

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-88740; File No. SR-NYSEAMER-2020-29)

April 24, 2020

Self-Regulatory Organizations; NYSE American LLC; Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 2, to Modify Rule 967NY Regarding the Treatment of Orders Subject to Trade Collar Protection

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 April 9, 2020, NYSE American LLC (“NYSE American” 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. On April 22, 2020, the Exchange filed Amendment No. 1 to the proposed rule change. On April 23, 2020, the Exchange withdrew Amendment No. 1 and filed Amendment No. 2 to the proposed rule change, which superseded and replaced the proposed rule change in its entirety. The Commission is publishing this notice to solicit comments on the proposed rule change, as modified by Amendment No. 2, from interested persons.

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

The Exchange proposes to modify Rule 967NY (Price Protection - Orders) regarding the treatment of orders subject to Trade Collar Protection. This Amendment No. 2 supersedes Amendment No. 1 and the original filing (SR-NYSEAMER-2020-29) in its entirety. The

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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.

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.

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 modify Rule 967NY(a) regarding the treatment of orders subject to Trade Collar Protection.

The Exchange has in place various price check features, including Trade Collar Protection, that are designed to help maintain a fair and orderly market.<sup>4</sup> The Exchange proposes to modify its rule regarding Trading Collars (i.e., Rule 967NY(a) or the “Rule”) to modify functionality and to adopt an enhancement to the operation of the Trading Collars.

Overview of Trading Collar Functionality

Trading Collars mitigate the risks associated with orders sweeping through multiple price points (including during extreme market volatility) and resulting in executions at prices that are

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<sup>4</sup> Per Rule 967NY(a)(2), Trading Collars are determined by the Exchange on a class-by-class basis and, unless announced otherwise via Trader Update, are the same value as the bid-ask differential guidelines established pursuant to Rule 925NY(b)(4). Per Rule 967NY(a)(3), Trade Collar Protection does not apply to quotes or to order types that have contingencies, namely, IOC, NOW, AON and FOK orders.

potentially erroneous (i.e., because they are away from the last sale price or best bid or offer). By applying Trading Collars to incoming orders, the Exchange provides an opportunity to attract additional liquidity at tighter spreads and it “collars” affected orders at successive price points until the bid and offer are equal to the bid-ask differential guideline for that option, i.e., equal to the Trading Collar. Similarly, by applying Trading Collars to partially executed orders, the Exchange prevents the balance of such orders from executing away from the prevailing market after exhausting interest at or near the top of book on arrival.

The Exchange applies Trade Collar Protection to incoming Market Orders and marketable Limit Orders (collectively, “Marketable Orders”; and each a “collared order”) if the width of the NBBO is greater than one Trading Collar.<sup>5</sup> The Exchange applies Trade Collar Protection to the balance of Marketable Orders to buy (sell) that would execute at a price that exceeds the NBO (NBB) plus one Trading Collar.<sup>6</sup> Incoming collared orders are assigned a collar execution price<sup>7</sup> and are eligible to trade against contra-side interest priced equal to its collar execution price or at prices within one Trading Collar above (for buy orders) or below (for sell orders) the collar execution price (the “Collar Range”).<sup>8</sup>

The display price of a collared order is determined once such order has traded with any contra-side interest within the Collar Range. Pursuant to Rule 967NY(a)(5), a Market Order that does not trade on arrival is displayed at its collar execution price; whereas the display price of

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<sup>5</sup> See Rule 967NY(a)(1)(A) (under the heading “Types of collared orders”) and (a)(1)(A)(i),(ii).

<sup>6</sup> See Rule 967NY(a)(1)(A)(ii).

<sup>7</sup> The collar execution price depends upon the order type (Market or Limit) and whether (when the order arrives) the Exchange is already in receipt of another order being collared. See e.g., Rule 967NY(a)(4)(A)-(C).

<sup>8</sup> See Rule 967NY(a)(4)(D).

the balance of a partially executed Marketable Order collared pursuant to paragraph (a)(1)(B) of the Rule, depends upon eligible contra-side interest.<sup>9</sup> Specifically, per paragraph (a)(5)(A) of the Rule, if the collared order has traded against all contra-side interest within the Collar Range, the order would be displayed at the most recent execution price.<sup>10</sup> If, however, there is contra-side interest priced within one Trading Collar of the most recent execution price, per paragraph (a)(5)(B) of the Rule, the order to buy (sell) would be displayed at the higher (lower) of its assigned collar execution price or the best execution price of the order that is both within the Collar Range and at least one Trading Collar away from the best priced contra-side trading interest (i.e., lowest sell interest for collared buy orders/highest buy interest for collared sell orders).<sup>11</sup>

The Rule also enumerates circumstances under which a collared order may be repriced as a result of certain updates to market interest.<sup>12</sup> Relevant to this filing is that a collared order to buy (sell) would “be assigned a new collar execution price one Trading Collar above (below) the current displayed price of the collared order and processed at the updated price consistent with paragraphs (a)(4)(D) and (a)(5) above,” after the “expiration of one second and absent an update to the NBBO” (the “One-Second Collar Reprice Provision”).<sup>13</sup>

#### Proposed Modifications to Trading Collar Functionality

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<sup>9</sup> See Rule 967NY(a)(5).

<sup>10</sup> See Rule 967NY(a)(5)(A).

<sup>11</sup> See Rule 967NY(a)(5)(B).

<sup>12</sup> See Rule 967NY(a)(6)(A)-(C).

<sup>13</sup> See Rule 967NY(a)(6)(C). The Exchange notes, however, that “if the collared order is a Market Order to sell that has reached \$0.00, it will not be assigned a new collar execution price but will be posted in the Consolidated Book at its MPV (e.g., \$0.01 or \$0.05).” See id.

The Exchange proposes to make a number of changes to the Trading Collar functionality that would simplify its operation and would provide order senders more certainty about the handling of orders submitted to the Exchange.

First, the Exchange proposes to modify the treatment of incoming Market Orders received when the width of the NBBO is greater than one Trading Collar (i.e., a “wide market”) and there is an existing contra-side collared order. Currently, an incoming market order would immediately execute against the contra-side collared order, which may result in a bad fill for the order sender. As proposed, the Exchange would reject Market Orders to buy (sell) received in a wide market if there is already a collared Marketable Order to sell (buy).<sup>14</sup> In other words, if there is a collared Marketable Order on one side of the market (e.g., buy), and then, during a wide market, the Exchange receives a Market Order on the other side of the market (e.g., sell), it would reject that later-arriving sell Market Order thereby preventing the execution of the order at a potentially erroneous price.

The Exchange believes this proposed change would allow the collared order to continue to seek liquidity while providing the latter-arriving, contra-side order protection from execution in a wide market. The Exchange believes that rejecting the second Market Order rather than collaring it while there is already a collared order on the contra-side would provide greater opportunity for the collared order to receive execution opportunities.

Second, the Exchange proposes to modify the Trading Collar to adopt a single standard for the display price of Marketable Orders. As described above, currently the display price of a collared Marketable Order could be based on either the available contra-side trading interest

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<sup>14</sup> See proposed Rule 967NY(a)(1)(B) (under heading, “Condition preventing collaring of incoming order”).

within (or outside of) one Trading Collar or the Collar Range of the collared order. Instead, the Exchange proposes to amend the operation of the collar so that the display price would be the last execution price of the collared order. To effect this change, the Exchange proposes to amend Rule 967NY(a)(5) to provide that “[a]fter trading against all available interest within the Collar Range, the Marketable Order to buy (sell) that is subject to Trade Collar Protection pursuant to paragraph (a)(1)(B) above will display at its current collar execution price,” signaling the most recent indications of market interest to buy (sell).<sup>15</sup> The rule would continue to provide that each collared order is displayed at the Minimum Price Variation (“MPV”) for the option, pursuant to Rule 960NY (Trading Differentials).<sup>16</sup> The Exchange believes this proposed rule change would simplify the method of selecting the display price (i.e., the current collar execution price) thereby enabling investors to gauge market interest, and would also provide additional clarity to the operation of the functionality and provide more certainty for order senders.

Third, the Exchange proposes to clarify the One-Second Collar Reprice Provision to define the circumstances that qualify for an “Expiration” under this section of the Rule. This current Rule is silent as to the impact of any portion of the collared order routing to an away market as well as which side of the NBBO needs to update during the one- second time period. To provide additional detail, the Exchange proposes to modify the first sentence of the One-Second Collar Reprice Provision to delete the clause “upon the expiration of one second and absent an update to the NBBO” and replace it with rule text providing that “a collared order is subject to expiration if it displays without executing, routing, or repricing and there is no update

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<sup>15</sup> Because the modified rule text would cover “[a] Market Order that does not trade on arrival,” the Exchange proposes to delete this sentence. See proposed Rule 967NY(a)(5).

<sup>16</sup> See id. (providing that “[c]ollared orders are displayed at the MPV for the option, pursuant to Rule 960NY (Trading Differentials)”).

to the same-side NBBO price for a period of at least one second” and to define such occurrences as an Expiration.<sup>17</sup> The proposed modification makes clear that any such routing or same-side NBBO updates would restart the one-second timer for repricing purposes. Collared orders subject to conditions that qualify as a proposed Expiration would be repriced as set forth in current Rule.<sup>18</sup> The Exchange believes adding this information to the Rule would add transparency, clarity and internal consistency to Exchange rules.

Finally, in connection with the concept of an Expiration, the Exchange proposes to add new a paragraph that places a limit on the collaring of Market Orders. Specifically, as proposed, “[a] Market Order that is collared will cancel after it is subject to a specified number of Expirations, to be determined by the Exchange and announced by Trader Update.”<sup>19</sup> The Exchange believes this would simplify the operation of the functionality and provide more certainty for order senders.

### Implementation

The Exchange will announce the implementation of this rule change in a Trader Update to be published no later than 60 days following the approval date of this rule.

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b)<sup>20</sup> of the Act, in general, and furthers the objectives of Section 6(b)(5),<sup>21</sup> in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade,

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<sup>17</sup> See proposed Rule 967NY(a)(6)(C).

<sup>18</sup> See Rule 967NY(a)(6)(C).

<sup>19</sup> See proposed Rule 967NY(a)(6)(C)(i).

<sup>20</sup> 15 U.S.C. 78f(b).

<sup>21</sup> 15 U.S.C. 78f(b)(5).

to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanisms of a free and open market and a national market system.

Overall, the proposed changes to the Trading Collar functionality would promote just and equitable principles of trade as well as protect investors and the public interest because collared orders would continue to be handled in a fair and orderly manner, as described above.

The proposed modifications and clarifications would remove impediments to and perfect the mechanism of a free and open market and a national market system by simplifying the Trading Collar functionality by rejecting incoming Market Orders received in a wide market when a contra-side order is already being collared and standardizing the selection of the display price, defining the concept of an Expiration, and placing a limit on the number of Expirations that a collared Market Order endures before being canceled back to the order sender.

The Exchange believes the proposal to reject incoming Market Orders when there is a contra-side collared order would allow the collared order to continue to seek liquidity while providing the latter-arriving, contra-side order protection from execution in a wide market -- which could be indicative of unstable market conditions or market dislocation thereby helping to remove impediments to and perfect the mechanism of a free and open market and a national market system. The Exchange believes that rejecting the second order (i.e., the Market Order) rather than collaring it while there is already a collared order on the contra-side would provide greater opportunity for the collared order to receive execution opportunities, which would help remove impediments to and perfect the mechanism of a free and open market and a national market system.



The Exchange believes that the proposal to streamline the manner in which it selects the display price of a collared order (i.e., the current collar execution price) would provide order senders with more certainty as to the handling of their orders as well as enable them to gauge indications of market interest. The current selection of the display price is dependent upon various factors and results in the collared order being displayed a one of three potential prices: the most recent execution price, the best execution price, or the collar execution price. Thus, the proposed simplified standard for selecting the display price would help to remove impediments to and perfect the mechanism of a free and open market and a national market system.

The Exchange also believes that the concept of an Expiration and the accompanying change to limit the number of Expirations per collared Market Order would improve the operation of the Trading Collar functionality because cancelling back Market Orders that have persisted for a certain number of Expirations, which could be indicative of unstable market conditions, should provide order senders more certainty of the handling of such orders and help avoid such orders receiving bad executions in times of market dislocation. Thus, this proposal would help remove impediments to and perfect the mechanism of a free and open market and a national market system.

Finally, the Exchange believes that the proposed rule would remove impediments to and perfect the mechanism of a free and open market by clarifying and enhancing the operation of the Trading Collar functionality -- which is designed to mitigate the risk of orders sweeping through multiple price points and executing at potentially erroneous prices -- as the proposed rule would continue to protect investors from receiving bad executions away from prevailing market prices. The Exchange notes that Trading Collar functionality is not new or novel and is available

on other options exchanges.<sup>22</sup> Thus, this proposal would foster cooperation and coordination with persons engaged in facilitating transactions in securities, and remove impediments to and perfect the mechanism of a free and open market and a national market system.

### Technical Changes

The Exchange notes that the proposed technical changes to the text regarding the selection of the display price would provide clarity and transparency to Exchange rules and would remove impediments to, and perfect the mechanism of, a free and open market and a national market system by making the Exchange rules easier to navigate and comprehend.

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

The Exchange does not believe that this proposed rule change would impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. Instead, the Exchange believes the proposal provides modifications and enhancements to the Trading Collars that provide market participants with protection from anomalous executions. Thus, the Exchange does not believe the proposal creates any significant impact on competition.

The proposed enhancements to the Trading Collars would streamline the operation of the Trading Collars thereby further protecting investors against the execution of orders at erroneous prices. As such, the proposal does not impose any burden on competition. To the contrary, the Exchange believes that the proposed clarifications and enhancements may foster more competition. Specifically, the Exchange notes that it operates in a highly competitive market in

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<sup>22</sup> See, e.g., NASDAQ Options Market ("NOM") and NASDAQ OMX BX ("BX"), Options 3, Section 15 (Risk Protections) (b)(1), Acceptable Trade Range (setting forth the risk protection feature for quotes and orders, which prevents executions (partial or otherwise) of orders beyond an "acceptable trade range" (as calculated by the exchange) and when an order (or quote) reaches the limits of the "acceptable trade range", it posts for a period not to exceed one second and recalculated a new "acceptable trade range").

which market participants can readily favor competing venues. The Exchange's proposed rule change would enhance its ability to compete with other exchanges that already offer similar trading collar functionality by eliminating complexity while at the same time maintaining the core functionality.<sup>23</sup> Thus, the Exchange believes that this type of competition amongst exchanges is beneficial to the market place as a whole as it can result in enhanced processes, functionality, and technologies. The Exchange further believes that because the proposed rule change would be applicable to all ATP Holders it would not impose any burden on intra-market competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

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:

- (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, as modified by Amendment No. 2, is

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<sup>23</sup> See id.

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-NYSEAMER-2020-29 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-NYSEAMER-2020-29. 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, D.C. 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-NYSEAMER-2020-29 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>24</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>24</sup> 17 CFR 200.30-3(a)(12).