

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–80268; File No. SR–NYSEMKT–2017–05]

### Self-Regulatory Organizations; NYSE MKT LLC; Notice of Designation of Longer Period for Commission Action on Proposed Rule Change Amending Rules 7.29E and 1.1E To Provide for a Delay Mechanism

March 17, 2017.

On January 27, 2017, NYSE MKT LLC (the “Exchange” or “NYSE MKT”) 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 Rules 7.29E and 1.1E to provide for an intentional delay to specified order processing. The proposed rule change was published for comment in the *Federal Register* on February 15, 2017.<sup>3</sup> The Commission has received two comment letters on the proposal.<sup>4</sup>

Section 19(b)(2) of the Act<sup>5</sup> provides that within 45 days of the publication of notice of the filing of a proposed rule change, or within such longer period up to 90 days as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or as to which the self-regulatory organization consents, the Commission shall either approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether the proposed rule change should be disapproved. The 45th day for this filing is April 1, 2017.

The Commission is extending the 45-day time period for Commission action on the proposed rule change. The Commission finds that it is appropriate to designate a longer period within which to take action on the proposed rule change so that it has sufficient time to consider and take action on the Exchange’s proposed rule change.

Accordingly, pursuant to Section 19(b)(2) of the Act<sup>6</sup> and for the reasons stated above, the Commission designates May 16, 2017, as the date by

which the Commission shall either approve or disapprove, or institute proceedings to determine whether to disapprove, the proposed rule change (File No. SR–NYSEMKT–2017–05).

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>7</sup>

**Eduardo A. Aleman,**  
Assistant Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–80274; File No. SR–ISE–2017–27]

### Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to “Tick-Worse” Functionality

March 17, 2017.

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> notice is hereby given that on March 15, 2017, the International Securities Exchange, LLC (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. 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 (i) request the decommission of “Tick-Worse” functionality and (ii) amend Rule 713 (Priority of Quotes and Orders) relating to the priority of split price transactions.

The text of the proposed rule change is available on the Exchange’s Web site at [www.ise.com](http://www.ise.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 Exchange 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 these 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 aspects of such statements.

#### A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

##### 1. Purpose

The purpose of the proposed rule change is to (i) decommission the “Tick-Worse” functionality and (ii) amend Rule 713 (Priority of Quotes and Orders) as it relates to the priority of split price transactions. The proposed changes are discussed below.

##### “Tick-Worse” Functionality

The Exchange currently provides market makers<sup>3</sup> with Tick-Worse functionality, which allows market makers to pre-define the prices and sizes at which the system will automatically move their quotation following an execution that exhausts the size of their existing quotation.<sup>4</sup> As such, when a market maker’s quote is traded out, it can be automatically reinstated into the Exchange’s order book at the next best price.<sup>5</sup> This optional feature is intended to help market makers meet their continuous quoting obligations under the Exchange’s rules<sup>6</sup> when their displayed

<sup>3</sup> The term “market makers” refers to “Competitive Market Makers” and “Primary Market Makers” collectively. See Rule 100(a)(25).

<sup>4</sup> Tick-Worse functionality is not currently memorialized in the Exchange’s rulebook. In addition, the Exchange will not offer Tick-Worse on the new Nasdaq INET system going forward. On September 30, 2004, International Securities Exchange, LLC (“ISE”) filed with the Commission a proposal to codify this functionality in its rulebook, but inadvertently deleted the rule as obsolete rule text in a subsequent proposal filed on December 21, 2012. See Securities Exchange Act Release No. 51050 (January 18, 2005), 70 FR 3758 (January 26, 2005) (SR–ISE–2004–31); Securities Exchange Act Release No. 68570 (January 3, 2013), 78 FR 1901 (January 9, 2013) (SR–ISE–2012–82).

<sup>5</sup> Market makers may choose to set Tick-Worse parameters by specifying how many price ticks back, and for what size, the quote is to be reinstated.

<sup>6</sup> Specifically, Primary Market Makers (“PMMs”) are required under Rule 804(e)(1) to enter quotations in all of the series listed on the Exchange of the options classes to which they are appointed on a daily basis. Supplementary Material .01 to Rule 804 further requires PMMs to quote 90% of the time their assigned options class is open for trading on the Exchange. As provided in Rule 804(e)(2), Competitive Market Makers (“CMMs”) are not required to enter quotations in the options class to which they are appointed, but in the event a CMM does initiate quoting, such CMM is generally required to quote 60% of the time its

<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. 79998 (February 9, 2017), 82 FR 10828.

<sup>4</sup> See Letters to Brent J. Fields, Secretary, Commission, from John Ramsay, Chief Market Policy Officer, Investors Exchange LLC, dated March 10, 2017; and Tyler Gellasch, Executive Director, Healthy Markets Association, dated March 10, 2017.

<sup>5</sup> 15 U.S.C. 78s(b)(2).

<sup>6</sup> 15 U.S.C. 78s(b)(2).

<sup>7</sup> 17 CFR 200.30–3(a)(31).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b–4.

quotations are exhausted. When a market maker's quote is traded out and automatically reinstated into the Exchange's order book using the Tick-Worse functionality, the reinstated quote will be given priority pursuant to the Exchange's split price priority rule as discussed below.

Due to the lack of demand for the Tick-Worse feature, the Exchange proposes to decommission the use of this functionality as it migrates symbols to INET no later than in July 31, 2017.<sup>7</sup> As discussed above, the Exchange offers the Tick-Worse feature as a voluntary tool for market makers to assist them in meeting their continuous quoting obligations under the Exchange's rules. As such, market makers are not required to use the Exchange-provided functionality and can program their own systems to perform the same functions if they prefer. The Exchange has found that almost all market makers use their own systems rather than the Exchange's Tick-Worse feature to send refreshed quotations when their displayed quotations are exhausted, and therefore members have discontinued use of this functionality. Because the Tick-Worse functionality is currently not memorialized in the Exchange's rules as noted above, there is no text of the proposed rule change. The Exchange will provide advance notice to its Members through an Options Trader Alert of the intent to decommission the Tick-Worse functionality.<sup>8</sup>

#### Split Price Priority

The Exchange is proposing to delete ISE Rule 713(f), which relates to the priority of split price transactions, because this priority rule currently only applies in the context of the Tick-Worse functionality, as described above, which the Exchange proposes to decommission. The Exchange proposes to delete this rule no later than July 31, 2017, along with the decommissioning of the Tick-Worse functionality.

ISE Rule 713(f) provides that if a Member purchases (sells) one (1) or more options contracts of a particular series at a particular price, it shall at the next lower (higher) price at which there are Professional Orders or market maker quotes, have priority over such Professional Orders and market maker quotes in purchasing (selling) up to the equivalent number of options contracts

assigned options class is open for trading on the Exchange.

<sup>7</sup> Currently, this functionality is being used by one market maker on the Exchange.

<sup>8</sup> The Exchange notes that it similarly decommissioned Tick-Worse on ISE Gemini on February 21, 2017. See Market Information Circular 2017-10.

of the same series that it purchased (sold) at the higher (lower) price, but only if the purchase (sale) so effected represents the opposite side of a transaction with the same offer (bid) as the earlier purchase (sale). Although the language of Rule 713(f) is more general, the Exchange's intent was to apply split price priority solely to the Tick-Worse functionality.

#### Example:

- Primary Market Maker has opted into tick worse functionality and selected to tick worse and post 10 contracts at a penny worse than their original quote.
- Primary Market Maker quote for 10 contracts bid at \$1.00 and 10 contracts offered at \$1.02
- Additionally, there is a Priority Customer order to buy 5 contracts at \$0.99, and a Competitive Market Maker quote for 10 contracts bid at \$0.99 and 10 contracts offered at \$1.02
- A member enters a sell order for 20 contracts at \$0.99
- This order will trade as follows:
  - 10 contracts trade at \$1.00 with the Primary Market Maker bid quote, and Primary Market Maker is ticked worse to 10 contracts bid at \$0.99
  - 5 contracts trade at \$0.99 with the Priority Customer order due to customer priority
  - 5 contracts trade at \$0.99 with the Primary Market Maker's ticked worse quote due to the split price priority rule; 0 contracts trade with the Competitive Market Maker bid quote

The Exchange represents that Tick-Worse has historically only ever applied in the context of the split price priority rule in ISE Rule 713(f). Furthermore, the Exchange has historically only ever awarded priority pursuant to ISE Rule 713(f) for split price transactions that occur in the Tick-Worse functionality, and the existing rule should have been clarified to more accurately reflect its current application. Nonetheless, the Exchange is now proposing to delete the rule text in its entirety along with decommissioning the Tick-Worse functionality, as proposed above.

#### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>9</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>10</sup> in particular, in that it is designed 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.

#### “Tick-Worse” Functionality

As noted above, the Exchange originally offered Tick-Worse as an optional feature to help market makers meet their continuous quoting obligations under the Exchange's rules. The Exchange believes that its proposal is consistent with the Act because it has found that the Tick-Worse feature is rarely used today<sup>11</sup> as almost all market makers use their own systems to send refreshed quotations when their displayed quotations are exhausted. The Exchange therefore believes that it is consistent with the Act to propose to discontinue use of this functionality prior to the migration to INET. Because one member continues to utilize the functionality, the Exchange believes that providing advance notice of the intent to decommission of this functionality will serve to prepare Members as to the upcoming change with INET.

As discussed above, the Exchange originally offered Tick-Worse as an optional feature to help market makers meet their continuous quoting obligations under the Exchange's rules. The Exchange has found, however, that the Tick-Worse feature is rarely used today as almost all market makers use their own systems to send refreshed quotations when their displayed quotations are exhausted. The Exchange therefore believes that decommissioning Tick-Worse and providing advance notice to its members, is consistent with the Act because it eliminates any investor uncertainty related to the status of this functionality.

#### Split Price Priority

The Exchange also believes that its proposal to delete the split price priority rule in Rule 713(f) protects investors and the public interest because it removes rule text that became obsolete with the decommissioning of the Tick-Worse functionality. As described above, the split price priority rule only applies to the Tick-Worse functionality. Because the Rule is more general than its current, specific application, however, the Exchange believes that the continued presence of Rule 713(f) in its rules even after retiring the Tick-Worse functionality will be confusing to its members and investors. By removing obsolete rule text that only applies in the context of Tick-Worse, the Exchange is eliminating any potential for confusion about how its systems operate.

<sup>9</sup> 15 U.S.C. 78f(b).

<sup>10</sup> 15 U.S.C. 78f(b)(5).

<sup>11</sup> It is only being used by one market maker.

### *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 not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is not designed to have any competitive impact but rather request the decommission of a rarely-used functionality on the Exchange and relatedly, to remove the rule text that this functionality supports from the Exchange's rulebook, thereby reducing investor confusion and making the Exchange's rules easier to understand and navigate.

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

No written comments were either solicited or received.

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

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 pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>12</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>13</sup>

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: (i) Necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) 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 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 (<http://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-ISE-2017-27 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-ISE-2017-27. 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 Web site (<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 Web site 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 10:00 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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ISE-2017-27 and should be submitted on or before April 13, 2017.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>14</sup>

**Eduardo A. Aleman,**

*Assistant Secretary.*

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<sup>14</sup> 17 CFR 200.30-3(a)(12).

### **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-80271; File No. SR-NYSEARCA-2017-24]

### **Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change Amending Rule 6.80 To Make Permanent a Program That Allows Transactions To Take Place at a Price That Is Below \$1 per Option Contract**

March 17, 2017.

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 March 2, 2017, NYSE Arca, Inc. (the "Exchange" or "NYSE Arca") filed with the Securities and Exchange Commission (the "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 6.80 to make permanent a program that allows transactions to take place at a price that is below \$1 per option contract. The proposed rule change is available on the Exchange's Web site 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.

<sup>12</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>13</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file 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>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.