SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-67252; File No. SR-NYSEArca-2012-05)

June 25, 2012

Self-Regulatory Organizations; NYSE Arca, Inc.; Order Granting Approval of Proposed Rule
Change Adding New Paragraph (cc) to NYSE Arca Options Rule 6.62 to Provide for a Post No
Preference Light Only Quotation

I.   Introduction

On May 3, 2012, NYSE Arca, Inc. ("Exchange" or "NYSE Arca") filed with the

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

Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] a proposed rule change to

add new paragraph (cc) to NYSE Arca Options Rule 6.62 to provide for a Post No Preference

Light Only Quotation ("PNPLO Quotation"). The proposed rule change was published for

comment in the Federal Register on May 11, 2012.[3] The Commission received no comments on

the proposal. This order approves the proposed rule change.

II.   Description of the Proposal

The Exchange has proposed to provide a new quotation type – the PNPLO Quotation.

The PNPLO Quotation would be an electronic Market Maker[4] quotation that, upon initial entry

into the Exchange's trading system, would only be eligible to execute against displayed liquidity

on Arca's Consolidated Book.[5] If a PNPLO Quotation, upon entry, would: (1) execute

exclusively against non-displayed liquidity on the Consolidated Book, it would be rejected; (2)

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

2   17 CFR 240.19b-4.

3   See Securities Exchange Act Release No. 66937 (May 7, 2012), 77 FR 27820 (May 11,
        2012) ("Notice").

4   See NYSE Arca Options Rule 6.32 (defining "Market Maker").

5   See new NYSE Arca Options Rule 6.62(cc); see also NYSE Arca Options Rule
        6.1(b)(37) (defining "Consolidated Book").

execute against both displayed and non-displayed liquidity on the Consolidated Book, it would

immediately execute against such displayed liquidity, but not against the non-displayed liquidity,

and any remaining size would be rejected; (3) execute exclusively against displayed liquidity on

the Consolidated Book, it would immediately execute and any remaining size would be placed

on the Consolidated Book and treated as a standard Market Maker quotation; and (4) not execute

against either displayed or non-displayed liquidity, it would be placed on the Consolidated Book

and treated as a standard Market Maker quotation.[6] The entry of a PNPLO Quotation would

cause the automatic removal of the pre-existing quotation(s) of a Market Maker, regardless of

whether the PNPLO Quotation is accepted or rejected by the NYSE Arca System.[7] Accordingly,

in instances where the PNPLO Quotation is rejected by the system because of the presence of

otherwise marketable non-displayed interest, the Market Maker would be required to re-enter a

quotation for purposes of satisfying any applicable quoting obligations under NYSE Arca

Options Rule 6.37B.[8]

The PNPLO Quotation may only be submitted for options in penny pilot issues.[9] On the

Exchange, penny pilot issues are subject to a make/take fee structure, under which Market

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[6]   See new NYSE Arca Options Rule 6.62(cc).

[7]   See supra note 3, at 27821.

[8]   See id.

[9]   See new NYSE Arca Options Rule 6.62(cc); see also Securities Exchange Act Release
        Nos. 55156 (January 23, 2007), 72 FR 4759 (February 21, 2007) (order approving penny
        pilot program); 56568 (September 27, 2007), 72 FR 56422 (October 3, 2007) (order
        approving expansion and extension of penny pilot); 59628 (March 26, 2009), 74 FR
        15025 (April 2, 2009) (notice of extension of penny pilot); 60224 (July 1, 2009), 74 FR
        32991 (July 9, 2009) (notice of extension of penny pilot); 60711 (September 23, 2009),
        74 FR 49419 (September 28, 2009) (order partially approving expansion of penny pilot);
        61061 (November 24, 2009), 74 FR 62857 (December 1, 2009) (order partially approving
        expansion of penny pilot); 63376 (November 24, 2010), 75 FR 75527 (December 3,
        2010) (notice of extension of penny pilot); 65977 (December 15, 2011), 76 FR 79234
        (December 21, 2011) (notice of extension of penny pilot).

Makers receive credits for posting liquidity and incur fees for taking liquidity.[10] By preventing interactions with resting, non-displayed liquidity through use of the PNPLO Quotation, Market Makers in penny pilot issues would be able to avoid incurring unexpectedly the fees associated with such interactions. The Exchange notes that this is desirable for Market Makers because it is difficult for them to account for this risk of interacting with non-displayed liquidity in their quoting models.[11]

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 securities exchange.[12] In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[13] 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 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 not be designed to permit unfair discrimination between customers, issuers, brokers or dealers.

The Exchange noted that the quoting algorithms of Market Makers may not be able to account accurately for the risk of interacting with resting, non-displayed liquidity in penny pilot

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[10]   See supra note 3, at 27821.

[11]   See id.

[12]   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).

[13]   15 U.S.C. 78f(b)(5).

issues and the related take fees. The Exchange represents that this challenge may result in

Market Makers widening their quotes in penny pilot classes.[14] The Exchange further represents

that use of the PNPLO Quotation should allow Market Makers to better control their execution

costs by avoiding unexpected take fees related to executions with resting, non-displayed liquidity

in penny pilot issues. This cost certainty, according to the Exchange, could lead to narrower

quote widths in penny pilot issues, thereby improving the Exchange's market and benefiting

investors. Additionally, if the PNPLO Quotation is rejected by the NYSE Arca system because

of the presence of otherwise marketable non-displayed interest, the Market Maker would be

required to re-enter a quotation for purposes of satisfying any applicable quoting obligations

under NYSE Arca Options Rule 6.37B. For these reasons, the Commission believes that the

proposed PNPLO Quotation is consistent with Section 6(b)(5) of the Exchange Act as it is

designed to remove impediments to and perfect the mechanisms of a free and open market and a

national market system, and in general to protect investors and the public interest.

The Commission also believes that the proposed rule change is not unfairly

discriminatory. Currently, market participants including Market Makers can achieve

functionality similar to the PNPLO Quotation through use of the PNP-Light Order, which is a

non-routable order type that is only eligible to execute against displayed liquidity.[15] The

Exchange is proposing a similar functionality for use by Market Makers when quoting. The

PNPLO Quotation would be available for use by all Market Makers quoting in the penny pilot

classes on the Exchange.[16]

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14   See supra note 3, at 27821.

15   See NYSE Arca Options Rule 6.62(v).

16   See supra note 3, at 27821.

IV.   Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[17] that the

proposed rule change (SR-NYSEArca-2012-05) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated

authority.[18]

Kevin M. O'Neill
Deputy Secretary

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[17]   15 U.S.C. 78s(b)(2).

[18]   17 CFR 200.30-3(a)(12).