

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-79846; File No. SR-NYSEArca-2016-130]

### Self-Regulatory Organizations; NYSE Arca, Inc.; Order Granting Approval of Proposed Rule Change, as Modified by Amendment No. 1, Amending NYSE Arca Equities Rules 7.35 (Auctions), 7.10 (Clearly Erroneous Executions), 7.31 (Orders and Modifiers), and 7.11 (Limit Up—Limit Down Plan and Trading Pauses in Individual Securities Due to Extraordinary Market Volatility)

January 19, 2017.

#### I. Introduction

On October 4, 2016, 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”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend NYSE Arca Equities Rules 7.35 (Auctions), 7.10 (Clearly Erroneous Executions), 7.31 (Orders and Modifiers), and 7.11 (Limit Up—Limit Down Plan and Trading Pauses in Individual Securities Due to Extraordinary Market Volatility). The proposed rule change was published for comment in the **Federal Register** on October 24, 2016.<sup>3</sup> On December 6, 2016, the Commission extended the time period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change to January 22, 2017.<sup>4</sup> On January 18, 2017, the Exchange filed Amendment No. 1 to the proposed rule change.<sup>5</sup> The Commission received no comments on the proposed rule change. This order approves the proposed rule change, as modified by Amendment No. 1.

#### II. Description of the Proposed Rule Change, as Modified by Amendment No. 1

In conjunction with the Twelfth Amendment to the National Market

System Plan to Address Extraordinary Market Volatility (“Plan”),<sup>6</sup> the Exchange proposes to revise its Trading Halt Auction procedures and to make related changes.

#### *Auction Reference Price and Auction Collar for Trading Halt Auctions*

The Exchange proposes to revise the Auction Reference Price and the Auction Collar for Trading Halt Auctions. Currently, the upper (lower) boundary of the Auction Collar for a Trading Halt Auction is the Auction Reference Price increased (decreased) by the price collar threshold.<sup>7</sup> The price collar threshold for a Trading Halt Auction is 10% for securities with an Auction Reference Price of \$25.00 or less, 5% for securities with an Auction Reference Price greater than \$25.00 and less than or equal to \$50.00, or 3% for securities with an Auction Reference Price greater than \$50.00.<sup>8</sup> The Auction Reference Price for a Trading Halt Auction is the last consolidated round-lot price of that trading day, and if none, the prior day’s Official Closing Price.<sup>9</sup>

Under the proposal, for a Trading Halt Auction following a trading pause under NYSE Arca Equities Rule 7.11 (“Trading Pause”), if the Limit State that preceded the Trading Pause was at the Lower (Upper) Price Band, the Auction Reference Price would be the Lower (Upper) Price Band.<sup>10</sup> Moreover, for securities with an Auction Reference Price above \$3.00, the Price Collar Threshold for the Trading Halt Auction would be the Auction Reference Price multiplied by 5 percent. For securities with an Auction Reference Price of \$3.00 and below, the Price Collar Threshold would be \$0.15.<sup>11</sup>

<sup>6</sup> See Securities Exchange Act Release No. 79845 (January 19, 2017) (File No. 4-631).

<sup>7</sup> See NYSE Arca Equities Rule 7.35(a)(10)(A).

<sup>8</sup> See *id.* NYSE Arca Equities Rule 7.35(a)(10)(A) also specifies a sunset date for the price collar thresholds for Trading Halt Auctions.

<sup>9</sup> See NYSE Arca Equities Rule 7.35(a)(8)(A).

<sup>10</sup> The proposed definition of Auction Reference Price for a Trading Pause is designed to be consistent across listing exchanges. For all other Trading Halt Auctions, the Auction Reference Price would continue to be as specified in NYSE Arca Equities Rule 7.35(a)(8). See proposed NYSE Arca Equities Rule 7.35(e)(7)(A). The Exchange also proposes to make a conforming change to NYSE Arca Equities Rule 7.35(a)(8)(A) to add the clause “except as provided for in Rule 7.35(e)(7)(A),” which would clarify that the Auction Reference Price for a Trading Halt Auction following a Trading Pause would be determined pursuant to NYSE Arca Equities Rule 7.35(e)(7)(A).

<sup>11</sup> See proposed NYSE Arca Equities Rule 7.35(e)(7). These proposed Price Collar Thresholds are designed to be consistent across listing exchanges. The Exchange also proposes to make conforming changes to NYSE Arca Equities Rule 7.35(a)(10)(A) to delete the reference to Trading Halt Auctions and to delete language that specifies

As proposed, for a Trading Halt Auction following a Trading Pause, if the Auction Reference Price is the Lower (Upper) Price Band, the Lower (Upper) Auction Collar would be the Auction Reference Price decreased (increased) by the Price Collar Threshold, rounded down to the nearest MPV, and the Upper (Lower) Auction Collar would be the Upper (Lower) Price Band.<sup>12</sup> For a Trading Halt Auction following a trading halt due to extraordinary market volatility under NYSE Arca Equities Rule 7.12 (“MWCB Halt”) or a regulatory halt, the Lower (Upper) Auction Collar would be the Auction Reference Price decreased (increased) by the Price Collar Threshold, rounded down to the nearest MPV.<sup>13</sup>

#### *Extension of Re-Opening Time and Expansion of Auction Collars for Trading Halt Auctions*

Currently, NYSE Arca Equities Rule 7.35(e)(2) provides that, after trading in a security has been halted or paused, the NYSE Arca Marketplace will disseminate the estimated time at which trading in that security will re-open (“Re-Opening Time”). The Exchange proposes to add to this rule that the initial Re-Opening Time for a Trading Halt Auction following a Trading Pause or MWCB Halt would be at the scheduled end of the Trading Pause or MWCB Halt.

Under the proposal, the Exchange would extend the Re-Opening Time for a Trading Halt Auction under certain circumstances. Specifically, a Trading Halt Auction would not be conducted if the Indicative Match Price,<sup>14</sup> before being adjusted based on Auction Collars,<sup>15</sup> is below (above) the Lower (Upper) Auction Collar or if there is a sell (buy) Market Imbalance,<sup>16</sup> either of

the sunset date for the current price collar thresholds applicable to Trading Halt Auctions.

<sup>12</sup> See proposed NYSE Arca Equities Rule 7.35(e)(7)(B)(i). The proposed Auction Collars for a Trading Pause are designed to be consistent across listing exchanges.

<sup>13</sup> See proposed NYSE Arca Equities Rule 7.35(e)(7)(B)(ii).

<sup>14</sup> NYSE Arca Equities Rule 7.35(a)(8) defines “Indicative Match Price” to mean the best price at which the maximum volume of shares, including the non-displayed quantity of Reserve Orders, is tradable in the applicable auction, subject to Auction Collars. The Exchange states that for purposes of proposed NYSE Arca Equities Rule 7.35(e)(5), the Indicative Match Price would not be calculated subject to Auction Collars. See Notice, *supra* note 3, at 73160.

<sup>15</sup> NYSE Arca Equities Rule 7.35(a)(10) defines “Auction Collar” to mean the price collar thresholds for the Indicative Match Price for the Core Open Auction, Trading Halt Auction, or Closing Auction.

<sup>16</sup> NYSE Arca Equities Rule 7.35(a)(7)(B) defines “Market Imbalance” to mean the imbalance of any

<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. 79107 (October 18, 2016), 81 FR 73159 (“Notice”).

<sup>4</sup> See Securities Exchange Act Release No. 79480, 81 FR 89525 (December 12, 2016).

<sup>5</sup> In Amendment No. 1, the Exchange stated that it anticipates that it will implement the proposed rule change in the third quarter of 2017. Because Amendment No. 1 does not materially alter the substance of the proposed rule change or raise unique or novel regulatory issues, Amendment No. 1 is not subject to notice and comment. Amendment No. 1 is available at: <https://www.sec.gov/comments/sr-nysearca-2016-130/nysearca2016130-1507307-130821.pdf>.

which would be defined as an “Impermissible Price.”<sup>17</sup> As proposed, if there is an Impermissible Price at the initial Re-Opening Time, the pause or halt would be extended an additional five minutes and a new Re-Opening Time would be disseminated (“First Extension”).<sup>18</sup> If there is an Impermissible Price at the end of the First Extension, the pause or halt would be extended an additional five minutes and a new Re-Opening Time would be disseminated (“Subsequent Extension”).<sup>19</sup> The trading pause or halt would continue to be extended if there is an Impermissible Price at the Re-Opening Time for a Subsequent Extension.<sup>20</sup>

Under the proposal, the Auction Collar on the side of the Impermissible price would be widened for each Extension, and the Auction Collar on the opposite side of the Impermissible Price would remain the same as the last-calculated Auction Collar on that side.<sup>21</sup> Specifically, if the Impermissible Price is on the side of the Lower (Upper) Auction Collar, the last-calculated Lower (Upper) Auction Collar would be decreased (increased) by a Price Collar Threshold and the Upper (Lower) Auction Collar would stay the same.<sup>22</sup> If the side of the Impermissible Price changes from the Lower (Upper) Auction Collar to the Upper (Lower) Auction Collar, the last-calculated Upper (Lower) Auction Collar would be widened for that Extension and the last-calculated Lower (Upper) Auction Collar would remain the same.<sup>23</sup>

As proposed, if the Re-Opening Time for a Trading Halt Auction would be in the last ten minutes of trading before the end of Core Trading Hours, the Exchange would not conduct a Trading

Halt Auction in that security and would not transition to continuous trading. Instead, the Exchange would remain paused and would conduct a Closing Auction in such security as provided for in NYSE Arca Equities Rule 7.35(d).<sup>24</sup> In such circumstances, Market-on-Open (“MOO”) Orders, Limit-on-Open (“LOO”) Orders, and IO Orders (as defined below) entered during the pause or halt would not participate in the Closing Auction and would expire at the end of the Core Trading Session.<sup>25</sup> Additionally, the Auction Collars for the Closing Auction for such security would be the most recently widened Auction Collars for the Trading Halt Auction that did not occur.<sup>26</sup>

#### *Other Changes to the Trading Halt Auction*

The Exchange proposes to adopt an Imbalance Offset Order (“IO Order”), which would be a Limit Order to buy (sell) that is to be traded only in a Trading Halt Auction.<sup>27</sup> An IO Order would be accepted only during a halt or pause, including any extensions.<sup>28</sup> It would participate in a Trading Halt Auction only if: (i) There is an imbalance in the security on the opposite side of the market from the IO Order after taking into account all other orders eligible to trade at the Indicative Match Price; and (ii) the limit price of the IO Order to buy (sell) is at or above (below) the Indicative Match Price.<sup>29</sup> The working price of an IO Order to buy (sell) would be adjusted to be equal to the Indicative Match Price, provided that the working price of the IO Order would not be higher (lower) than its limit price.<sup>30</sup> An IO Order that participates in a Trading Halt Auction would be ranked in time priority among IO Orders after all other orders eligible

to participate in the auction have been allocated.<sup>31</sup>

The Exchange also proposes to add an Auction Imbalance Freeze before a Trading Halt Auction.<sup>32</sup> As proposed, the Trading Halt Auction Imbalance Freeze would begin five seconds before the Re-Opening Time, including the Re-Opening Time for each Extension.<sup>33</sup> If a pause or halt is extended, the Trading Halt Auction Imbalance Freeze for the prior period would end, new orders and order instructions received during the prior period’s Trading Halt Auction Imbalance Freeze would be processed, and the Exchange would accept order entry and cancellation as provided for in NYSE Arca Equities Rule 7.18(c) until the next Trading Halt Auction Imbalance Freeze.<sup>34</sup> During the Trading Halt Auction Imbalance Freeze, order entry and cancellation would be processed as follows:

- MOO Orders and LOO Orders that are on the same side of the Imbalance, would flip the Imbalance, or would create a new Imbalance would be rejected.<sup>35</sup>
- Market Orders (other than MOO Orders) and Limit Orders would be accepted but would not be included in the calculation of the Indicative Match Price or the Trading Halt Auction Imbalance Information.<sup>36</sup> Such orders would participate in the Trading Halt Auction only to offset the Imbalance that is remaining after all orders entered before the Trading Halt Auction Imbalance Freeze, including the non-display quantity of Reserve Orders, are allocated in the Trading Halt Auction, and would be allocated in price-time priority under NYSE Arca Equities Rules 7.36(c)–(g) consistent with the priority ranking associated with each order and ahead of any IO Orders.<sup>37</sup>
- Requests to cancel and requests to cancel and replace Market Orders, LOO Orders, Limit Orders, and IO Orders would be accepted but not processed until after the Trading Halt Auction concludes, as provided for in NYSE Arca Equities Rule 7.35(h).<sup>38</sup>

remaining buy (sell) Market Orders that are not matched for trading in the applicable auction.

<sup>17</sup> See proposed NYSE Arca Equities Rule 7.35(e)(5). The Exchange also proposes to make conforming changes in NYSE Arca Equities Rule 7.11(b).

<sup>18</sup> See proposed NYSE Arca Equities Rule 7.35(e)(6)(A). The Exchange would not conduct a Trading Halt Auction before the Re-Opening Time for the First Extension. See *id.*

<sup>19</sup> See proposed NYSE Arca Equities Rule 7.35(e)(6)(B). The Exchange would conduct a Trading Halt Auction before the Re-Opening Time for a Subsequent Extension if the Indicative Match Price, before being adjusted based on Auction Collars, is within the applicable Auction Collars and there is no Market Imbalance. See *id.*

<sup>20</sup> See proposed NYSE Arca Equities Rule 7.35(e)(6)(C).

<sup>21</sup> See proposed NYSE Arca Equities Rule 7.35(e)(7)(C).

<sup>22</sup> See proposed NYSE Arca Equities Rule 7.35(e)(7)(C)(i).

<sup>23</sup> See proposed NYSE Arca Equities Rule 7.35(e)(7)(C)(ii). The proposed extensions and widening of the Auction Collars are designed to be consistent across listing exchanges.

<sup>24</sup> See proposed NYSE Arca Equities Rule 7.35(e)(10). The concept of holding a closing auction instead of a re-opening auction if a Trading Pause exists in the last ten minutes of trading is designed to be consistent across listing exchanges and to reflect the Twelfth Amendment to the Plan.

<sup>25</sup> See proposed NYSE Arca Equities Rule 7.35(e)(10)(A).

<sup>26</sup> See proposed NYSE Arca Equities Rule 7.35(e)(10)(B). The Exchange proposes to make a conforming change to NYSE Arca Equities Rule 7.35(a)(10)(A) to make clear that the price collar thresholds for a Closing Auction are defined in NYSE Arca Equities Rule 7.35(a)(10)(A), except as provided for in proposed NYSE Arca Equities Rule 7.35(e)(10)(B).

<sup>27</sup> See proposed NYSE Arca Equities Rule 7.31(c)(5).

<sup>28</sup> See proposed NYSE Arca Equities Rule 7.31(c)(5)(A).

<sup>29</sup> See proposed NYSE Arca Equities Rule 7.31(c)(5)(B).

<sup>30</sup> See proposed NYSE Arca Equities Rule 7.31(c)(5)(C).

<sup>31</sup> See proposed NYSE Arca Equities Rule 7.31(c)(5)(D).

<sup>32</sup> See proposed NYSE Arca Equities Rule 7.35(e)(8). See also proposed changes to NYSE Arca Equities Rule 7.35(a)(3).

<sup>33</sup> See proposed NYSE Arca Equities Rule 7.35(e)(8).

<sup>34</sup> See *id.*

<sup>35</sup> See proposed NYSE Arca Equities Rule 7.35(e)(8)(A).

<sup>36</sup> See proposed NYSE Arca Equities Rule 7.35(e)(8)(B).

<sup>37</sup> See *id.*

<sup>38</sup> See proposed NYSE Arca Equities Rule 7.35(e)(8)(C).

• All other order instructions would be accepted.<sup>39</sup>

The Exchange also proposes to specify that Limit Orders that were eligible to participate in the Trading Halt Auction but did not participate would transition to continuous trading as provided for in NYSE Arca Equities Rule 7.35(h).<sup>40</sup>

The Exchange proposes to amend NYSE Arca Equities Rule 7.10(a) to provide that executions as a result of a Trading Halt Auction are not eligible for a request to review as clearly erroneous under NYSE Arca Equities Rule 7.10(b).<sup>41</sup>

#### *Trading Halt Auction Imbalance Information*

NYSE Arca Equities Rule 7.35(a)(4) currently defines “Auction Imbalance Information” to mean the information that is disseminated by the Exchange for an auction and includes, if applicable, the Total Imbalance, Market Imbalance, Indicative Match Price, and Matched Volume.<sup>42</sup> The Exchange now proposes to add the following to Auction Imbalance Information: Auction Reference Price, Auction Collar, Book Clearing Price,<sup>43</sup> Far Clearing Price,<sup>44</sup> Imbalance Freeze Indicator,<sup>45</sup> and Auction Indicator.<sup>46</sup>

#### *Other Changes Relating to Trading Pauses*

The Exchange proposes various changes to NYSE Arca Equities Rule 7.11. Specifically, the Exchange proposes to state that if a primary listing market issues a Trading Pause, the Exchange would resume trading as

provided for in NYSE Arca Equities Rule 7.18(a).<sup>47</sup> NYSE Arca Equities Rule 7.18(a) provides that, if a UTP Listing Market declares a UTP Regulatory Halt for a security, during Core Trading Hours, the Exchange will halt trading until it receives the first Price Band in the halted security. The Exchange also proposes to state that if the Exchange is unable to re-open trading at the end of the Trading Pause due to a systems or technology issue, it would immediately notify the single plan processor responsible for consolidation of information for the security pursuant to Rule 603 of Regulation NMS.<sup>48</sup> In addition, the Exchange proposes to delete obsolete rule text that governed Trading Pauses before the Plan was fully implemented.<sup>49</sup>

The Exchange represents that it will announce the implementation date of the proposed rule change via Trader Update to be issued after this proposed rule change is approved. The Exchange anticipates that this implementation will occur in the third quarter of 2017.<sup>50</sup>

### **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.<sup>51</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>52</sup> 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 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. As noted above, the Commission received no comment letters regarding the proposed rule change.

The Commission notes that the proposed rule change is designed, together with the Twelfth Amendment to the Plan,<sup>53</sup> to address the issues experienced on August 24, 2015 by reducing the number of repeat Trading Pauses in a single NMS Stock.<sup>54</sup> The Commission notes that the proposed rule change is also designed to further the goal of establishing a standardized approach for how Primary Listing Exchanges would conduct certain aspects of an automated re-opening following a Trading Pause, which should provide certainty for market participants regarding how a security would re-open following a Trading Pause, regardless of the listing exchange.<sup>55</sup>

With respect to the proposed Auction Reference Price and Auction Collars, the Commission finds reasonable the Exchange’s belief that the price of the limit state that preceded the Trading Pause (*i.e.*, either the Lower or Upper Price Band price) would better reflect the most recent price of the security, and therefore should be used as the Auction Reference Price.<sup>56</sup> Moreover, the Commission believes that the proposed method for calculating the initial Auction Collars (*i.e.*, the Auction Collar on the opposite side of the trading pressure would be the Price Band in place before the Trading Pause was triggered) would address the concept of mean reversion, as well as avoid a security from trading outside of a price that it would have been permitted to trade before the Trading Pause.<sup>57</sup>

The Commission believes that extending the Trading Pause and widening Auction Collars on the side of the Impermissible Price would be a measured approach to provide additional time to attract offsetting interest, to help to address an imbalance that may not be resolved within the prior Auction Collars, and to reduce the

<sup>39</sup> See proposed NYSE Arca Equities Rule 7.35(e)(8)(D).

<sup>40</sup> See proposed NYSE Arca Equities Rule 7.35(e)(9).

<sup>41</sup> The proposal to exclude re-opening auction trades from the clearly erroneous execution rule is designed to be consistent across listing exchanges.

<sup>42</sup> See NYSE Arca Equities Rules 7.35(a)(7) (defining “Total Imbalance” and “Market Imbalance”); 7.35(a)(8) (defining “Indicative Match Price”); and 7.35(a)(9) (defining “Matched Volume”).

<sup>43</sup> The Exchange proposes to define “Book Clearing Price” to mean the price at which all interest eligible to participate in an auction could be traded if not subject to the Auction Collar. The Book Clearing Price would be zero if a sell (buy) imbalance cannot be filled by any buy (sell) orders. See proposed NYSE Arca Equities Rule 7.35(a)(11).

<sup>44</sup> The Exchange proposes to define “Far Clearing Price” to mean the price at which Auction-Only Orders could be traded within the Auction Collar. See proposed NYSE Arca Equities Rule 7.35(a)(12).

<sup>45</sup> The Exchange proposes to define “Imbalance Freeze Indicator” to mean an indicator of whether a security is currently in an Auction Imbalance Freeze. See proposed NYSE Arca Equities Rule 7.35(a)(14).

<sup>46</sup> The Exchange proposes to define “Auction Indicator” to mean an indicator of whether an auction could be conducted, based on the applicable Auction Collar and Imbalance. See proposed NYSE Arca Equities Rule 7.35(a)(13).

<sup>47</sup> See proposed NYSE Arca Equities Rule 7.11(b)(2). This change is designed to be consistent across listing exchanges and to reflect the Twelfth Amendment to the Plan. Relatedly, the Exchange proposes to delete the rule text that currently states that if a primary listing market issues a Trading Pause, the Exchange would pause trading in that security until trading has resumed on the primary listing market or notice has been received from the primary listing market that trading may resume, and that if the primary listing market does not re-open the security within 10 minutes of notification of a Trading Pause, the Exchange may resume trading in the security. See *id.*

<sup>48</sup> See proposed NYSE Arca Equities Rule 7.11(b)(1). This change is designed to be consistent across listing exchanges and to reflect the Twelfth Amendment to the Plan.

<sup>49</sup> See proposed changes to NYSE Arca Equities Rule 7.11(b).

<sup>50</sup> See Amendment No. 1, *supra* note 5. For a more detailed description of the proposed rule change, see Notice, *supra* note 3.

<sup>51</sup> 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).

<sup>52</sup> 15 U.S.C. 78f(b)(5).

<sup>53</sup> See *supra* note 6.

<sup>54</sup> See Notice, *supra* note 3, at 73165.

<sup>55</sup> See *id.*

<sup>56</sup> See *id.*

<sup>57</sup> See Notice, *supra* note 3, at 73161–62, 73165.

As noted above, for MWCB Halts and regulatory halts, the Price Collar Threshold would continue to be applied on both sides of the Auction Reference Price. See *supra* note 13 and accompanying text.

potential for triggering another Trading Pause.<sup>58</sup> Also, as the Exchange noted, widening Auction Collars only in the direction of the imbalance would address issues relating to the concept of mean reversion.<sup>59</sup> Moreover, the Commission notes that the proposal to conduct a Closing Auction if a security is in a Trading Pause during the last ten minutes of trading before the end of Regular Trading Hours (instead of a Trading Halt Auction) would be consistent with the Twelfth Amendment to the Plan.<sup>60</sup>

The Commission believes that precluding ETP Holders from requesting a review of a Trading Halt Auction as a clearly erroneous execution is appropriate. As the Exchange noted, the proposed re-opening procedures would allow for widened collars, which may result in a re-opening price that would be away from prior trading prices, but the re-opening price would be the result of a measured and transparent process that reduces the potential that such trade would be considered erroneous.<sup>61</sup>

With respect to the proposed IO Order, as the Exchange noted, the IO Order is designed to attract offsetting interest for Trading Halt Auctions and would provide an option for market participants that are willing to participate in an auction to offset an imbalance, but do not want such orders to participate in continuous trading.<sup>62</sup>

The Commission notes that, according to the Exchange, the proposed Trading Halt Auction Imbalance Freeze would provide market participants with a brief period to assess the imbalance going into a Trading Halt Auction.<sup>63</sup> Moreover, during the Trading Halt Imbalance Freeze, order entry and cancellation would be revised in a

manner designed to reduce imbalance.<sup>64</sup> Further, the Exchange represents that allowing Limit Orders that do not participate in a Trading Halt Auction, but have a limit price within the applicable Auction Collars, to roll into continuous trading likely would not impact the pricing of post-auction trading and trigger another Trading Pause because the limit price of such orders would have been within the same price range that trading would have been permitted.<sup>65</sup>

In addition, the Commission believes that the proposed enhancements to the Auction Imbalance Information would further promote transparency around Trading Halt Auctions.<sup>66</sup>

Finally, the Exchange represents that the proposed amendments to NYSE Arca Equities Rule 7.11 would remove obsolete rule text and amend the remaining rule text to conform to the Twelfth Amendment to the Plan.<sup>67</sup>

Based on the Exchange's representations mentioned above and in the Notice, and for the foregoing reasons, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with Section 6(b)(5) of the Act<sup>68</sup> and the rules and regulations thereunder applicable to a national securities exchange.

#### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>69</sup> that the proposed rule change (SR-NYSEArca-2016-130), as modified by Amendment No. 1, be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>70</sup>

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

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-79845; File No. 4-631]

**Joint Industry Plan; Order Approving the Twelfth Amendment to the National Market System Plan To Address Extraordinary Market Volatility by Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Bats EDGA Exchange, Inc., Bats EDGX Exchange, Inc., Chicago Stock Exchange, Inc., Financial Industry Regulatory Authority, Inc., Investors Exchange LLC, NASDAQ BX, Inc., NASDAQ PHLX LLC, The Nasdaq Stock Market LLC, National Stock Exchange, Inc., New York Stock Exchange LLC, NYSE MKT LLC, and NYSE Arca, Inc.**

January 19, 2017.

### I. Introduction

On September 19, 2016, NYSE Group, Inc., on behalf of the other parties<sup>1</sup> to the National Market System Plan to Address Extraordinary Market Volatility (the "Plan"), filed with the Securities and Exchange Commission ("Commission") pursuant to Section 11A of the Securities Exchange Act of 1934 ("Act")<sup>2</sup> and Rule 608 thereunder,<sup>3</sup> a proposal to amend the Plan.<sup>4</sup> The proposal represents the twelfth amendment to the Plan, and reflects proposed changes unanimously approved by the Participants ("Twelfth Amendment"). The proposed Twelfth Amendment was published for comment in the **Federal Register** on December 2, 2016.<sup>5</sup> The Commission received two comment letters regarding the amendment.<sup>6</sup> On January 17, 2017, the Participants submitted a letter to the Commission related to the Twelfth Amendment, which requests that the Commission modify the Twelfth Amendment to retain provisions in the

<sup>58</sup> See Notice, *supra* note 3, at 73165. The Exchange notes that applying specific aspects of the proposed changes to Trading Halt Auctions following a MWCBA Halt or regulatory halt would promote consistency in how the Exchange conducts its Trading Halt Auctions, thus reducing complexity in the marketplace. *See id.*

<sup>59</sup> *See id.*

<sup>60</sup> As the Exchange noted, the proposed changes related to the treatment of MOO Orders, LOO Orders, and IO Orders under these circumstances would provide transparency regarding how orders that are designated to participate in a Trading Halt Auction only would be handled. *See Notice, supra* note 3, at 73162. Also, as the Exchange noted, if the Exchange goes directly from an unresolved Trading Pause, MWCBA Halt, or regulatory halt to a Closing Auction, the existing narrower price collar thresholds applicable to the Closing Auction could result in Auction Collars that do not correlate to the trading condition for the stock. *See id.*

<sup>61</sup> *See Notice, supra* note 3, at 73165.

<sup>62</sup> *See id.* The Exchange notes that the proposed IO Order is based in part on the Closing Offset Order offered by the New York Stock Exchange LLC. *See id.*

<sup>63</sup> *See Notice, supra* note 3, at 73165-66.

<sup>64</sup> *See Notice, supra* note 3, at 73166. Currently, the Exchange provides an Auction Imbalance Freeze for the Early Open Auction, Core Open Auction, and Closing Auction. *See NYSE Arca Equities Rule 7.35(a)(3).*

<sup>65</sup> *See Notice, supra* note 3, at 73166.

<sup>66</sup> *See id.*

<sup>67</sup> *See Notice, supra* note 3, at 73165.

<sup>68</sup> 15 U.S.C. 78f(b)(5).

<sup>69</sup> 15 U.S.C. 78s(b)(2).

<sup>70</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> NYSE Group, Inc. filed on behalf of the following parties to the Plan: Bats BZX Exchange, Inc., Bats BYX Exchange, Inc., Bats EDGA Exchange, Inc., Bats EDGX Exchange, Inc., Chicago Stock Exchange, Inc., Financial Industry Regulatory Authority, Inc., Investors Exchange LLC, NASDAQ BX, Inc., NASDAQ PHLX LLC, The Nasdaq Stock Market LLC, National Stock Exchange, Inc., New York Stock Exchange LLC, NYSE MKT LLC, and NYSE Arca, Inc. ("Participants").

<sup>2</sup> 15 U.S.C. 78k-1.

<sup>3</sup> 17 CFR 242.608.

<sup>4</sup> *See* Letter from Elizabeth King, General Counsel and Corporate Secretary, NYSE, to Brent J. Fields, Secretary, Commission, dated September 16, 2016.

<sup>5</sup> *See* Securities Exchange Act Release No. 79410 (November 28, 2016), 81 FR 87114 ("Notice").

<sup>6</sup> *See* Letters from Mortimer J. Buckley, Chief Investment Officer, Vanguard, dated December 23, 2016 ("Vanguard Letter"); and David W. Blass, General Counsel, Investment Company Institute, dated December 22, 2016 ("ICI Letter") to Brent J. Fields, Secretary, Commission.