SECURITIES AND EXCHANGE COMMISSION
Release No. 34-87316; File No. SR-NYSEArca-2019-58

October 16, 2019

Self-Regulatory Organizations; NYSE Arca, Inc.; Order Approving a Proposed Rule Change to Modify Rules 6.60-O and 6.65A-O Regarding the Treatment of Orders Subject to Trade Collar Protection

I.   Introduction

On August 21, 2019, NYSE Arca, Inc. ("NYSE Arca" or the "Exchange") filed with the

Securities and Exchange Commission (the "Commission"), pursuant to Section 19(b)(1)[1] of the

Securities Exchange Act of 1934 (the "Act")[2] and Rule 19b-4 thereunder,[3] a proposed rule

change to modify Exchange Rules 6.60-O and 6.65A-O regarding the treatment of orders subject

to Trade Collar Protection. The proposed rule change was published for comment in the Federal

Register on September 4, 2019.[4] The Commission received no comments on the proposal. This

order approves the proposed rule change.

II.   Description of the Proposal

The Exchange states that it proposes to modify Rule 6.60-O(a) to clarify existing

functionality and to adopt enhancements to the operation of the Trading Collars.[5] The Exchange

applies Trade Collar Protection to incoming orders. As described more fully in the Notice, the

Exchange states that Trading Collars[6] mitigate the risks associated with orders sweeping through

---

1   15 U.S.C.78s(b)(1).

2   15 U.S.C. 78a.

3   17 CFR 240.19b-4.

4   Securities Exchange Act Release No. 86788 (August 28, 2019), 84 FR 46593 (September 4, 2019) ("Notice").

5   See Notice, supra note 4, at 46594.

6   "Trading Collars" are determined by the Exchange on a class-by-class basis and, unless announced otherwise via Trader Update, are the same value as the bid-ask differential guidelines established pursuant to Rule 6.37-O(b)(4). See Rule 6.60(a)(2).

multiple price points (including during extreme market volatility) and resulting in executions at prices that are potentially erroneous.[7] According to the Exchange, by applying Trading Collars to incoming orders, the Exchange provides an opportunity to attract additional liquidity at tighter spreads and it "collars" affected orders at successive price points until the bid and offer are equal to the bid-ask differential guideline for that option (i.e., equal to the Trading Collar).[8] Similarly, by applying Trading Collars to partially executed orders, the Exchange states that it prevents the balance of such orders from executing away from the prevailing market after exhausting interest at or near the top of book on arrival.[9]

Current Rule 6.60-O(a)(1)(i) states that Trade Collar Protection prevents the "immediate execution" of incoming market orders when the difference between the National Best Offer ("NBO") and the National Best Bid ("NBB") is greater than one Trading Collar. Rule 6.60-O(a) currently states that Trade Collar Protection would apply to any unexecuted portion of a marketable limit order. The Exchange proposes to modify Rule 6.60-O(a) to make clear that Trade Collar Protection may also be applied to marketable limit orders on arrival. The Exchange asserts that this proposed change would clarify how Trade Collar Protection currently operates, and that the Exchange would continue to apply Trade Collar Protection to the balance of Marketable Orders[10] consistent with the current rule.[11]

The Exchange also proposes to modify the current Rule 6.60-O(a)(3), which currently states that order types that have contingencies, namely, IOC, NOW, AON, and FOK orders,

---

[7]   See Notice, supra note 4, at 46594.

[8]   See id.

[9]   See id.

[10]   "Marketable Orders" are defined as incoming market orders and marketable limit orders under the proposed rule. See proposed Rule 6.60-O(a)(1)(A).

[11]   See Notice, supra note 4, at 46594.

would receive an "immediate execution." The proposed modifications would clarify that such incoming orders would "receive an execution, depending upon the availability of an execution pursuant to the terms of those orders."[12]

In addition, the Exchange proposes to modify current Rule 6.60-O(a)(4) to make clear that when Marketable (as opposed to just market) Orders are subject to Trade Collar Protection, the Exchange will limit the "execution and/or routing" of such orders.[13] The Exchange also proposes to make clear that this provision relates to "incoming" Marketable Orders as opposed to the balance thereof.[14]

Proposed Rule 6.60-O(a)(4)(A) would provide that "[a] Market Order to buy (sell) received when there is already a collared order to buy (sell) will join that collared order and be processed consistent with paragraphs (a)(4)(C) - (a)(6)," which the Exchange states reflects current functionality.[15] The Exchange also proposes Rule 6.60-O(a)(4)(B) to specify that collared orders will be assigned a "collar execution price," which 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.[16] Current Rule 6.60-O(a)(4)(A) covers collared market orders to buy (sell), which would not immediately execute or route, but would be "displayed at a price equal to the NBB (NBO) plus (minus) one Trading Collar." The Exchange proposes to replace

---

[12]   See proposed Rule 6.60-O(a)(3). The Exchange believes that removing the word "immediate" would more accurately reflect the Exchange's current functionality in regards to the processing of these contingent order types, insofar as such orders will only "immediately" execute if the contingency is satisfied. See Notice, supra note 4, at 46594.

[13]   The current rule states that when a market order is subject to Trade Collar Protection, the Exchange does not "immediately execute or route such orders."

[14]   See proposed Rule 6.60-O(a)(4). See also proposed Rule 6.60-O(a)(1)(A) (making clear that incoming marketable limit orders are subject to Trade Collar Protection).

[15]   See Notice, supra note 4, at 46595.

[16]   See proposed Rule 6.60-O(a)(4).

"displayed" as used in the current rule with "assigned a collar execution price" because, according to the Exchange, once collared, the order would be eligible to immediately execute against available interest before its price is displayed.[17]

In addition, the Exchange proposes an exception to the processing of incoming market orders to buy (sell) that arrive when the NBB (NBO) is zero ("Zero NBBO Collar Exception"). Specifically, as proposed, a market order to buy entered when the NBB is $0.00 would be assigned a collar execution price equal to the NBB (i.e., $0.00) plus one Trading Collar to ensure it is collared to avoid executing at an erroneous price; whereas, a market order to sell entered when the NBO is $0.00 would be rejected as there would be no market for the incoming order.[18]

In addition, because Rule 6.60-O(a)(1)(A) has been updated to clarify that incoming marketable limit orders may be collared, the Exchange proposes to further update Rule 6.60-O(a) to address how such orders would be collared, depending upon whether the Exchange is already in receipt of a collared order.[19] Specifically, as proposed, modified Rule 6.60-O(a)(4)(C) would state that when the incoming collared order is a marketable limit order to buy (sell) and there is no other order already being collared, the order would be "assigned a collar execution price equal to the NBO (NBB)." If, however, a marketable limit order arrives when there is already an order being collared, it would join that collared order and be processed consistent with proposed Rule 6.60-O(a)(6)(B).[20] The Exchange states that this is consistent with current functionality.[21]

---

[17] See Notice, supra note 4, at 46595. The Exchange states that this is consistent with its current functionality. See id.

[18] See proposed Rule 6.60-O(a)(4)(B)(i), (ii). The Exchange believes the Zero NBBO Collar Exception would improve the operation of Trading Collars when the prevailing market is zero (indicating market dislocation) at the time an incoming market order arrives. See Notice, supra note 4, at 46595.

[19] See id.

[20] See proposed Rule 6.60-O(a)(4)(C).

The Exchange also proposes to modify the rule regarding executions of collared orders. The Exchange proposes to clarify that a collared order to buy (sell) would "trade against any contra-side interest priced equal to its collar execution price or at prices within one Trading Collar above (below) the collar execution price ("Collar Range")."[22] Consistent with proposed Rule 6.60-O(a)(4)(B),(C), the Exchange proposes to refer to the "collar execution price" (as opposed to a display price). In addition, the Exchange believes that clarifying that the collared order would execute with contra-side interest priced within a Collar Range (i.e., equal to, and up to one Trading Collar above (below) the collar execution price), provides more specificity than the current language, which states only that such order would execute against interest "within one Trading Collar" of its price.[23]

In addition, the Exchange proposes to add new paragraph (a)(4)(E) to Rule 6.60-O to codify existing functionality and make clear that the Exchange would cancel a market order, or the balance thereof, that has been collared pursuant to proposed Rule 6.60-O(a)(1)(A) or (B) 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 ("Available Interest").[24]

The Exchange also proposes to modify the rule language describing the treatment of the balance of a Marketable Order that is subject to Trade Collar Protection. Pursuant to new Rule 6.60-O(a)(5), a market order that does not trade on arrival will be displayed at its collar

---

[21]   See Notice, supra note 4, at 46595.

[22]   See proposed Rule 6.60-O(a)(4)(D).

[23]   See Notice, supra note 4, at 46595. The Exchange believes these proposed changes, which describe current functionality, would add clarity, transparency, and internal consistency to Exchange rules. See id.

[24]   See id. According to the Exchange, the absence of Available Interest, such as a market maker quote in the series, means that the Exchange would have no reliable price framework within which to evaluate the market order. See id.

execution price whereas the display price of the balance of a partially executed Marketable Order collared pursuant to proposed Rule 6.60-O(a)(1)(B), depends upon eligible contra-side interest.[25] Specifically, proposed Rule 6.60-O(a)(5)(A) would provide that 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. If, however, there is contra-side interest priced within one Trading Collar of the most recent execution price, proposed Rule 6.60-O(a)(5)(B) would provide that 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).[26]

In addition, the Exchange also proposes to add rule text to Rule 6.60-O(a)(5) to state that collared orders would be displayed at the Minimum Price Variation ("MPV") for the option, pursuant to Rule 6.72-O (Trading Differentials) which rule sets forth the minimum quoting increments for options traded on the Exchange.[27]

Current Rule 6.60-O(a)(4)(C) sets forth scenarios that would trigger the "redisplay" of a collared order. The Exchange proposes to state that the Exchange would "assign a new collar execution price" to (as opposed to redisplay) the collared order under each of the listed scenarios, as well as make other changes that conform the rule text with the changes described above.[28] In addition, the Exchange proposes to state in Rule 6.60-O(a)(6)(C) that "if the collared order is a Market Order to sell that has reached $0.00, it will not reprice but will be posted in the

---

25   See proposed Rule 6.60-O(a)(5).

26   The Exchange believes adding this information to the rule would add transparency, clarity and internal consistency to Exchange rules. See Notice, supra note 4, at 46596.

27   See proposed Rule 6.60-O(a)(5).

28   See proposed Rule 6.60-O(a)(6).

Consolidated Book at its MPV (e.g., $0.01 or $0.05)," because an order may never be posted for lower than its MPV, and the alternative to holding the order at the MPV would be to cancel it.[29]

The Exchange also proposes to clarify current Rule 6.60-O(a)(6). The Exchange states that because the current rule text does not make clear that collared orders, like non-collared orders, will be processed at each price in time priority, the Exchange proposes to clarify that such orders would be "processed in accordance with Rule 6.76-O.Order Ranking and Display — OX."[30]

The proposed rule change would also make several non-substantive technical and organizational changes to proposed Rule 6.60-O(a), such as changes to conform the numbering and lettering of the rule, as well as to update cross-references and terminology in connection with the changes described above.

Finally, the Exchange proposes to modify Rule 6.65A-O ("Limit-Up and Limit-Down During Extraordinary Market Volatility"), related to the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS ("LULD" or the "LULD Rule"). The Exchange proposes to add rule text to state that the Exchange, under existing functionality, "will cancel any Market Order that is a collared order pursuant to Rule 6.60-O(a)" if the underlying NMS stock enters an LULD State and "will notify OTP Holders of the reason for such cancellation."[31]

III.   Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national

---

[29]   See Notice, supra note 4, at 46597.

[30]   See proposed Rule 6.60-O(a)(8).

[31]   See proposed Rule 6.65A-O(a)(1).

securities exchange.[32] In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[33] which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Commission notes that the Exchange believes that the proposed changes that codify existing functionality, including how incoming marketable limit orders are collared and the cancellation of collared market orders in the absence of Available Interest or if an NMS stock enters an LULD state would add clarity, transparency and internal consistency to Exchange rules regarding the handling of orders accepted by the Exchange and make such rules easier for market participants to navigate and comprehend.[34]

In addition, the Exchange believes that the proposal to codify that the Exchange would cancel a market order or the balance thereof that has been collared once it has exhausted trading opportunities within its collar execution price plus/minus one Trading Collar if there is no Available Interest would protect investors from potentially erroneous executions.[35] Further, the Exchange believes that the proposal to codify current functionality regarding a collared order that is a market order to sell that has reached $0.00 such that the Exchange will post the order at its MPV (e.g., $0.01 or $0.05) would promote just and equitable principles of trade and assist with the maintenance of fair and orderly markets because an order may never be posted for lower

---

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

[33] 15 U.S.C. 78f(b)(5).

[34] See Notice, supra note 4, at 46599.

[35] See id.

than its MPV and the alternative to holding the order at the MPV would be to cancel it.[36] The

Exchange believes the proposed clarification of how such orders are handled provides the

collared order an opportunity for an execution (rather than being cancelled) and adds

transparency and internal consistency to Exchange rules.[37]

The Commission notes that the Exchange believes that the Zero NBBO Collar Exception

would improve the operation of the Trading Collar when the prevailing market is zero (which the

Exchange states indicates market dislocation) at the time an incoming market order arrives.[38] The

Exchange states that absent the proposed Zero NBBO Collar Exception, a market order to buy

(sell) that arrives when the NBB (NBO) is zero would trade based on the last sale price, if any.[39]

The Exchange notes that if there is no last sale price, the order would trade at the contra-side

NBBO which may result in a bad execution price.[40] In regards to the proposal to reject (as

opposed to collar) incoming sell orders when the NBO is zero, the Exchange believes this change

in functionality is necessary because any attempt to collar such an order would result in a

negative number. In addition, the Exchange states that it has observed that it is extremely

uncommon to have a no (zero) offer situation and believes it could be indicative of unstable

market conditions.[41] To avoid such orders receiving bad executions in times of market

dislocation, the Exchange believes it would be appropriate to reject such orders.[42]

---

[36]   See id.

[37]   See id.

[38]   See id.

[39]   See id.

[40]   See id.

[41]   See id.

[42]   See id.

The Exchange also believes that it is appropriate that the Exchange cancel a market order that is collared when an NMS stock enters an LULD state because when the underlying NMS stock enters an LULD state, there may not be a reliable underlying reference price, there may be a wide bid/ask quotation differential in the option, and there may be less liquidity in the options markets.[43] According to the Exchange, allowing a collared Market Order to execute (as opposed to cancel) in such circumstances could lead to executions at unintended prices (i.e., inferior to the NBBO), and could add to volatility in the options markets during times of extraordinary market volatility.[44] The Exchange believes that this current treatment of collared market orders provides certainty to the treatment of Market Orders during these times, and the proposal to explicitly state this treatment in the rule text adds clarity and transparency to Exchange rules, thus promoting just and equitable principles of trade and removing impediments to, and perfecting the mechanism of, a free and open market and a national market system.[45] The Exchange states that the proposed cancellation of an options order if the underlying NMS security is in an LULD state is not new or novel and is available on other options exchanges that offer similar collar functionality.[46] The Exchange believes that the proposed rule changes would add transparency and specificity to Exchange rules.[47]

---

[43]   See id.

[44]   See id.

[45]   See id.

[46]   The Exchange cites CBOE Rule 6.3A(b)(1) (LULD rule citing Rule 6.2 regarding order handling); CBOE Rule 6.2, Interpretations and Policies .07 and NASDAQ Options Market Ch. V, Sec. 3(d). However, the Exchange notes that it believes that the rules of these other exchanges do not specifically contemplate the underlying security entering an LULD state while a market order is resting on the book, because such orders typically execute on arrival. See Notice, supra note 4, at 46599.

[47]   See id.

The Commission believes that the operation of the Trade Collar Protection mechanism set forth in the proposal is consistent with the Act. In addition, the Commission believes that the revised description of this mechanism should increase transparency with respect to how the mechanism operates and enhance investors' understanding of how the mechanism may affect their orders in certain market conditions. Accordingly, the Commission believes that the proposal is reasonably designed to help prevent fraudulent and manipulative acts and practices, promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest.

IV.   Conclusion

IT IS THEREFORE ordered, pursuant to Section 19(b)(2) of the Act,[48] that the proposed rule change (SR-NYSEArca-2019-58) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[49]

Jill M. Peterson
Assistant Secretary

---

[48]   15 U.S.C. 78s(b)(2).

[49]   17 CFR 200.30-3(a)(12).