buy) that individually can satisfy the whole AON Order.

(i) If an Aggressing Order or Aggressing Quote to sell (buy) does not satisfy the resting AON Order to buy (sell), that Aggressing Order or Aggressing Quote will not trade with and may trade through such AON Order.

(ii) If a resting non-displayed order to sell (buy) does not satisfy the quantity of a same-priced resting AON Order to buy (sell), a subsequently arriving order or quote to sell (buy) that satisfies the AON Order will trade before such resting non-displayed order or quote to sell (buy) at that price.

(D) A resting AON Order to buy (sell) will not be eligible to trade against an Aggressing Order or Aggressing Quote to sell (buy):

(i) at a price equal to or above (below) any orders or quotes to sell (buy) that are displayed at a price equal to or below (above) the working price of such AON Order; or

(ii) at a price above (below) any orders or quotes to sell (buy) that are not displayed and that have a working price below (above) the working price of such AON Order.

(E) If a resting AON Order to buy (sell) becomes an Aggressing Order it will trade as provided in paragraph (d)(3)(B) of this Rule; however, other resting orders or quotes to buy (sell) ranked Priority 3 - Non-Display Orders that become Aggressing Orders or Aggressing Quotes at the same time as the resting AON Order will be processed before the AON Order.

(4) Stop Order. A Stop Order is an order to buy (sell) a particular option contract that becomes a Market Order (or is “elected”) when the Exchange BB (BO) or the most recent consolidated last sale price reported after the order was placed in the Consolidated Book (the “Consolidated Last Sale”) (either, the “trigger”) is equal to or higher (lower) than the specified “stop” price. When a Stop Order is elected, it will be cancelled if it does not meet the validations specified in paragraph (a)(1)(A) of this Rule and if not cancelled, it will be assigned a Trading Collar.

(A) Ranking and Working Time. A Stop Order will be assigned a working time when it is received but it will not be ranked or displayed in the Consolidated Book until it is elected. Once converted to a Market Order, the order will be assigned a new working time and be ranked Priority 1- Market Orders.

(B) Election.

(i) If not elected on arrival, a Stop Order that is resting will not be eligible to be elected based on a Consolidated Last Sale unless the Consolidated Last Sale is equal to or in between the NBBO.

(ii) A Stop Order will not be elected if the NBBO is crossed.

(iii) After a Limit State or Straddle State is lifted, the trigger to elect a Stop Order will be either the Consolidated Last Sale received after such state was lifted or the Exchange BB (BO).

(5) Stop Limit Order. A Stop Limit Order is an order to buy (sell) a particular option contract that becomes a Limit Order (or is “elected”) when the Exchange BB (BO) or the Consolidated Last Sale (either, the “trigger”) is equal to or higher (lower) than the specified “stop” price. A Stop Limit Order to buy (sell) will be rejected if the stop price is higher (lower) than its limit price. When a Stop Limit Order is elected, it will be cancelled if it fails Limit Order Price Protection or a Price Reasonability Check and if not cancelled, it will be assigned a Trading Collar.

(A) Ranking and Working Time. A Stop Limit Order will be assigned a working time when it is received but it will not be ranked or displayed in the Consolidated Book until it is elected. Once converted to a Limit Order, the order will be assigned a new working time and be ranked Priority 2 - Display Orders.

(B) Election.

(i) If not elected on arrival, a Stop Limit Order that is resting will not be eligible to be elected based on a Consolidated Last Sale unless the Consolidated Last Sale is equal to or in between the NBBO.

(ii) A Stop Limit Order will not be elected if the NBBO is crossed.

(e) Orders with Instructions Not to Route

(1) Non-Routable Limit Order. A Limit Order or quote that does not route and may be designated Day or GTC. A Non-Routable Limit Order with a working price different from the display price is ranked Priority 3-Non-Display Orders and a Non-Routable Limit Order with a working price equal to the display price is ranked Priority 2-Display Orders.

(A) A Non-Routable Limit Order will not be displayed at a price that would lock or cross the ABBO. A Non-Routable Limit Order to buy (sell) will trade with orders or quotes to sell (buy) in the Consolidated Book priced at or below (above) the ABO (ABB).

(i) A Non-Routable Limit Order can be designated to be cancelled if it would be displayed at a price other than its limit price.

(ii) If not designated to cancel, if the limit price of a Non-Routable Limit Order to buy (sell) would lock or cross the ABO (ABB), it will be repriced to have a working price equal to the ABO (ABB) and a display price one MPV below (above) that ABO (ABB).

(B) The display price of a resting Non-Routable Limit Order to buy (sell) that has been repriced will be repriced higher (lower) only one additional time. If after that repricing, the display price could be repriced higher (lower) again, the order can be designated to either remain at its last working price and display price or be cancelled, provided that a resting Non-Routable Limit Order that is designated as a quote cannot be designated to be cancelled.

(i) If the limit price of the resting Non-Routable Limit Order to buy (sell) that has been repriced no longer locks or crosses the ABO (ABB), it will be assigned a working price and display price equal to its limit price.

(ii) The working price of a resting Non-Routable Limit Order to buy (sell) that has been repriced will be adjusted to be equal to its display price if the ABO (ABB) is equal to or lower (higher) than its display price. Once the working price and display price of a Non-Routable Limit Order to buy (sell) are the same, the working price will be adjusted higher (lower) only if the display price of the order is adjusted.

(C) The designation to cancel a Non-Routable Limit Order will not be applicable in an Auction and such order will participate in an Auction at its limit price.

(2) ALO Order. An ALO Order is a Limit Order or quote that is a Non-Routable Limit Order that will not remove liquidity from the Consolidated Book.

(A) An ALO Order will not be displayed at a price that would lock or cross the ABBO, would lock or cross displayed interest in the Consolidated Book, or would cross non-displayed interest in the Consolidated Book.

(i) An ALO Order can be designated to be cancelled if it would be displayed at a price other than its limit price.

(ii) An ALO Order to buy (sell) will be displayed at its limit price if it locks non-displayed orders or quotes to sell (buy) on the Consolidated Book.

(iii) An ALO Order to buy (sell) will not consider an AON Order or an order with an MTS Modifier to sell (buy) for purposes of determining whether it needs to be repriced or cancelled.

(B) If not designated to cancel:

(i) If the limit price of an ALO Order to buy (sell) would lock or cross displayed orders or quotes to sell (buy) on the Consolidated Book, it will be repriced to have a working price and display price one MPV below (above) the lowest (highest) priced displayed order or quote to sell (buy) on the Consolidated Book;

(ii) If the limit price of an ALO Order to buy (sell) would lock or cross the ABO (ABB), it will be repriced to have a working price equal to the ABO

(ABB) and a display price one MPV below (above) that ABO (ABB);

(iii) If the limit price of an ALO Order to buy (sell) would cross non-displayed orders or quotes on the Consolidated Book, it will be repriced to have a working price and display price equal to the lowest (highest) priced non-displayed order or quote to sell (buy) on the Consolidated Book.

(C) The display price of a resting ALO Order to buy (sell) that has been repriced will be repriced higher (lower) only one additional time. If, after that repricing, the display price could be repriced higher (lower) again, the order can be designated to either remain at its last working price and display price or be cancelled, provided that a resting ALO Order that is a quote cannot be designated to be cancelled.

(i) If the limit price of an ALO Order to buy (sell) that has been repriced no longer locks or crosses displayed orders or quotes in the Consolidated Book, locks or crosses the ABBO, or crosses non-displayed orders or quotes in the Consolidated Book, it will be assigned a working price and display price equal to its limit price.

(D) The working price of a resting ALO Order to buy (sell) that has been repriced will be adjusted to be equal to its display price if:

(i) the ABO (ABB) re-prices to be equal to or lower (higher) than the display price of the resting ALO Order to buy (sell); or

(ii) an ALO Order or Day ISO ALO to sell (buy) is displayed on the Consolidated Book at a price equal to the working price of the resting ALO Order to buy (sell).

(E) When the working price and display price of an ALO Order to buy (sell) are the same, the working price will be adjusted higher (lower) only if the display price of the order is adjusted.

(F) The ALO designation will be ignored for ALO Orders that participate in an Auction.

(3) Intermarket Sweep Order ("ISO"). A Limit Order that does not route and meets the requirements of Rule 6.92-O(a)(8).

(A) An ISO designated IOC ("IOC ISO") to buy (sell) will be immediately traded with orders and quotes to sell (buy) in the Consolidated Book up to its full size and limit price and may trade through Away Market Protected Quotations. Any untraded quantity of an IOC ISO will be immediately and automatically cancelled.

(B) An ISO designated Day ("Day ISO") to buy (sell), if marketable on arrival, will be immediately traded with orders and quotes to sell (buy) in the

Consolidated Book up to its full size and limit price and may trade through Away Market Protected Quotations. Any untraded quantity of a Day ISO will be displayed at its limit price and may lock or cross Away Market Protected Quotations at the time the Day ISO is received by the Exchange.

(C) A Day ISO may be designated with an ALO Modifier (“Day ISO ALO”). On arrival, a Day ISO ALO to buy (sell) may lock or cross Away Market Protected Quotations at the time of arrival of the Day ISO ALO but will not remove liquidity from the Consolidated Book. A Day ISO ALO can be designated to be cancelled if it would be displayed at a price other than its limit price.

(i) If not designated to cancel, a Day ISO ALO that would lock or cross orders and quotes on the Consolidated Book will be repriced as specified in paragraph (e)(2)(B) of this Rule.

(ii) Once resting, a Day ISO ALO will be processed as an ALO Order as specified in paragraphs (e)(2)(C) - (G) of this Rule.

(f) Complex Orders. A Complex Order is any order involving the simultaneous purchase and/or sale of two or more option series in the same underlying security (the “legs” or “components” of the Complex Order), for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of executing a particular investment strategy.

(g) Cross Orders. A Cross Order is a Qualified Contingent Cross (“QCC”) Order.

(1) QCC Orders.

(A) A QCC Order must be comprised of an originating order to buy or sell at least 1,000 contracts that is identified as being part of a qualified contingent trade coupled with a contra-side order or orders totaling an equal number of contracts. If a QCC has more than one option leg (a “Complex QCC Order”), each option leg must have at least 1,000 contracts. A QCC Order that is not rejected per paragraph (g)(1)(C) or (D) below will immediately trade in full at its price, does not route, and may be entered with an MPV of \$0.01 regardless of the MPV of the options series. QCC Orders may be entered by Floor Brokers from the Trading Floor or routed to the Exchange from off-Floor. Rule 6.47A-O does not apply to QCC Orders.

(B) Qualified Contingent Trade. A “qualified contingent trade” is a transaction consisting of two or more component orders, executed as agent or principal, where:

(i) at least one component is an NMS Stock, as defined in Rule 600 of Regulation NMS under the Exchange Act;

(ii) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent;

(iii) the execution of one component is contingent upon the execution of all other components at or near the same time;

(iv) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed;

(v) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and

(vi) the transaction is fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade.

(C) Execution of QCC Orders. A QCC Order with one option leg will be rejected if received when the NBBO is crossed or if it will trade at a price that (i) is at the same price as a displayed Customer order on the Consolidated Book and (ii) is not at or between the NBBO. A QCC Order with one option leg will never trade at a price worse than the Exchange BBO.

(D) Execution of Complex QCC Orders. A Complex QCC Order must include a limit price, no option leg will trade at a price worse than the Exchange BBO, and will be rejected if:

(i) any option leg cannot execute in compliance with paragraph (g)(1)(C) of this Rule;

(ii) the best-priced Complex Order(s) on the Exchange contain(s) displayed Customer interest and the Complex QCC Order price does not improve such displayed Customer interest by \$0.01;

(iii) the price of the QCC Order is worse than the best-priced Complex orders in the Consolidated Book or the prices of the best-priced Complex Orders in the Consolidated Book are crossed; or

(iv) for any option leg there is no NBO.

(E) QCC Orders entered from Trading Floor. While on the Trading Floor, only Floor Brokers can enter QCC Orders. Floor Brokers may not enter QCC Orders for their own account, the account of an associated person, or an account with respect to which it or an associated person thereof exercises investment discretion (each a “prohibited account”). When executing such



orders, Floor Brokers will not be subject to Rule 6.47-O regarding “Crossing” orders. Floor Brokers must maintain books and records demonstrating that each QCC Order entered from the Floor was not entered for a prohibited account. Any QCC Order entered from the Floor that does not have a corresponding record required by this paragraph will be deemed to have been entered for a prohibited account in violation of this Rule.

(F) QCC Orders entered off-Floor. With respect to QCC Orders routed to the Exchange from off-Floor, OTP Holders must maintain books and records demonstrating that each such order was so routed.

(h) Orders Available Only in Open Outcry.

(1) Clear-the-Book (“CTB”) Order. A CTB Order is a Limit IOC Order that may be entered only by a Floor Broker, contemporaneous with executing an order in open outcry, that is approved by a Trading Official (the “TO Approval”). The CTB Order is eligible to trade only with contra-side orders and quotes that were resting in the Consolidated Book prior to the TO Approval.

(A) A CTB Order to buy (sell) will trade with contra-side orders and quotes with a display price below (above) the limit price of the CTB Order.

(B) A CTB Order to buy (sell) will trade with contra-side orders and quotes that have a display price and working price equal to the limit price of the CTB Order only if there is displayed Customer sell (buy) interest at that price, in which case, the CTB Order to buy (sell) will trade with the displayed Customer interest to sell (buy) and any non-Customer interest to sell (buy) with a working time earlier than the latest-arriving displayed Customer interest to sell (buy).

(C) Any unexecuted portion of the CTB Order will cancel after trading with all better-priced interest and eligible same-priced interest on the Consolidated Book.

(D) Floor Brokers submitting CTB Orders must do so in a timely manner after receiving TO Approval. Because CTB Orders are non-routable, Floor Brokers are obligated to route orders to better-priced interest on Away Markets per Rule 6.94-O.

(2) Facilitation Order. A Facilitation Order is an order that is only to be executed in whole or in part in a cross transaction with an order for a Customer of an OTP Holder or OTP Firm and designated as a Facilitation Order.

(3) Mid-Point Crossing Order. An order to be crossed pursuant to Rule 6.47-O at the mid-point price or better of the electronically disseminated BBO in the relevant option series; provided, however, that the mid-point must fall on an MPV. If the mid-point does not fall on an MPV, the Mid-Point Crossing Order will be cancelled.

(4) Not Held Order. A Not Held Order is an order that provides a broker with discretion as to price or time in executing the order. A Not Held Order must be designated as such in the "Optional Data" field of the EOC. For orders excepted from EOC, pursuant to Rule 6.67-O(d)(1)(A), a Not Held Order is marked "not held", "NH", "take time" or marked with some qualifying notation giving discretion as to the price or time at which such order is to be executed. The "not held" designation must appear in the "special instructions" portion of the order ticket. Orders that merely include a "not held" designation as part of the timestamp will not be deemed to be "not held" orders. An order entrusted to a Floor Broker will be considered a Not Held Order, unless otherwise specified by a Floor Broker's client.

(5) Single Stock Future ("SSF")/Option Order. An order to buy or sell a stated number of units of a single stock future or a security convertible into a single stock future ("convertible SSF") coupled with either (A) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of units of stock underlying the single stock future or convertible SSF, or the number of units of stock underlying the single stock future or convertible SSF necessary to create a delta neutral position; or (B) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date, and each representing the same number of units of underlying stock, as and on the opposite side of the market from, the stock underlying the single stock future or convertible SSF portion of the order. SSF/Options Orders are only eligible for open outcry trading.

(6)(A) Stock/Option Order is an order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of option contract(s) on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than 8 option contracts per unit of trading of the underlying stock or convertible security established for that series by the Clearing Corporation.

(B) Stock/Complex Order. A "Stock/Complex Order" is the purchase or sale of a Complex Order (as defined in Rule 6.62-O(e)) coupled with an order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") representing either:

(i) the same number of units of the underlying stock or convertible security as are represented by the options leg of the Complex Order with the least number of Options contracts, or

(ii) the number of units of the underlying stock necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option leg to the total number of units of the underlying stock or convertible security in the stock leg.

(i) Additional Order Instructions and Modifiers.

- (1) Proactive if Locked/Crossed Modifier. A Limit Order that is displayed and eligible to route and designated with a Proactive if Locked/Crossed Modifier will route to an Away Market if the Away Market locks or crosses the display price of the order. If any quantity of the routed order is returned unexecuted, the order will be displayed in the Consolidated Book.
- (2) Self Trade Prevention Modifier (“STP”). An Aggressing Order or Aggressing Quote to buy (sell) designated with one of the STP modifiers in this paragraph will be prevented from trading with a resting order or quote to sell (buy) also designated with an STP modifier from the same MPID, and, if specified, any sub-identifier of that MPID. The STP modifier on the Aggressing Order or Aggressing Quote controls the interaction between two orders and/or quotes marked with STP modifiers. Self-Trade Prevention will not be applicable during an Auction or to Cross Orders or when a Complex Order legs out. If the condition for a Limit Order designated FOK, an AON Order, or an arriving order with an MTS modifier designated under paragraph (i)(3)(B)(i) of this Rule cannot be met because of STP modifiers, such order will be cancelled or placed on the Consolidated Book, as applicable. Aggressing Orders or Aggressing Quotes will be processed as follows.
- (A) STP Cancel Newest (“STPN”). An Aggressing Order or Aggressing Quote to buy (sell) marked with the STPN modifier will not trade with resting interest to sell (buy) marked with any STP modifier from the same MPID. The Aggressing Order or Aggressing Quote marked with the STPN modifier will be cancelled. The resting order or quote marked with one of the STP modifiers will remain on the Consolidated Book.
- (B) STP Cancel Oldest (“STPO”). An Aggressing Order or Aggressing Quote to buy (sell) marked with the STPO modifier will not trade with resting interest to sell (buy) marked with any STP modifier from the same MPID. The resting order or quote marked with the STP modifier will be cancelled. The Aggressing Order or Aggressing Quote marked with the STPO modifier will be placed on the Consolidated Book.
- (C) STP Cancel Both (“STPC”). An Aggressing Order or Aggressing Quote to buy (sell) marked with the STPC modifier will not trade with resting interest to sell (buy) marked with any STP modifier from the same MPID. The entire size of both orders and/or quotes will be cancelled.
- (3) Minimum Trade Size (“MTS”) Modifier. A Limit IOC Order or Non-Displayed Limit Order may be designated with an MTS Modifier.
- (A) The quantity of the MTS Modifier may be less than the order quantity. An order will be rejected if it has an MTS Modifier quantity that is larger than the size of the order.
- (B) One of the following instructions must be specified with respect to whether an

order to buy (sell) with an MTS Modifier will trade on arrival with:

(i) orders or quotes to sell (buy) in the Consolidated Book that in the aggregate meet such order's MTS; or

(ii) only individual order(s) or quote(s) to sell (buy) in the Consolidated Book that each meets such order's MTS.

(C) An order with an MTS Modifier that is designated Day or GTC that cannot be executed immediately on arrival will be ranked in the Consolidated Book. In such case, the order with an MTS Modifier to buy (sell) that is ranked in the Consolidated Book will not be eligible to trade:

(i) at a price equal to or above (below) any orders or quotes to sell (buy) that are displayed at a price equal to or below (above) the working price of such order with an MTS Modifier; or

(ii) at a price above (below) any orders or quotes to sell (buy) that are not displayed and that have a working price below (above) the working price of such order with an MTS Modifier.

(D) An order with an MTS Modifier that is designated IOC and cannot be immediately executed will be cancelled.

(E) A resting order to buy (sell) with an MTS Modifier will trade with individual orders and quotes to sell (buy) that each meet the MTS.

(i) If an Aggressing Order or Aggressing Quote to sell (buy) does not meet the MTS of the resting order to buy (sell) with an MTS Modifier, that Aggressing Order or Aggressing Quote will not trade with, and may trade through, such resting order with an MTS Modifier.

(ii) If a resting non-displayed order or quote to sell (buy) did not meet the MTS of a same-priced resting order or quote to buy (sell) with an MTS Modifier, a subsequently arriving order or quote to sell (buy) that meets the MTS will trade before such resting non-displayed order or quote to sell (buy) at that price.

(F) A resting order with an MTS Modifier will be cancelled if it is traded in part or reduced in size and the remaining quantity is less than such order's MTS.

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**Rule 6.64-O. OX Opening Process**

*This Rule is not applicable to trading on Pillar.*

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**Rule 6.64P-O. Auction Process**

(a) This Rule is applicable to all series that trade on the Exchange other than Flex Options. The following are definitions for purposes of Rule 6-O Options Trading that are applicable to trading on Pillar:

(1) “Auction” means the opening or reopening of a series for trading either with or without a trade.

(A) “Core Open Auction” means the Auction that opens trading after the beginning of Core Trading Hours.

(B) “Trading Halt Auction” means the Auction that reopens trading following a trading halt.

(2) “Auction Collar” means the price collar thresholds for the Indicative Match Price for an Auction.

(A) The upper Auction Collar will be the offer of the Legal Width Quote and the lower Auction Collar will be the bid of the Legal Width Quote, provided that if the bid of the Legal Width Quote is zero, the lower Auction Collar will be one MPV above zero for the series.

(B) If there is no Legal Width Quote, the Auction Collars will be published in the Auction Imbalance Information as zero.

(3) “Auction Imbalance Information” means the information that the Exchange disseminates about an Auction via its proprietary data feeds and includes the Auction Collars, Auction Indicator, Book Clearing Price, Far Clearing Price, Indicative Match Price, Matched Volume, Market Imbalance, and Total Imbalance. Auction Imbalance Information will be based on all quotes and orders (including the non-displayed quantity of Reserve Orders) eligible to participate in an Auction, excluding IO Orders.

(A) “Auction Indicator” means the indicator that provides a status update of whether an Auction cannot be conducted because either (i) there is no Legal Width Quote, or (ii) a Market Maker quote has not been received during the Opening MMQ Timer(s).

(B) “Book Clearing Price” is the price at which all contracts could be traded in an Auction if not subject to the Auction Collar. The Book Clearing Price will be zero if a sell (buy) Imbalance cannot be filled by any buy (sell) interest.

(C) “Far Clearing Price” is the price at which Auction-Only Orders could be traded in an Auction within the Auction Collar.

(D) “Imbalance” means the number of buy (sell) contracts that cannot be matched with sell (buy) contracts at the Indicative Match Price at any given time.

- (i) “Total Imbalance” is the Imbalance of all buy (sell) contracts at the Indicative Match Price for all orders and quotes eligible to trade in an Auction.
- (ii) “Market Imbalance” is the Imbalance of any remaining buy (sell) Market Orders and MOO Orders that are not matched for trading in the Auction.
- (4) “Auction Price” means the price at which an Auction that results in a trade is conducted.
- (5) “Auction Process” means the process that begins when the Exchange receives an Auction Trigger for a series and ends when the Auction is conducted.
- (6) “Auction Processing Period” means the period during which the Auction is being processed.
- (7) “Auction Trigger” means the information disseminated by the Primary Market in the underlying security that triggers the Auction Process for a series to begin.

  - (A) For a Core Open Auction, the Auction Trigger is when the Primary Market first disseminates at or after 9:30 a.m. Eastern Time both a two-sided quote and a trade of any size that is at or within the quote.
  - (B) For a Trading Halt Auction, the Auction Trigger is when the Primary Market disseminates at the end of a trading halt or pause a resume message, a two-sided quote, and a trade of any size that is at or within the quote.
- (8) “Calculated NBBO” means the highest bid and lowest offer among all Market Maker quotes and the ABBO during the Auction Process.
- (9) “Indicative Match Price” means the price at which the maximum number of contracts can be traded in an Auction, including the non-displayed quantity of Reserve Orders and excluding IO Orders, subject to the Auction Collars. If there is no Legal Width Quote, the Indicative Match Price included in the Auction Imbalance Information will be calculated without Auction Collars.

  - (A) If there is more than one price level at which the maximum number of contracts can be traded within the Auction Collars, the Indicative Match Price will be the price closest to the midpoint of the Legal Width Quote, rounded to the nearest MPV for the series, provided that the Indicative Match Price will not be lower (higher) than the highest (lowest) price of a Limit Order to buy (sell) ranked Priority 2 - Display Orders that is eligible to participate in the Auction.
  - (B) An Indicative Match Price that is higher (lower) than the upper (lower) Auction Collar will be adjusted to the upper (lower) Auction Collar and orders eligible to participate in the Auction will trade at the collared Indicative Match Price.

- (i) Limit Orders to buy (sell) with a limit price above (below) the upper (lower) Auction Collar will be included in the Auction Imbalance Information at the collared Indicative Match Price and will be eligible to trade at the Indicative Match Price.
- (ii) Limit Orders and quotes to buy (sell) with a limit price below (above) the lower (upper) Auction Collar will not be included in the Auction Imbalance Information and will not participate in an Auction.
- (C) If the Matched Volume for an Auction consists of only buy and sell Market Orders, the Indicative Match Price will be the midpoint of the Legal Width Quote, rounded to the MPV for the series, or, if the Legal Width Quote is locked, the locked price.
- (D) If there is no Matched Volume, including if there are Market Orders on only one side of the Market, the Indicative Match Price and Total Imbalance for the Auction Imbalance Information will be zero.
- (10) A “Legal Width Quote” is a Calculated NBBO that:

  - (A) may be locked, but not crossed;
  - (B) does not contain a zero offer; and
  - (C) has a spread between the Calculated NBBO for each option contract that does not exceed a maximum differential that is determined by the Exchange on a class basis and announced by Trader Update, provided that a Trading Official may establish differences other than the above for one or more series or classes of options.
- (11) “Matched Volume” means the number of buy and sell contracts that can be matched at the Indicative Match Price, excluding IO Orders.
- (12) “Pre-open state” means the period before a series is opened or reopened for trading. During the pre-open state, the Exchange will accept Auction-Only Orders, quotes, and orders designated Day or GTC, including orders ranked Priority 3 - Non-Display Orders that are not eligible to participate in an Auction.

  - (A) The pre-open state for the Core Open Auction begins at 6:00 a.m. Eastern Time and ends when the Auction Processing Period begins. At the beginning of the pre-open state before the Core Open Auction, orders designated GTC that remain from the prior trading day will be included in the Consolidated Book.
  - (B) The pre-open state for a Trading Halt Auction begins at the beginning of the trading halt and ends when the Auction Processing Period begins.
- (13) “Rotational Quote” means the highest Market Maker bid and lowest Market Maker offer on the Exchange when the Auction Process begins. During the

Auction Process, the Exchange will update the price and size of the Rotational Quote. A Rotational Quote can be locked or crossed. If there are no Market Maker quotes, the Rotational Quote will be published with a zero price and size.

(b) Auction Ranking. Orders and quotes on the side of the Imbalance are not guaranteed to participate in an Auction and will be ranked in price-time priority under Rule 6.76P-O consistent with the priority ranking associated with each order or quote, provided that:

- (1) Limit Orders, quotes, and LOO Orders will be ranked based on their limit price and not the price at which they would participate in the Auction.
- (2) MOO Orders will be ranked Priority 1 - Market Orders.
- (3) LOO Orders will be ranked Priority 2 - Display Orders.
- (4) IO Orders will be ranked based on time among IO Orders, subject to eligibility to participate at the Indicative Match Price based on their limit price.

(c) Auction Imbalance Information. Auction Imbalance Information is updated at least every second until the Auction is conducted, unless there is no change to the information. The Exchange will begin disseminating Auction Imbalance Information at the following times:

- (1) Core Open Auction Imbalance Information will begin at 8:00 a.m. Eastern Time.
- (2) Trading Halt Auction Imbalance Information will begin at the beginning of the trading halt.

(d) Auction Process.

(1) Rotational Quote. When the Exchange receives the Auction Trigger for a series, the Exchange will send a Rotational Quote to both OPRA and proprietary data feeds indicating that the Exchange is in the process of transitioning from a pre-open state to continuous trading for that series.

(2) Once a Rotational Quote has been sent, the Exchange will conduct an Auction when there is both a Legal Width Quote and, if applicable, Market Maker quote with a non-zero offer in the series (subject to the Opening MMQ Timer(s) requirements in paragraph (d)(3) of this Rule). The Exchange will wait a minimum of two milliseconds after disseminating the Rotational Quote before an Auction can be conducted. Subject to the above:

(A) If there is Matched Volume that can trade at or within the Auction Collars, the Auction will result in a trade at the Indicative Match Price.

(B) If there is no Matched Volume that can trade at or within the Auction Collars, the Auction will not result in a trade and the Exchange will transition to continuous trading as described in paragraph (f) of this Rule and the Auction will



result in a quote.

(3) Opening MMQ Timers. Unless otherwise specified by Trader Update, each Opening MMQ Timer will be 30 seconds. Once the Auction Process begins, the Exchange will begin one or more Opening MMQ Timers for the Market Maker(s) assigned to a series to submit a quote with a non-zero offer, subject to the following:

(A) If there are no Market Makers assigned to a series, the Exchange will conduct an Auction in that series based on only a Legal Width Quote, without waiting for the Opening MMQ Timer to end.

(B) If there is only one Market Maker assigned to a series:

(i) The Exchange will conduct the Auction, without waiting for the Opening MMQ Timer to end, as soon as there is both a Legal Width Quote and the assigned Market Maker has submitted a quote with a non-zero offer.

(ii) If the Market Maker assigned to a series has not submitted a quote with a non-zero offer by the end of the Opening MMQ Timer and there is a Legal Width Quote, the Exchange will conduct the Auction.

(C) If there are two or more Market Makers assigned to a series:

(i) The Exchange will conduct the Auction, without waiting for the Opening MMQ Timer to end, as soon as there is both a Legal Width Quote and at least two assigned Market Makers have submitted a quote with a non-zero offer.

(ii) If at least two Market Makers assigned to a series have not submitted a quote with a non-zero offer by the end of the Opening MMQ Timer, the Exchange will begin a second Opening MMQ Timer. During the second Opening MMQ Timer, the Exchange will conduct the Auction, without waiting for the second Opening MMQ Timer to end, if there is both a Legal Width Quote and at least one Market Maker has submitted a quote with a non-zero offer.

(iii) If no Market Maker assigned to a series has submitted a quote with a non-zero offer by the end of the second Opening MMQ Timer and there is a Legal Width Quote, the Exchange will conduct the Auction.

(4) Unless otherwise specified by Trader Update, for the first ninety seconds of the Auction Process, if there is no Legal Width Quote, the Exchange will not conduct an Auction, even if there is Matched Volume. Ninety seconds after the Auction Process begins:

(A) If there is no Matched Volume and the Calculated NBBO is wider than the Legal Width Quote, is not crossed, and does not contain a zero offer, the Exchange will transition to continuous trading as described in paragraph (f) of this

Rule. In such case, the Auction is not intended to end with a trade, but it may result in a trade even if there is no Legal Width Quote if orders or quotes arrive during the period when the Exchange is evaluating the status of orders and quotes.

(i) Any time a series is opened or reopened when there is no Legal Width Quote, Market Orders and MOO Orders will not participate in the Auction and will be cancelled before the Exchange transitions to continuous trading.

(B) If the Exchange still cannot conduct an Auction under paragraph (d)(4)(A) of this Rule, the Exchange will continue to evaluate both the Calculated NBBO and interest on the Consolidated Book until the earlier of:

(i) a Legal Width Quote is established and an Auction can be conducted;

(ii) the series can be opened as provided for in paragraph (d)(4)(A);

(iii) the series is halted; or

(iv) the end of Core Trading Hours.

(5) The Exchange may deviate from the standard manner of the Auction Process, including adjusting the timing of the Auction Process in any option series or opening or reopening a series when there is no Legal Width Quote, when it believes it is necessary in the interests of a fair and orderly market.

(e) Order Processing during an Auction Processing Period. New order and quote messages received during the Auction Processing Period will be accepted but will not be processed until after the Auction Processing Period. For purposes of paragraphs (e) and (f) of this rule, an "order instruction" refers to a request to cancel, cancel and replace, or modify an order or quote. During the Auction Processing Period, order instructions will be processed as follows:

(1) An order instruction that arrives during the Auction Processing Period will not be processed until after the Auction Processing Period if it relates to an order or quote that was received before the Auction Processing Period. Any subsequent order instructions relating to such order will be rejected.

(2) An order instruction that arrives during the Auction Processing Period will be processed on arrival if it relates to an order that was received during the Auction Processing Period.

(f) Transition to Continuous Trading. After the Auction Processing Period concludes, the Exchange will transition to continuous trading as follows:

(1) Orders that are no longer eligible to trade will be cancelled.

(2) During the transition to continuous trading, order instructions will be processed as follows:

(A) An order instruction that relates to an order or quote that was received before the Auction Processing Period or that has already transitioned to continuous trading and that arrives during either the transition to continuous trading or the Auction Processing Period under paragraph (e)(1) of this Rule will be processed in time sequence with the processing of orders and quotes as specified in paragraphs (f)(3)(A) or (B) of this Rule. Any subsequent order instructions relating to such order or quote will be rejected.

(B) An order instruction that arrives during the transition to continuous trading will be processed on arrival if it relates to an order or quote that was entered during either the Auction Processing Period or the transition to continuous trading and such order or quote has not yet transitioned to continuous trading.

(3) When transitioning to continuous trading following an Auction, orders and quotes will be processed as follows:

(A) The Exchange will process Auction-eligible orders and quotes that were received before the Auction Processing Period and orders ranked Priority 3 - Non-Display Orders received before a trading halt as follows:

(i) Limit Orders and quotes will be subject to the Limit Order Price Protection, Arbitrage Check, and Intrinsic Value Check, as applicable.

(ii) Limit Orders and Market Orders will be assigned a Trading Collar.

(iii) Orders eligible to route that are marketable against Away Market Protected Quotations will route based on the ranking of such orders as set forth in Rule 6.76P-O(c).

(iv) After routing eligible orders, orders and quotes not eligible to route that are marketable against Away Market Protected Quotations will cancel.

(v) Once there are no more unexecuted orders marketable against Away Market Protected Quotations, orders and quotes that are marketable against other orders and quotes in the Consolidated Book will trade or be repriced.

(vi) Market Orders received during a pre-open state will be subject to the validation specified in Rule 6.62P-O(a)(1)(C).

(vii) The display quantity of Reserve Orders will be replenished.

(viii) The Exchange will send a quote to OPRA and proprietary data feeds representing the highest-priced bid and lowest-priced offer of any remaining unexecuted Auction-eligible orders and quotes that were received before the Auction Processing Period.

(B) Next, orders ranked Priority 3 - Non-Display Orders that were received during a pre-open state will be assigned a new working time in time sequence relative to

one another based on original entry time and will be subject to the Limit Order Price Protection, Arbitrage Check, and Intrinsic Value Check, as applicable, and if not cancelled, will be traded or repriced.

(C) Next, orders and quotes that were received during the Auction Processing Period will be assigned a new working time in time sequence relative to one another based on original entry time and will be subject to the Limit Order Price Protection, Pre-Trade Risk Controls, Arbitrage Check, Intrinsic Value Check, and validations specified in Rule 6.62P-O(a)(1)(A), as applicable, and if not cancelled, will be processed consistent with the terms of the order or quote.

(D) When transitioning to continuous trading:

(i) The display price and working price of orders and quotes will be adjusted based on the contra-side interest in the Consolidated Book or ABBO, as provided for in Rule 6.62P-O.

(ii) The display price and working price of a Day ISO will be adjusted in the same manner as a Non-Routable Limit Order until the Day ISO is either traded in full or displayed at its limit price. The display price and working price of a Day ISO ALO will be adjusted in the same manner as an ALO Order until the Day ISO ALO is either traded in full or displayed at its limit price.

(g) Order Processing During a Trading Halt. The Exchange will process new and existing orders and quotes in a series during a trading halt as follows:

(1) cancel any unexecuted quantity of orders for which the 500-millisecond Trading Collar timer has started and all resting Market Maker quotes;

(2) re-price all other resting orders on the Consolidated Book to their limit price. The repricing of a Non-Routable Limit Order, ALO Order, or Day ISO ALO to its limit price during a trading halt will not be counted toward the number of times such order may be repriced. Any subsequent repricing of such order during the transition to continuous trading is permitted as the additional repricing event as provided for in Rule 6.62P-O(e)(1)(B) and (e)(2)(C);

(3) accept and process all cancellations;

(4) reject incoming Limit Orders designated IOC or FOK;

(5) accept all other incoming order and quote messages and instructions until the Auction Processing Period for the Trading Halt Auction, at which point, paragraph (e) of this Rule will govern the entry of incoming orders, quotes, and order instructions; and

(6) disseminate a zero bid and zero offer quote to OPRA and proprietary data feeds.

(h) Whenever in the judgment of the Exchange the interests of a fair and orderly market so require, the Exchange may adjust the timing of or suspend the Auctions set forth in this Rule with prior notice to OTP Holders and OTP Firms.

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**Rule 6.65A-O. Limit-Up and Limit-Down During Extraordinary Market Volatility**

Capitalized terms used in this Rule will have the same meaning as provided for in the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS (“LULD Plan”).

(a) Treatment of Orders during a Limit State and Straddle State in the Underlying NMS stock.

- (1) The Exchange will reject Market Orders, as defined in Rule 6.62-O(a) or Rule 6.62P-O(a)(1), entered when the underlying NMS stock is either in a Limit State or a Straddle State and will notify OTP Holders of the reason for such rejection. The Exchange will cancel any resting Market Order [that is a collared order pursuant to Rule 6.60-O(a)] if the underlying NMS stock enters a Limit State or a Straddle State and will notify OTP Holders of the reason for such cancellation.
- (2) The Exchange will not elect Stop Orders, as defined in Rule 6.62-O(d)(1) or Rule 6.62P-O(d)(4), when the underlying NMS stock is either in a Limit State or a Straddle State.

(b) Market Maker Quotations. When evaluating whether a Lead Market Maker has met its market-making quoting requirement pursuant to Rule 6.37AP[B]-O(b) or a Market Maker has met its market-making quoting requirement pursuant to Rule 6.37AP[B]-O(c) in options overlying NMS stocks, the Exchange shall consider as a mitigating circumstance the frequency and duration an underlying NMS stock is in a Limit State or a Straddle State.

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**Rule 6.76-O. Order Ranking and Display - OX**

*This Rule is not applicable to trading on Pillar.*

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**Rule 6.76P-O. Order Ranking and Display**

(a) Definitions for purposes of Rule 6-O Options Trading:

- (1) “Display price” means the price at which an order or quote ranked Priority 2 - Display Orders or Market Order is displayed, which may be different from the limit price or working price of the order.

(2) "Limit price" means the highest (lowest) specified price at which a Limit Order or quote to buy (sell) is eligible to trade.

(3) "Working price" means the price at which an order or quote is eligible to trade at any given time, which may be different from the limit price or display price of the order.

(4) "Working time" means the effective time sequence assigned to an order or quote for purposes of determining its priority ranking.

(5) "Aggressing Order" or "Aggressing Quote" means a buy (sell) order or quote that is or becomes marketable against sell (buy) interest on the Consolidated Book. A resting order or quote may become an Aggressing Order or Aggressing Quote if its working price changes, the NBBO is updated, there are changes to other orders or quotes on the Consolidated Book, or when processing inbound messages.

(b) *Display*. The Exchange displays all non-marketable Limit Orders and quotes ranked Priority 2 - Display Orders, unless the order or modifier instruction specifies that all or a portion of the order is not to be displayed.

(1) Except as otherwise permitted by Rule 6.76AP-O, all non-marketable displayed interest will be displayed on an anonymous basis.

(2) The Exchange will disseminate current consolidated quotations/last sale information, and such other market information as may be made available from time to time pursuant to agreement between the Exchange and other Trading Centers, consistent with the Plan for Reporting of Consolidated Options Last Sale Reports and Quotation Information.

(3) If an Away Market locks or crosses the Exchange BBO, the Exchange will not change the display price of any Limit Orders or quotes ranked Priority 2 - Display Orders and any such orders will be eligible to be displayed as the Exchange's BBO.

(c) *Ranking*. All non-marketable orders and quotes are ranked and maintained in the Consolidated 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/quote or modifier condition.

(d) *Price*. All orders and quotes are ranked based on the working price of an order or quote. Orders and quotes to buy are ranked from highest working price to lowest working price. Orders and quotes to sell are ranked from lowest working price to highest working price. If the working price of an order or quote changes, the price priority of the order or quote changes.

(e) *Priority Categories*. At each price, all orders and quotes are assigned a priority category. If, at a price, there are no orders or quotes in a priority category, the next priority category has first priority.

(1) Priority 1 - Market Orders. Unexecuted Market Orders have priority over all other same-side orders with the same working price.

(2) Priority 2 - Display Orders. Non-marketable Limit Orders or quotes with a displayed working price have second priority.

(3) Priority 3 - Non-Display Orders. Non-marketable Limit Orders or quotes for which the working price is not displayed, including reserve interest of Reserve Orders, have third priority.

(f) Time. At each price level within each priority category, orders and quotes are ranked based on time priority.

(1) An order or quote is assigned a working time when it is first added to the Consolidated Book based on the time such order or quote is received by the Exchange.

(A) An order that is fully routed to an Away Market on arrival, per Rule 6.76AP-O(b)(1), is not assigned a working time unless and until any unexecuted portion of the order returns to the Consolidated Book.

(B) For an order that, on arrival, is partially routed to an Away Market, the portion that is not routed is assigned a working time. If any unexecuted portion of the order returns to the Consolidated Book and joins any remaining resting portion of the original order, the returned portion of the order is 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 Consolidated Book, the returned portion of the order is assigned a new working time.

(2) An order or quote is assigned a new working time if:

(A) the display price of an order or quote changes, even if the working price does not change; or

(B) the working price of an order or quote changes, unless the working price is adjusted to be the same as the display price of an order or quote.

(3) An order or quote is assigned a new working time if the size of an order or quote increases. An order or quote retains its working time if the size of the order or quote is decreased.

(g) Ranking Restrictions. The Exchange will apply ranking restrictions applicable to specific order, quote, or modifier instructions as provided for in Rule 6.62P-O.

(h) Orders Executed Manually.

(1) Floor Brokers representing orders in the Trading Crowd must comply with the

order execution and priority principles set forth in Rule 6.75-O, and with the following provisions establishing priority for bids and offers by account type:

- (A) Customer orders on the Consolidated Book, along with any bids and offers of non-Customers ranked ahead of such Customer orders on the Consolidated Book, have first priority. Multiple Customer and non-Customer orders at the same price are ranked based on time priority.
- (B) Bids and offers of OTP Holders or OTP Firms in the Trading Crowd have second priority. These bids and offers include those made by Market Makers and Floor Brokers (on behalf of orders they are representing). Priority shall be afforded to Crowd Participants in accordance with Rule 6.75-O(f).
- (C) Bids and offers of non-Customers on the Consolidated Book ranked behind any Customer orders at the same price have third priority. Such bids and offers of non-Customers will be executed based on time priority pursuant to Rule 6.76AP-O.
- (D) Notwithstanding the priority provisions otherwise applicable under subparagraph (B) above, OTP Holders relying on Section 11(a)(1)(G) of the Exchange Act and Rule 11a1-1(T) thereunder (“G exemption rule”) as an exemption must also yield priority to any equal-priced non-Customer bids or offers on the Consolidated Book.

#### **Rule 6.76A-O. Order Execution - OX**

*This Rule is not applicable to trading on Pillar.*

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#### **Rule 6.76AP-O. Order Execution and Routing**

(a) Order Execution. An Aggressing Order or Aggressing Quote in an option series that is open for trading will be matched for execution against contra-side orders or quotes in the Consolidated Book according to the price-time priority ranking of the resting interest, per Rule 6.76P-O, subject to the following.

- (1) When the execution price is equal to the NBB (NBO), and there is no displayed Customer interest in time priority at the NBBO in the Consolidated Book, the Aggressing Order or Aggressing Quote will be matched against the quote of the LMM for an amount equal to 40% of the Aggressing Order or Aggressing Quote, up to the size of the LMM’s quote (the “LMM Guarantee”).
  - (A) If an LMM has more than one quote at a price, the LMM Guarantee will be applied only to the first LMM quote in time priority.
  - (B) If an LMM is entitled to an allocation pursuant to this paragraph (a)(1) and the Aggressing Order or Aggressing Quote had an original size of five (5) contracts or fewer, then such order or quote, will be matched against the quote



of the LMM for an amount equal to 100%, up to the size of the LMM's quote.

(C) If the result of applying the LMM Guarantee is a fractional allocation of contracts, the LMM Guarantee is rounded down to the nearest contract. If the result of applying the LMM Guarantee results in less than one contract, the LMM Guarantee will be equal to one contract.

(D) After applying the LMM Guarantee, if any, the Aggressing Order or Aggressing Quote will be allocated pursuant to paragraph (a) of this Rule.

(b) Routing. Unless an order has an instruction not to route, after being matched for execution with any contra-side orders or quotes in the Consolidated Book pursuant to paragraph (a) of this Rule, marketable orders will be routed to Away Market(s).

(1) An order that cannot meet the pricing parameters of paragraph (a) of this Rule may be routed to Away Market(s) before being matched for execution against contra-side orders or quotes in the Consolidated Book.

(2) An order with an instruction not to route will be processed as provided for in Rule 6.62P-O.

(3) Any order or portion thereof that has been routed is not eligible to trade on the Consolidated Book, unless all or a portion of the order returns unexecuted.

(4) Requests to cancel an order that has been routed in whole or in part will not be processed unless and until all or a portion of the order returns unexecuted.

(c) After trading with eligible contra-side interest on the Consolidated Book and/or returning unexecuted after routing to an Away Market(s), any unexecuted non-marketable portion of an order will be ranked consistent with Rule 6.76P-O.

Commentary:

.01 The Exchange will evaluate on a quarterly basis what percentage of the volume executed on the Exchange comprised of orders for five (5) contracts or fewer that was allocated to LMMs and will reduce the size of the orders included in this provision if such percentage is over 40%.

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## **Rule 6.88-O. Directed Orders**

*This Rule is not applicable to trading on Pillar.*

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**Rule 6.90-O. Qualified Contingent Crosses**

*This Rule is not applicable to trading on Pillar.*

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**Rule 6.96-O. Operation of Routing Broker**

(a) The term “Routing Broker” means the broker-dealer affiliate of the Exchange [NYSE Arca, Inc.] and/or any other non-affiliate that acts as a facility of the Exchange for routing orders submitted to the Exchange to other Trading Centers for execution whenever such routing is required by [NYSE Arca] Exchange Rules and federal securities laws.

[(a)](b) Outbound Routing Function

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[(b)](c) Inbound Routing Function

\* \* \* \* \*

[(c)](d) Cancellation of Orders and Error Account

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