

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-87761; File No. SR-NYSEAMER-2019-41)

December 16, 2019

Self-Regulatory Organizations; NYSE American LLC; Order Approving a Proposed Rule Change Regarding the Applicability and Functionality of Certain Order Types on the Exchange

I. Introduction

On October 22, 2019, NYSE American LLC (“Exchange”) filed with the Securities and Exchange Commission (“Commission”) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend its rules to clarify the applicability and functionality of certain order types on the Exchange. The proposed rule change was published for comment in the Federal Register on November 7, 2019.<sup>3</sup> The Commission received no comment letters on the proposed rule change. This order approves the proposed rule change.

II. Description of the Proposal

The Exchange proposes to amend Rule 900.3NY(Orders Defined) to clarify the applicability and functionality of certain order types. Specifically, the Exchange proposes to amend the definitions of Stop Orders, Stop Limit Orders and All-or None (“AON”) Orders, as set forth in Rule 900.3NY(d), which describes Contingency Orders or Working Orders. The Exchange states it is not proposing to change or alter any obligations, rights, policies or practices. Rather, the Exchange states that its proposal is designed to reduce potential investor

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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> See Securities Exchange Act Release No. 87442 (November 1, 2019), 84 FR 60125 (“Notice”).

confusion as to the functionality and applicability of certain order types presently available on the Exchange.<sup>4</sup>

#### Proposed Changes to Order Type Definitions

Rule 900.3NY (the “Rule”) contains certain definitions of options order types available on the Exchange. Paragraph (d) of the Rule defines Contingency Orders or Working Orders as orders that are “contingent upon a condition being satisfied or an order with a conditional or undisplayed price and/or size.” The Exchange proposes to add language regarding the handling of such orders to state that Contingency Orders and Working Orders are maintained in the Working Order File of the Consolidated Book until they are eligible for execution and/or display.<sup>5</sup> As discussed below, the Exchange also proposes to amend the definitions of Stop Orders, Stop Limit Orders and AON Orders, which are Contingency Orders/Working Orders.

Rule 900.3NY(d)(1)-(2): Stop Orders and Stop Limit Orders. A Stop Order is an order that becomes a Market Order when the market for a particular option contract reaches a specified price.<sup>6</sup> A Stop Limit Order is an order that becomes a Limit Order when the market for a particular option contract reaches a specified price.<sup>7</sup> Stop Orders and Stop Limit Orders (collectively, “Stop Orders” herein unless otherwise specified) track the price of an option and are generally used to limit losses as prices move up, in the case of buy orders, or down in the

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<sup>4</sup> See Notice, supra note 3, 84 FR at 60126.

<sup>5</sup> See Rule 900.3NY(d). See Rule 964NY(b)(2)(E) (regarding priority of orders in the Working Order File once eligible for execution and stating that such orders “do not have any priority or standing until they are eligible for execution and/or display”) and Rule 964NY(a) (providing, in relevant part, that the Exchange will display “all non-marketable limit orders in the Display Order Process, unless indicated otherwise”).

<sup>6</sup> See Rule 900.3NY(d)(1).

<sup>7</sup> See Rule 900.3NY(d)(2).

case of sell orders. In each case, the “triggering event,” which converts the order type (to a Market Order or Limit Order, as applicable) occurs once the option trades or is quoted at, or above for a buy (below for a sell), the specified stop price.<sup>8</sup> Thus, Stop Orders to buy (sell) may be triggered as the price of an option rises (falls). The current rule provides that a Stop Order to buy (sell) will be rejected if, at the time of arrival, the stop price is below (above) the bid (offer).<sup>9</sup> The Exchange proposes to modify the description of Stop Orders as follows. First, the Exchange proposes to revise the first sentence describing each order type (i.e., Rule 900.3NY(d)(1),(2)) to state that the order type converts to a Market or Limit Order, respectively - or “is triggered”- when the market for a particular option contract reaches a specified price.<sup>10</sup> The Exchange also proposes to modify Rule 900.3NY(d)(1),(2) to combine into one sentence the description of both buy and sell Stop Orders without modifying functionality. The current rule addresses buy and sell Stop Orders in two sentences and the Exchange believes the proposed change would make it easier to navigate. Specifically, proposed Rule 900.3NY(d)(1),(2) would provide that a Stop Order (or Stop Limit Order) “to buy (sell) is triggered” such that it becomes a Market Order or Limit Order, respectively, “when the option contract trades at a price equal to or greater (less) than the specified ‘stop’ price on the Exchange or another Market Center or when the Exchange bid (offer) is quoted at a price equal to or greater (less) than the stop price.”<sup>11</sup>

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<sup>8</sup> See Rule 900.3NY(d)(1),(2).

<sup>9</sup> Id.

<sup>10</sup> See proposed Rule 900.3NY(d)(1), (2).

<sup>11</sup> See proposed Rule 900.3NY(d)(1), (2). Consistent with this proposed change to address both buy and sell Stop Orders and Stop Limit Orders in one sentence, the Exchange proposes to delete as unnecessary the sentences in the current definitions that describe the functionality for sell Stop Orders and sell Stop Limit Orders. See id.

The Exchange also proposes to address the display and standing of each type of Stop Order for which information is currently contained only in paragraph (d)(1) of Rule 900.3NY.<sup>12</sup> Specifically, the Exchange proposes to modify its rules to reflect that each type of Stop Order “is not displayed and has no standing in any Order Process in the Consolidated Book, unless or until it is triggered (i.e., same-side incoming interest trades or quotes at a price equal to or better than the stop price).”<sup>13</sup> The Exchange additionally proposes to add new rule text to clarify that “[a]fter the triggering event,” a Stop Order (per Rule 900.3NY(d)(1)) becomes a new Market Order, and a Stop Limit Order (per Rule 900.3NY(d)(2)) becomes a new Limit Order, and each converted order is processed accordingly.<sup>14</sup>

Finally, the Exchange proposes to delete the last two sentences in the description of each type of Stop Order, which provides for the rejection of such orders to buy (sell) if entered with a stop price below the bid (or above the offer). The Exchange states that this language is not accurate because the Exchange does not reject Stop Orders so priced, but instead would execute such orders once triggered.<sup>15</sup> This proposed change would reflect current Exchange functionality.<sup>16</sup>

Rule 900.3NY(d)(4): AON Orders. An AON Order is a Market or Limit Order that is to

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<sup>12</sup> See Rule 900.3NY(d)(1) (which provides that “Stop Orders (including Stop Limit Orders) shall not have standing in any Order Process in the Consolidated Book and shall not be displayed”).

<sup>13</sup> See proposed Rule 900.3NY(d)(1), (2). The Exchange notes that this proposed text modifies the existing text in paragraph (d)(1) and is new text for paragraph (d)(2) of the Rule. See *id.*

<sup>14</sup> See proposed Rule 900.3NY(d)(1), (2). See also Rule 900.3NY(a), (b) (defining Market Order and Limit Order, respectively).

<sup>15</sup> See Notice, *supra* note 3, 84 FR at 60126.

<sup>16</sup> See proposed Rule 900.3NY(d)(1), (2).

be executed in its entirety or not at all.<sup>17</sup> The Exchange proposes to make clear that an AON Order that does not execute on arrival will not be displayed or routed to another Market Center (i.e., AON Orders may only be executed on the Exchange) and would have no standing in any Order Process in the Consolidated Book.<sup>18</sup> Further, the Exchange proposes to clarify that AON Orders are not eligible to execute against incoming interest but rather may execute solely against interest resting in the Consolidated Book when sufficient size is available.<sup>19</sup> Finally, the Exchange proposes to specify that the System monitors the Consolidated Book for AON Order execution opportunities.<sup>20</sup>

### III. Discussion and Commission's Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act<sup>21</sup> and the rules and regulations thereunder applicable to a national securities exchange.<sup>22</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>23</sup> which requires, among other things, that the rules of a national securities exchange be designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national

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<sup>17</sup> See Rule 900.3NY(d)(4).

<sup>18</sup> See proposed Rule 900.3NY(d)(4). See also Rule 964NY(b)(2)(E) (regarding priority orders in the Working Order File and noting that such orders (i.e., AON Orders) have no priority or standing until eligible for execution and/or display).

<sup>19</sup> See proposed Rule 900.3NY(d)(4).

<sup>20</sup> See id.

<sup>21</sup> 15 U.S.C. 78(f).

<sup>22</sup> In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>23</sup> 15 U.S.C. 78f(b)(5).

market system and, in general, to protect investors and the public interest, and not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Commission notes that the Exchange represents it is not proposing to change or alter any obligations, rights, policies or practices. The Commission notes that the proposal would delete inaccurate language regarding Stop Orders and clarify the descriptions regarding the functionality of Contingency Orders, Working Orders, Stop Orders, and AON Orders. In addition, the proposal would make organizational and non-substantive changes to the rule text. The Commission believes this should add transparency and clarity to the Exchange's rules, without altering current functionality, to the benefit of investors, market participants, and the public in general.

For the reasons discussed above, the Commission believes that the proposed rule change is consistent with the Act.

#### IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>24</sup> that the proposed rule change (SR-NYSEAMER-2019-41) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>25</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>24</sup> 15 U.S.C. 78s(b)(2).

<sup>25</sup> 17 CFR 200.30-3(a)(12).