

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-95798; File No. SR-NYSE-2022-43)

September 15, 2022

Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend its Price List to Reflect the Fee for Directed Orders Routed by the Exchange to an Alternative Trading System

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (the “Act”)² and Rule 19b-4 thereunder,³ notice is hereby given that, on September 7, 2022, New York Stock Exchange LLC (“NYSE” 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 Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend its Price List to reflect the fee for Directed Orders routed by the Exchange to an alternative trading system (“ATS”). The proposed rule change is available on the Exchange’s website at www.nyse.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

1. Purpose

The Exchange proposes to amend the NYSE Price List to reflect the fee for Directed Orders routed by the Exchange to an ATS. The Exchange proposes to implement the fee change effective September 9, 2022.

Background

The Exchange operates in a highly competitive market. The Securities and Exchange Commission (“Commission”) has repeatedly expressed its preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. In Regulation NMS, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies.”⁴

While Regulation NMS has enhanced competition, it has also fostered a “fragmented” market structure where trading in a single stock can occur across multiple trading centers. When multiple trading centers compete for order flow in the same stock, the Commission has recognized that “such competition can lead to the fragmentation of order flow in that stock.”⁵

⁴ See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005) (File No. S7-10-04) (Final Rule) (“Regulation NMS”).

⁵ See Securities Exchange Act Release No. 61358, 75 FR 3594, 3597 (January 21, 2010) (File No. S7-02-10) (Concept Release on Equity Market Structure).

Indeed, cash equity trading is currently dispersed across 16 exchanges,⁶ numerous alternative trading systems,⁷ and broker-dealer internalizers and wholesalers, all competing for order flow. Based on publicly available information, no single exchange currently has more than 17% market share.⁸ Therefore, no exchange possesses significant pricing power in the execution of cash equity order flow. More specifically, the Exchange's share of executed volume of equity trades in Tapes A, B and C securities is currently has less than 12%.⁹

The Exchange believes that the ever-shifting market share among the exchanges from month to month demonstrates that market participants can move order flow, or discontinue or reduce use of certain categories of products. While it is not possible to know a firm's reason for shifting order flow, the Exchange believes that one such reason is because of fee changes at any of the registered exchanges or non-exchange venues to which a firm routes order flow.

Accordingly, competitive forces constrain exchange transaction fees because market participants can readily trade on competing venues if they deem pricing levels at those other venues to be more favorable.

Proposed Rule Change

⁶ See Cboe U.S Equities Market Volume Summary, available at https://markets.cboe.com/us/equities/market_share. See generally <https://www.sec.gov/fast-answers/divisionsmarketregmrexchangeshtml.html>.

⁷ See FINRA ATS Transparency Data, available at <https://otctransparency.finra.org/otctransparency/AtsIssueData>. A list of alternative trading systems registered with the Commission is available at <https://www.sec.gov/foia/docs/atlist.htm>.

⁸ See Cboe Global Markets U.S. Equities Market Volume Summary, available at http://markets.cboe.com/us/equities/market_share/.

⁹ See *id.*

Pursuant to Commission approval, the Exchange adopted a new order type known as Directed Orders.¹⁰ A Directed Order is a Limit Order¹¹ with instructions to route on arrival at its limit price to a specified ATS with which the Exchange maintains an electronic linkage. Under Exchange rules, the ATS to which a Directed Order is routed would be responsible for validating whether the order is eligible to be accepted, and if such ATS determines to reject the order, the order would be cancelled. Directed Orders must be designated with a Time in Force modifier of Day¹² or IOC¹³ and are eligible to be designated for the Core Trading Session¹⁴ only. Directed Orders that are the subject of this proposed rule change would be routed to OneChronos LLC (“OneChronos”).

In anticipation of the scheduled implementation of routing functionality to OneChronos,¹⁵ the Exchange proposes to amend the Price List to state that the Exchange will not charge a fee for Directed Orders routed to OneChronos. To reflect the no fee, the Exchange proposes to amend the current table under Transaction Fees. Specifically, under Routing Fee - per share, the Exchange proposes to adopt new rule text to state “No fee for a Directed Order, as defined in

¹⁰ See Rule 7.31(f)(1). See also Securities Exchange Act Release No. 95423 (August 4, 2022), 87 FR 48741 (August 10, 2022) (SR-NYSE-2022-20).

¹¹ A Limit Order is defined in Rule 7.31(a)(2) as an order to buy or sell a stated amount of a security at a specified price or better.

¹² Pursuant to Rule 7.31(b)(1), any order to buy or sell designated Day, if not traded, will expire at the end of the designated session on the day on which it was entered.

¹³ Pursuant to Rule 7.31(b)(2), a Limit Order may be designated with an Immediate-or-Cancel (“IOC”) modifier.

¹⁴ The Core Trading Session for each security begins at 9:30 am Eastern Time and ends at the conclusion of Core Trading Hours. See Rule 7.34(a)(2). The term “Core Trading Hours” 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. See Rule 1.1.

¹⁵ See https://www.nyse.com/publicdocs/nyse/notifications/trader-update/110000456275/OneChronos_August_2022_Trader_Update_Final.pdf.

Rule 7.31(f)(1), routed to OneChronos LLC” for securities priced at or above \$1.00.

Additionally, the Exchange proposes to adopt similar rule text under Transaction Fees and Credits For Tape B and C Securities. Specifically, the Exchange proposes to amend the first bullet under Routing Fees. As proposed, the first bullet would state:

- For securities at or above \$1.00, no fee for a Directed Order, as defined in Rule 7.31(f)(1), routed to OneChronos LLC; \$0.0005 per share in a NYSE American Auction; \$0.0010 per share execution in an Away Market Auction at venues other than NYSE American; \$0.0035 per share for all other executions, or \$0.0030 if the member organization has adding ADV in Tapes A, B, and C combined that is at least 0.20% of Tapes A, B and C CADV combined.

The Exchange believes that the Directed Order functionality would facilitate additional trading opportunities by offering member organizations the ability to designate orders submitted to the Exchange to be routed to OneChronos for execution. The Exchange believes the functionality could create efficiencies for member organizations that choose to use the functionality by enabling them to send orders that they wish to route to OneChronos through the Exchange by leveraging order entry protocols already configured for their interaction with the Exchange. Member organizations that choose not to utilize Directed Orders would continue to be able to trade on the Exchange as they currently do.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,¹⁶ in general, and furthers the objectives of Sections 6(b)(4) and (5) of the Act,¹⁷ in particular, because it provides for the equitable allocation of reasonable dues, fees, and other charges among its members, issuers and other persons using its facilities and does not unfairly discriminate between customers, issuers, brokers or dealers.

As discussed above, the Exchange operates in a highly fragmented and competitive market. The Commission has repeatedly expressed its preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. Specifically, in Regulation NMS, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies.”¹⁸

The Exchange believes that the ever-shifting market share among the exchanges from month to month demonstrates that market participants can shift order flow, or discontinue or reduce use of certain categories of products, in response to fee changes. Accordingly, changes to exchange transaction fees can have a direct effect on the ability of an exchange to compete for order flow.

In particular, the Exchange believes the proposed rule change is a reasonable means to incent member organizations to utilize the Directed Order functionality and evaluate its efficacy.

¹⁶ 15 U.S.C. 78f(b).

¹⁷ 15 U.S.C. 78f(b)(4) and (5).

¹⁸ See supra note 4.

The proposed routing of orders to OneChronos is provided by the Exchange on a voluntary basis and no rule or regulation requires that the Exchange offer it. Nor does any rule or regulation require market participants to send orders to an ATS generally, let alone to OneChronos. The routing of orders to OneChronos would operate similarly to the Primary Only Order already offered by the Exchange's affiliates NYSE American LLC ("NYSE American"), NYSE Arca, Inc. ("NYSE Arca"), NYSE Chicago, Inc. ("NYSE Chicago") and NYSE National, Inc. ("NYSE National") ("collectively, the "Affiliated Exchanges"). On the Affiliated Exchanges, a Primary Only Order is an order that is routed directly to the primary listing market on arrival, without being assigned a working time or interacting with interest on the order book of the exchange to which it was submitted.¹⁹

The Exchange believes its proposal equitably allocates its fees among its market participants. The Exchange believes that the proposal represents an equitable allocation of fees because it would apply uniformly to all member organizations, in that all member organizations will have the ability to designate orders submitted to the Exchange to be routed to OneChronos, and each such member organization would not be charged a fee when utilizing the new functionality. While the Exchange has no way of knowing whether this proposed rule change would serve as an incentive to utilize the new order type, the Exchange expects that a number of member organizations will utilize the new functionality because it would create efficiencies for member organizations by enabling them to send orders that they wish to route to OneChronos through the Exchange, thereby enabling them to leverage order entry protocols already configured for their interactions with the Exchange.

¹⁹ See NYSE American Rule 7.31E(f)(1); NYSE Arca Rule 7.31-E(f)(1); NYSE Chicago Rule 7.31(f)(1); NYSE National Rule 7.31(f)(1).

The Exchange believes that the proposal is not unfairly discriminatory. The Exchange believes it is not unfairly discriminatory as the proposal to not charge a fee would be assessed on an equal basis to all member organizations that use the Directed Order functionality. The proposal to not charge a fee would also enable member organizations to evaluate the efficacy of the new functionality. Moreover, this proposed rule change neither targets nor will it have a disparate impact on any particular category of market participant. The Exchange believes that this proposal does not permit unfair discrimination because the changes described in this proposal would be applied to all similarly situated member organizations. Accordingly, no member organization already operating on the Exchange would be disadvantaged by the proposed allocation of fees. The Exchange further believes that the proposed rule change would not permit unfair discrimination among member organizations because the Directed Order functionality would be available to all member organizations on an equal basis and each such participant would not be charged a fee for using the functionality.

Finally, the submission of orders to the Exchange is optional for member organizations in that they could choose whether to submit orders to the Exchange and, if they do, the extent of its activity in this regard. The Exchange believes that it is subject to significant competitive forces, as described below in the Exchange's statement regarding the burden on competition.

For the foregoing reasons, the Exchange believes that the proposal is consistent with the Act.

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

In accordance with Section 6(b)(8) of the Act,²⁰ the Exchange believes that the proposed rule change would not impose any burden on competition that is not necessary or appropriate in

²⁰ 15 U.S.C. 78f(b)(8).

furtherance of the purposes of the Act. The Exchange believes that the proposed change furthers the Commission’s goal in adopting Regulation NMS of fostering integrated competition among orders, which promotes “more efficient pricing of individual stocks for all types of orders, large and small.”²¹

Intramarket Competition. The Exchange believes the proposed amendment to its Price List would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes the proposed rule change is a reasonable means to incent member organizations to utilize the Directed Order functionality and allow member organizations to evaluate its efficacy. The Directed Order functionality would be available to all member organizations and all member organizations that use the Directed Order functionality to route their orders to OneChronos will not be charged a routing fee. The proposed routing of orders to OneChronos is provided by the Exchange on a voluntary basis and no rule or regulation requires that the Exchange offer it. Member organizations have the choice whether or not to use the Directed Order functionality and those that choose not to utilize it will not be impacted by the proposed rule change. The Exchange also does not believe the proposed rule change would impact intramarket competition as the proposed rule change would apply to all member organizations equally that choose to utilize the Directed Order functionality, and therefore the proposed change would not impose a disparate burden on competition among market participants on the Exchange.

Intermarket Competition. The Exchange operates in a highly competitive market in which market participants can readily choose to send their orders to other exchange and off-exchange venues if they deem fee levels at those other venues to be more favorable. As noted

²¹ See supra note 4.

above, the Exchange's market share of intraday trading is currently less than 12%. In such an environment, the Exchange must continually adjust its fees and rebates to remain competitive with other exchanges and with off-exchange venues. Because competitors are free to modify their own fees and credits in response, and because market participants may readily adjust their order routing practices, the Exchange does not believe its proposed fee change can impose any burden on intermarket competition.

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

The foregoing rule change is effective upon filing pursuant to Section 19(b)(3)(A)²² of the Act and subparagraph (f)(2) of Rule 19b-4²³ thereunder, because it establishes a due, fee, or other charge imposed by the Exchange.

At any time within 60 days of the filing of such proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)²⁴ of the Act to determine whether the proposed rule change should be approved or disapproved.

²² 15 U.S.C. 78s(b)(3)(A).

²³ 17 CFR 240.19b-4(f)(2).

²⁴ 15 U.S.C. 78s(b)(2)(B).

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. Please include File Number SR-NYSE-2022-43 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-NYSE-2022-43. 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-NYSE-2022-43, 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.²⁵

J. Matthew DeLesDernier,
Deputy Secretary.

²⁵ 17 CFR 200.30-3(a)(12).