

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-100284; File No. SR-NYSEARCA-2024-47)

June 6, 2024

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rule 6.40P-O

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (“Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on May 31, 2024, NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II, 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 to amend Rule 6.40P-O (Pre-Trade and Activity-Based Risk Controls) pertaining to pre-trade risk controls to make additional pre-trade risk controls available to Entering Firms. The proposed rule 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

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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.

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 Rule 6.40P-O (Pre-Trade and Activity-Based Risk Controls) pertaining to pre-trade risk controls to make additional pre-trade risk controls available to entering Firms.<sup>4</sup>

*Background and Proposal*

In 2022, in connection with the Exchange’s migration to Pillar and to better assist OTP Holders and OTP Firms in managing their risk, the Exchange adopted Rule 6.40P-O, which included pre-trade risk controls, among other activity-based controls, wherein an Entering Firm had the option of establishing limits or restrictions on certain of its trading behavior on the Exchange and authorizing the Exchange to take action if those limits or restrictions were exceeded.<sup>5</sup>

The Exchange has recently received several requests from market participants to create an additional risk control to restrict the overall rate of orders. The Exchange notes that several of the Cboe affiliated options exchanges currently offer risk controls identical to the one proposed here.<sup>6</sup> As such, market participants are already familiar with these risk checks, such that the ones

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<sup>4</sup> The term “Entering Firm” refers to an OTP Holder or OTP Firm (including those acting as Market Makers). See Rule 6.40P-O(a)(1).

<sup>5</sup> See Securities Exchange Act Release No. 94072 (January 26, 2022), 87 FR 5592 (February 1, 2022) (Notice of Filing of Amendment No. 4 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 4) (SR-NYSEArca-2021-47). See also Securities Exchange Act Release No. 96504 (December 15, 2023), 87 FR 78166 (December 21, 2023) (immediately effective filing to adopt certain Pre-Trade Risk Controls).

<sup>6</sup> See e.g., Cboe BZX Rule 11.13, Interpretations and Policies .01 paragraph (f) and Cboe EDGX Rule 11.10, Interpretations and Policies .01 paragraph (f).

proposed by the Exchange in this filing are not novel. The Exchange notes that this rule change is modeled on the proposal recently submitted by the Exchange’s affiliate equities exchanges, including NYSE Arca, Inc. (“NYSE Arca”).<sup>7</sup>

In light of these requests, the Exchange proposes to amend Rule 6.40P-O(a)(2)(A) to add a new subparagraph (vi), which would provide that the Single Order Risk Controls available to Entering Firms would include “controls to restrict the overall rate of orders.”

As with the Exchange’s existing risk controls, use of the pre-trade risk control proposed herein would be optional. The Exchange proposes no other changes to Rule 6.40P-O or its Commentary.

*Continuing Obligations of OTP Holders Under Rule 15c3-5*

The proposed Pre-Trade Risk Controls described here are meant to supplement, and not replace, the OTP Holders’ own internal systems, monitoring, and procedures related to risk management. The Exchange does not guarantee that these controls will be sufficiently comprehensive to meet all of an OTP Holder’s needs, the controls are not designed to be the sole means of risk management, and using these controls will not necessarily meet an OTP Holder’s obligations required by Exchange or federal rules (including, without limitation, the Rule 15c3-5 under the Act<sup>8</sup> (“Rule 15c3-5”). Use of the Exchange’s Pre-Trade Risk Controls will not automatically constitute compliance with Exchange or federal rules and responsibility for compliance with all Exchange and SEC rules remains with the OTP Holder.<sup>9</sup>

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<sup>7</sup> See, e.g., SR-NYSEARCA-2024-46 (modifying NYSE Arca Rule 7.19E). The Exchange notes that several equities exchanges already offer this pre-trade risk control. See, e.g., Cboe BZX Rule 11.13 Interpretations and Policies .01 paragraph (f); Cboe BYX Rule 11.13 Interpretations and Policies .01 paragraph (f); Cboe EDGX Rule 11.10 Interpretations and Policies .01 paragraph (f); MEMX Rule 11.10, Interpretations and Policies .01 paragraph (f); and MIAX Pearl Equities Rule 2618(a)(1)(H).

<sup>8</sup> See 17 CFR 240.15c3-5.

<sup>9</sup> See also Commentary .01 to Rule 6.40P-O, which provides that the Pre-Trade Risk Controls set forth in Rule 6.40P-O “are meant to supplement, and not replace, the OTP Holder’s or OTP Firm’s own internal

### *Timing and Implementation*

The Exchange anticipates implementing the proposed change in the second quarter of 2024 and, in any event, will implement the proposed rule change no later than the end of September 2024. The Exchange will announce the timing of such changes by Trader Update.

### 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>10</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>11</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 regulating, clearing, settling, processing information with respect to, and 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, and because it is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

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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.”).

<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

Specifically, the Exchange believes that the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system because the proposed optional additional Pre-Trade Risk Control would provide Entering Firms with enhanced abilities to manage their risk with respect to orders on the Exchange. The proposed additional Pre-Trade Risk Control is not novel; they are based on existing risk settings already in place on Cboe affiliated options exchanges, and market participants are already familiar with the types of protections that the proposed risk control affords.<sup>12</sup> Moreover, the proposed pre-trade risk control is optional and, as such, Entering Firms are free to utilize this risk feature or not at their discretion. As such, the Exchange believes that the proposed additional Pre-Trade Risk Control would provide a means to address potentially market-impacting events, helping to ensure the proper functioning of the market.

In addition, the Exchange believes that the proposed rule change will protect investors and the public interest because the proposed additional Pre-Trade Risk Control is a form of impact mitigation that will aid Entering Firms in minimizing their risk exposure and reduce the potential for disruptive, market-wide events. The Exchange understands that OTP Holders implement a number of different risk-based controls, including those required by Rule 15c3-5. The controls proposed here will serve as an additional tool for Entering Firms to assist them in identifying any risk exposure. The Exchange believes the proposed additional Pre-Trade Risk Controls will assist Entering Firms in managing their financial exposure which, in turn, could enhance the integrity of trading on the securities markets and help to assure the stability of the financial system.

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<sup>12</sup> See supra note 6. This pre-trade risk control is also offered on several equities exchanges. See supra note 7.

Finally, the Exchange believes that the proposed rule change does not unfairly discriminate among the Exchange's OTP Holders because use of the proposed additional Pre-Trade Risk Control is optional and is not a prerequisite for participation on the Exchange.

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. In fact, the Exchange believes that the proposal will have a positive effect on competition because, by providing Entering Firms additional means to monitor and control risk, the proposed rule will increase confidence in the proper functioning of the markets. The Exchange believes the proposed additional Pre-Trade Risk Control will assist Entering Firms in managing their financial exposure which, in turn, could enhance the integrity of trading on the securities markets and help to assure the stability of the financial system. As a result, the level of competition should increase as public confidence in the markets is solidified.

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 Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>13</sup> and Rule 19b-4(f)(6) thereunder.<sup>14</sup> Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective

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<sup>13</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>14</sup> 17 CFR 240.19b-4(f)(6).

pursuant to Section 19(b)(3)(A) of the Act<sup>15</sup> and Rule 19b-4(f)(6) thereunder.<sup>16</sup>

A proposed rule change filed under Rule 19b-4(f)(6)<sup>17</sup> normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>18</sup> the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative delay so that the proposed rule change may become effective and operative upon filing with the Commission. The Exchange states that the proposed rule change is tied to a technological release that the Exchange plans to implement by the end of June 2024, that such release may be ready before the 30-day operative delay has elapsed, and the Exchange seeks to implement the proposed rule change without delay. The Exchange explains that the proposed rule change will assist Entering Firms in minimizing their risk exposure, which could enhance the integrity of trading on the securities markets and help to assure the stability of the financial system, and that the proposed rule change is not novel as it is based on existing risk settings already in place on other exchanges. For these reasons, and because the proposed rule change does not raise any new or novel regulatory issues, the Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. Accordingly, the Commission hereby waives the operative delay and designates the proposed rule change operative upon filing.<sup>19</sup>

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<sup>15</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>16</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

<sup>17</sup> 17 CFR 240.19b-4(f)(6).

<sup>18</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>19</sup> For purposes only of waiving the 30-day operative delay, the Commission also has considered the proposed

At any time within 60 days of the filing of the 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 to determine whether the proposed rule change should be approved or 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 (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include file number SR-NYSEARCA-2024-47 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-2024-47. This file number should be included on the subject line if email 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 (<https://www.sec.gov/rules/sro.shtml>).

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rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).



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 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-NYSEARCA-2024-47 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>20</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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<sup>20</sup> 17 CFR 200.30-3(a)(12).