

50 option contracts may receive in PRISM.

The Exchange believes that approving the Pilot on a permanent basis is also consistent with the Act. With respect to the no minimum size requirement, the Exchange believes that the data gathered during the Pilot period indicates that there is meaningful competition in PRISM auctions for all size orders, there is an active and liquid market functioning on the Exchange outside of the auction mechanism, and that there are opportunities for significant price improvement for orders executed through PRISM.

With respect to the early termination of a PRISM Auction, the Exchange believes that it is appropriate to terminate an auction any time the BX BBO crosses the PRISM Order stop price on the same side of the market as the PRISM Order, or any time there is a trading halt on the Exchange in the affected series. Based on the data gathered during the pilot, the Exchange does not anticipate that either of these conditions will occur with significant frequency, or will otherwise disrupt the functioning of PRISM auctions.

With respect to the requirement that an unrelated market or marketable limit order (against the BX BBO) on the opposite side of the market from the PRISM Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction, the Exchange does not believe that this provision has had a significant impact on either the unrelated order or the PRISM auction process. The Exchange also believes that allowing the PRISM Auction to continue in this scenario will allow the auction to run its full course and, in so doing, will provide a full opportunity for price improvement to the PRISM Order. The Exchange also notes that the unrelated order would be available to participate in the PRISM order allocation.

#### *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 proposal will apply to all Exchange members, and participation in the PRISM Auction process is completely voluntary. Based on the data collected by the Exchange during the Pilot, the Exchange believes that there is meaningful competition in PRISM auctions for all size orders, there are opportunities for significant price improvement for orders executed through PRISM, and that there is an

active and liquid market functioning on the Exchange outside of PRISM. The Exchange believes that requiring increased price improvement for PRISM Orders may encourage competition by attracting additional orders to participate in PRISM. The Exchange believes that approving the Pilot on a permanent basis will not significantly impact competition, as the Exchange is proposing no other change to the Pilot beyond implementing it on a permanent basis.

#### *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**

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) By order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be 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-BX-2016-063 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-BX-2016-063. 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-BX-2016-063 and should be submitted on or before December 30, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>27</sup>

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

[FR Doc. 2016-29463 Filed 12-8-16; 8:45 am]

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## **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-79469; File No. SR-NYSEArca-2016-155]

### **Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending Rule 6.40 To Expand the Risk Limitation Mechanism to All Orders, Including Complex Orders**

December 5, 2016.

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 November 25, 2016, 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 Exchange. The Commission is

<sup>27</sup> 17 CFR 200.30-3(a)(12).

<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.

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 6.40 (Risk Limitation Mechanism) to expand the risk limitation mechanism to all orders, including Complex Orders. 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.

#### *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 6.40 (Risk Limitation Mechanism) to expand the risk limitation mechanism to all orders, including Complex Orders.<sup>4</sup>

##### **Existing Risk Limitation Mechanism**

Rule 6.40 sets forth the risk-limitation system, which is designed to help Market Makers, as well as OTP Firms and OTP Holders (collectively, "OTPs"), better manage risk related to quoting and submitting orders, respectively, during periods of increased and significant trading activity.<sup>5</sup> The

Exchange requires Market Makers to utilize its risk limitation mechanism, which automatically removes a Market Maker's quotes in all series of an options class when certain parameter settings are breached.<sup>6</sup> The Exchange permits, but does not require, OTPs to utilize its risk limitation mechanism for certain orders, which automatically cancels such orders when certain parameter settings are breached.<sup>7</sup>

Pursuant to Rule 6.40, the Exchange establishes a time period during which the NYSE Arca System ("System")<sup>8</sup> calculates for quotes and orders, respectively: (1) The number of trades executed by the Market Maker or OTP in a particular options class; (2) the volume of contracts traded by the Market Maker or OTP in a particular options class; or (3) the aggregate percentage of the Market Maker's quoted size or OTP's order size(s) executed in a particular options class (collectively, the "risk settings").<sup>9</sup> When a Market Maker or OTP has breached its risk settings (*i.e.*, has traded more than the contract or volume limit or cumulative percentage limit of a class during the specified measurement interval), the System will cancel all of the Market Maker's quotes or the OTP's open orders in that class until the Market Maker or OTP notifies the Exchange it will resume submitting quotes or orders.<sup>10</sup>

pursuant to Section 15 of the Securities Exchange Act of 1934, or a nominee or an associated person of a registered broker or dealer that has been approved by the Exchange to conduct business on the Exchange's Trading Facilities"). See also Rule 6.32(a) (defining a Market Maker as an individual "registered with the Exchange for the purpose of making transactions as a dealer-specialist on the Floor of the Exchange or for the purpose of submitting quotes electronically and making transactions as a dealer-specialist through the NYSE Arca OX electronic trading system").

<sup>6</sup> See Rule 6.40(b)(3), (c)(3), (d)(3) and (e)(3). See also Commentary .04 to Rule 6.40 (providing that Market Makers are required to utilize one of the three risk settings for their quotes).

<sup>7</sup> See Rule 6.40(b)(1), (2); (c)(1), (c)(2), (d)(1), (d)(2) and Commentary .01 to Rule 6.40 (regarding the cancellation of orders once the risk settings have been breached). See also Commentary .04 to Rule 6.40 (providing that OTPs may avail themselves of one of the three risk limitation mechanisms for certain of their orders).

<sup>8</sup> The Exchange proposes to define "System" as a shorthand reference to the term "NYSE Arca System" and replace uses of the term "NYSE Arca System" with the term "System" throughout the rule text. See proposed Rule 6.40(a),(e), (f), and Commentaries .01, .02, .05 and .06 to the Rule.

<sup>9</sup> See Rule 6.40(a)–(e) (settings forth the three risk limitation mechanisms available: Transaction-Based, Volume-Based and Percentage-Based). A Market Maker may activate one Risk Limitation Mechanism for its quotes (which is required) and a different Risk Limitation Mechanism for its orders (which is optional), even if both are activated for the same class. See also Commentary .04 to Rule 6.40.

<sup>10</sup> See Commentaries .01 and .02 to Rule 6.40 (requiring that a Market Maker or OTP request that

The temporary suspension of quotes or orders from the market that results when the risk settings are triggered is meant to operate as a safety valve that enables Market Makers and/or OTPs to re-evaluate their positions before requesting to re-enter the market.

#### **Proposed Expansion of Risk Limitation Mechanism to All Orders**

Currently, OTPs may voluntarily utilize risk settings for PNP Orders, PNP-Blind Orders, PNP-Light Orders and Liquidity Adding Orders ("ALO") submitted via ArcaDirect, which are defined as "Applicable Orders".<sup>11</sup> Given the importance of risk settings in today's trading environment, the Exchange proposes to expand the availability of the risk settings to all orders traded on the Exchange.

The Exchange believes that expanding the availability of the risk settings to all orders would reduce the likelihood of unintended trades and would enable OTPs to re-evaluate their positions before requesting to re-enter the market if a risk setting is triggered. The proposed expansion would, for example, prevent the execution of a large set of orders that are improperly priced for any number of reasons (*i.e.*, because of a malfunctioning algorithm, the orders are left over from the prior day, etc.). By preventing the execution of such trades, the Exchange may help parties (including clearing members) avoid large trading losses. Thus, the Exchange believes the proposed expansion of the risk settings to all orders would allow OTPs to better manage the potential risks of multiple executions against an OTP's trading interest that, in today's highly automated and electronic trading environment, can occur simultaneously across multiple series and multiple option classes. Consistent with the ability to better manage risk, the Exchange anticipates that the proposed changes would enhance the Exchange's overall market quality as a result of narrowed quote widths and increased liquidity for series traded on the Exchange. This proposed expansion is also being made, in part, to be responsive to requests from OTPs that engage in high-volume trading in a

it be re-enabled after a breach of its risk settings). In the event that a Market Maker or OTP experiences multiple, successive triggers of its risk settings, the Exchange would cancel all of the quotes or Applicable Orders—as opposed to cancelling only those in the option class (underlying symbol) in which the risk settings were triggered. See Rule 6.40(f) and Commentary .02 to Rule 6.40.

<sup>11</sup> See Commentary .07 to Rule 6.40. For purposes of risk settings relating to orders, the Exchange does not distinguish Market Maker from OTPs.

<sup>4</sup> Rule 6.62(e) defines a Complex Order as any order involving the simultaneous purchase and/or sale of two or more different option series in the same underlying security, for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of executing a particular investment strategy.

<sup>5</sup> Market Makers are included in the definition of OTPs and therefore, unless the Exchange is discussing the quoting activity of Market Makers, the Exchange does not distinguish Market Makers from OTPs when discussing the risk limitation mechanisms. See Rule 1.1(q) (defining OTP Holder as "a natural person, in good standing, who has been issued an OTP, or has been named as a Nominee" that is "a registered broker or dealer

multitude of series and classes. The Exchange believes that the proposal to make the risk settings available for all orders would assist OTPs in providing a means to calibrate and monitor their risk exposure on all orders. As is the case today, the proposed availability of risk settings for all of an OTP's orders would not be mandated, but risk settings would continue to be mandated for all Market Maker quotes.<sup>12</sup>

To effect this change, the Exchange proposes to amend Rule 6.40(a)(1) to provide that the Exchange would maintain separate "trade counters" for each of the following scenarios: (i) When any order, including a single-leg order or any leg of a Complex Order submitted by an OTP is executed in any series in a specified class; and (ii) when a Market Maker quote is executed in any series in an appointed class.<sup>13</sup> The Exchange proposes this rule text to replace the current rule text that covers the Applicable Orders of non-Market Makers and Market Makers, respectively.<sup>14</sup> Because Market Makers are also OTPs, and because the operation of the risk settings for orders are identical for all OTPs, the Exchange proposes to streamline the rule text—in Rule 6.40(a)(1) and throughout the Rule—by removing reference to "non-Market Makers" as superfluous and potentially confusing.<sup>15</sup> Instead of separately addressing risk settings for orders that are available to Market Makers and non-Market Makers, the proposed rule would simply address the option as being available to all OTPs. Proposed Rule 6.40(a)(1) would further provide that for each of these scenarios, the trade counters would be incremented every time a trade is executed, in accordance with Commentary .07 to Rule 6.40.

The Exchange proposes to amend paragraphs (b), (c), (d), (e), and (f) to make similar changes so that each of these paragraphs would have two sub-paragraphs that would be parallel to the proposed changes to Rule 6.40(a)(1):

- The first sub-paragraph of each paragraph would address how the specific risk setting would be applied to an OTP's orders, which would be the

substantive change, as further described below. These proposed sub-paragraphs would replace current rule text in each paragraph governing how the specific risk setting would apply to a non-Market Maker's or Market Maker's Applicable Orders. Accordingly, current sub-paragraph (2) to each of paragraphs (b), (c), (d), (e), and (f) would be deleted.

The proposed second sub-paragraph of each paragraph would address how the specific risk setting would be applied to a Market Maker's quotes, as further described below. Accordingly, current sub-paragraph (3) to each of paragraphs (b), (c), (d), (e), and (f) would be re-numbered as sub-paragraph (2).

In addition to the substantive change to expand risk settings to all orders, the Exchange further proposes to make non-substantive amendments to each of the proposed sub-paragraphs to paragraphs (b), (c), and (d). The Exchange believes that the proposed rule text would simplify and streamline the rule by describing a risk setting being triggered when an OTP's orders or Market Maker's quotes "have traded" rather than using the more cumbersome text that an order or quote has been traded "against." When addressing an OTP's orders, the proposed rules would provide that the risk setting would be applicable to all orders in a specific class. When addressing a Market Maker's quotes, the proposed rules would provide that the risk setting would be applicable to all of the Market Maker's quotes in an appointed class. For each risk setting, the proposed new text would provide as follows.

- The Transaction-Based Risk Limitation Mechanism, described in Rule 6.40(b), would be triggered under the following conditions:

- When a trade counter indicates that within a time period specified by the Exchange, "n" executions of an OTP's open orders have traded in a specific class (proposed Rule 6.40(b)(1)); or

- when a trade counter indicates that within a time period specified by the Exchange, "n" executions of a Market Maker's quotes have traded in an appointed class (proposed Rule 6.40(b)(2)).

- The Volume-Based Risk Limitation Mechanism, described in Rule 6.40(c), would be triggered under the following conditions:

- When a trade counter indicates that within a time period specified by the Exchange, "k" contracts of an OTP's open orders have traded in a specific class (proposed Rule 6.40(c)(1)); or

- when a trade counter indicates that within a time period specified by the Exchange, "k" contracts of a Market Maker's quotes have traded in an

appointed class (proposed Rule 6.40(c)(2)).

- The Percentage-Based Risk Limitation Mechanism, described in Rule 6.40(d), would be triggered under the following conditions:

- When a trade counter has calculated that within a time period specified by the Exchange, "p" percentage of an OTP's open orders have traded in a specific class (proposed Rule 6.40(d)(1)); or

- when a trade counter has calculated that within a time period specified by the Exchange, "p" percentage of a Market Maker's quotes have traded in an appointed class (proposed Rule 6.40(d)(2)).

The Exchange also proposes clarifying changes to how the Percentage-Based Risk Limitation Mechanism operates. The Exchange proposes to modify Rule 6.40(d)(2)(i)–(ii) to make clear that the trade counter would first calculate, for each series of an option class, "the percentage(s) of an OTP's order size(s) or a Market Maker's quote size that is executed on each side of the market, including both displayed and non-displayed size," and would then "sum the overall percentages of the size(s) for the entire option class to calculate the 'p' percentage." The proposed changes are designed to account for the fact that OTPs may submit multiple orders on each side of the market that may be counted by the risk settings (whereas Market Makers have only one quote on each side of the market) and to reduce excess verbiage to streamline and condense the rule text, which the Exchange believes adds clarity and transparency to the Rule.

#### Proposed Changes Regarding Routable Orders

Because the proposed expansion of risk settings for orders would include routable orders, the Exchange proposes to amend Rule 6.40 to address the counting and cancellation of such orders (or unexecuted portions thereof). First, the Exchange proposes to add rule text to Commentary .07 to Rule 6.40 to provide that executions of routable orders on away markets would be considered by a trade counter once the execution report is received by the Exchange.<sup>16</sup> The Exchange also

<sup>12</sup> See proposed Commentary .04 (a) and (b) to Rule 6.40.

<sup>13</sup> See proposed Rule 6.40(a)(1)(i)–(ii).

<sup>14</sup> The Exchange also proposes the non-substantive modification to replace uses of the term "shall" with the term "will" throughout the rule text. See generally proposed Rule 6.40.

<sup>15</sup> See *supra* note 5. See also proposed Rule 6.40(a)(1), (b)(1), (c)(1), (d)(1), (e)(1), (f)(1) (collapsing into one paragraph the separate paragraphs in the current Rule relating to risk settings for orders sent by Market Maker and non-Market Makers and updating cross-references to condensed rule text).

<sup>16</sup> The Exchange also proposes to delete as inapplicable the rule text in Commentary .07 to Rule 6.40 providing that "[o]nly executions against order types specified by the Exchange via Trader Update and against quotes of Market Makers shall be considered by a trade counter." The Exchange likewise proposes to delete the rule text from Commentary .07 to Rule 6.40 that defines "Applicable Orders," given that this limitation no longer applies. In this regard, the Exchange

proposes to amend Commentary .07 to Rule 6.40 to provide that executions of each leg of a Complex Order would be considered by a trade counter as an individual transaction.

Regarding cancellations, the Exchange proposes to amend Commentary .01 to Rule 6.40 to provide that once the risk settings have been triggered, pursuant to paragraphs (e) and (f) of the Rule, the System would automatically generate a “bulk cancel” message to cancel Market Maker quotes and electronic orders, or portions thereof, that have not been routed to away markets, excluding intraday and prior day Good-Till-Cancel (“GTC”), All-or-None (“AON”), and orders entered in response to an electronic auction that are valid only for the duration of the auction (“GTX”).<sup>17</sup> The Exchange has determined that it would not cancel GTC, AON, or GTX orders because these order types are typically retail orders which, if automatically cancelled by the Exchange, could cause an operational issue for any firm that entered the order(s) (*i.e.*, exposing a firm to the risk of a missed execution on an order that has come due).<sup>18</sup> Given these potential operational issues, and for the protection of investors and the investing public, the Exchange has determined to exempt these order types from automatic cancellation when the risk settings are triggered.<sup>19</sup> The Exchange also proposes to amend Commentary .01 to Rule 6.40 to provide that “[o]rders and quotes residing in the Consolidated Book received prior to processing of the bulk cancel message may trade. Any unexecuted portion of an order subject to a ‘bulk cancel’ message that had routed away, but returned unexecuted, will be immediately cancelled.”<sup>20</sup>

proposes to delete reference to “Applicable Orders” throughout the rule text and, where pertinent, and [sic] to replace uses of the term “Applicable Orders” with “orders.”

<sup>17</sup> In light of this change, the Exchange proposes to delete the following rule text in Commentary .01 to Rule 6.40 as no longer applicable: “The bulk cancel message shall be processed by the NYSE Arca System in time priority with any other quote or order message received by the NYSE Arca System. Any Applicable Orders or quotes that matched with a Market Maker’s quote or a Market Maker’s or non-Market Maker’s Applicable Order and were received by the NYSE Arca System prior to the receipt of the bulk cancel message shall be automatically executed.” *See id.*

<sup>18</sup> *See, e.g.*, Rule 6.62(n) (defining GTC as buy or sell orders that remain in force until the order is filled, cancelled or the option contract expires); (d)(4) (defining AON orders as a Market or Limit Order that is to be executed in its entirety or not at all).

<sup>19</sup> The Exchange notes that the trade counters would be incremented every time a GTC, AON or GTX order is executed, subject to proposed Commentary .07. *See* proposed Rule 6.40(a)(1).

<sup>20</sup> Relatedly, the Exchange proposes to delete the following rule text in Commentary .01 to Rule 6.40:

In addition to the foregoing changes to paragraphs (e) and (f) of Rule 6.40, the Exchange also proposes to amend these paragraphs to address the action (*i.e.*, cancellations) that the System would effect upon the triggering of the risk settings to account for the proposed amendments to Commentary .01 to the Rule. Specifically, the Exchange proposes to modify sub-paragraph (1) to both paragraphs (e) and (f) to provide that if a risk setting is triggered, the System would automatically cancel an OTP’s orders, “except as provided in Commentary .01 to this Rule.” Finally, the Exchange proposes to make additional conforming changes to Commentary .02 to Rule 6.40 to specify that once the risk settings have been breached, any new orders (or quotes) would not be accepted until the OTP or Market Maker contacts the Exchange and requests to be re-enabled.

#### Proposed Changes to Persistence of Risk Settings for Orders

The Exchange also proposes to amend Commentary .04 to Rule 6.40 to specify the persistence of the risk settings, once activated, by an OTP for orders to conform this Commentary to the changes described above to delineate risk settings between an OTP’s orders and a Market Maker’s quotes. Specifically, the Exchange proposes to divide Commentary .04 into two paragraphs to make it easier to navigate—paragraph (a) would address the persistence of risk settings for quotes, and paragraph (b) would address the persistence of risk settings for orders.

Current Commentary .04 to Rule 6.40 provides that an OTP must activate its risk settings for orders on a daily basis. The Exchange proposes to amend this Commentary .04 to specify that “[o]nce an OTP activates a Risk Limitation Mechanism for its orders in a specified class, the mechanism and the settings established will remain active unless, and until, the OTP deactivates the Risk Limitation Mechanism or changes the settings.”<sup>21</sup> While the risk settings for orders remain an optional feature, the Exchange believes this change would

“Applicable Orders or quotes received by the NYSE Arca System after receipt of the bulk cancel message shall not be executed.”

<sup>21</sup> *See* proposed Commentary .04(b) to Rule 6.40 (specifying that, “[t]o be effective, an OTP must activate a Risk Limitation Mechanism, and corresponding settings, for orders in a specified class”). Regarding the risk settings for quotes, as this functionality is mandated by the Exchange. *See* proposed Commentary .04(a) to Rule 6.40. The Exchange believes removing this language would add clarity and consistency to the Rule.

enable each OTP to calibrate its settings as needed, as opposed to re-establishing the settings on a daily basis.

#### Proposed Modifications to Parameters for Each Risk Limitation Mechanism

The Exchange proposes to adjust the minimum and maximum parameters for the Risk Limitation Mechanism as set forth in Commentary .03 to the Rule. The current Rule provides that the Exchange would not exceed the following minimum and maximum parameters, applicable to quotes and orders:

- Minimum of 1 and maximum of 100 for transaction-based risk setting;
- Minimum of 20 and a maximum of 5,000 for volume-based risk setting; and
- Minimum of 100 and a maximum of 2,000 for percentage-based risk setting.<sup>22</sup>

The existing parameters have been in place since 2012 and the Exchange has not modified or increased these parameters in the past four years.<sup>23</sup> Since 2012, the markets have experienced more volatility and fragmentation. To account for these changes, as well as the ever-increasing automation, speed and volume transacted in today’s electronic trading environment, the Exchange proposes to modify the minimum and maximum parameters, applicable to quotes and orders, as follows:

- Minimum of 3 and maximum of 2,000 for the transaction-based setting;
- Minimum of 20 and a maximum of 500,000 for volume-based setting; And
- Minimum of 100 and a maximum of 200,000 for percentage-based setting.<sup>24</sup>

Although this proposal establishes the outside parameters of allowable settings, Rule 6.40 would still obligate the Exchange to announce via Trader Update “any applicable minimum, maximum and/or default settings for the Risk Limitation Mechanisms,” which would afford Market Makers and OTPs the opportunity to adjust their own risk settings within the announced parameters.<sup>25</sup> The Exchange further believes the proposed adjustments to the minimum/maximum parameters would enable the Exchange to strike the appropriate balance to ensure that risk settings may be established at a level that is consistent with existing market conditions, which would enable the risk settings to operate in the manner

<sup>22</sup> *See* Commentary .03 to Rule 6.40.

<sup>23</sup> *See* Securities Exchange Act Release No. 67714 (August 22, 2012), 77 FR 52098 (August 28, 2012) (SR–NYSEArca–2012–87).

<sup>24</sup> *See* proposed Commentary .03 to Rule 6.40.

<sup>25</sup> *See supra* notes 22 and 24 (rule text remains unchanged in current and proposed Commentary .03 to Rule 6.40).

intended. The Exchange believes that setting the parameters within this broad range would provide OTPs with ample flexibility in setting their tolerance for risk. For example, OTPs with a lower risk tolerance may opt to select a lower threshold within the range established by the Exchange, thereby optimizing the protection afforded by this proposed rule change, whereas OTPs with a higher risk tolerance may select the maximum allowable parameter afforded by the proposed rule change. Moreover, while the Exchange retains discretion with respect to the levels at which it could adjust these settings, the Exchange would not be permitted to adjust the settings below the minimum or above the maximum proposed, which, the Exchange believes would ensure that the settings are at all times within a reasonable range. Finally, given that the risk settings would now be available for all order types, the Exchange believes it would be prudent to provide ample flexibility for setting the maximum thresholds.

#### Implementation

The Exchange will announce by Trader Update the implementation date of the proposed rule change to expand the availability of the Risk Limitation Mechanism to all orders, which implementation will be no later than 90 days after the effectiveness of this rule change.

#### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act"),<sup>26</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>27</sup> in particular, in that 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.

OTPs are vulnerable to the risk from a system or other error or a market event that may cause them to send a large number of orders or receive multiple, automatic executions before they can adjust their order exposure in the market. Without adequate risk management tools, such as the proposed expanded risk settings for orders, OTPs

may opt to reduce the amount of order flow and liquidity that they provide to the market, which could undermine the quality of the markets available to market participants. Thus, the Exchange believes that the proposed rule change to expand the availability of the risk settings to all orders removes impediments to and perfects the mechanism of a free and open market by providing OTPs with greater control and flexibility over setting their risk tolerance and more protection over risk exposure, if the market moves in an unexpected direction. The proposed expansion of the risk settings to all orders would promote just and equitable principles of trade because it would help OTPs not only avoid transacting against their interests but would also reduce the potential for executions at erroneous prices, which should encourage OTPs to submit additional order flow and liquidity to the Exchange.

This proposed expansion, which was specifically requested by some OTPs, would foster cooperation and coordination with persons engaged in regulating, clearing, settling, and processing information with respect to, and facilitating transactions in, securities as it will be available to all OTPs for all orders entered on the Exchange. In addition, the expanded risk settings may prevent the execution of erroneously priced trades, which would help parties (including clearing members) avoid large trading losses, thereby fostering cooperation and coordination with persons engaged in regulating, clearing, settling, and processing information with respect to, and facilitating transactions in, securities.

The Exchange believes the proposed adjustments to the minimum/maximum parameters for each risk limitation mechanism, which have not been increased since 2012, are consistent with the Act because they would allow the Exchange to strike the appropriate balance to ensure that risk settings could be established at a level that is consistent with existing market conditions, which would enable the risk settings to operate in the manner intended. The Exchange believes that setting the parameters within the broad range, as proposed, would provide OTPs with ample flexibility in setting their tolerance for risk. For example, OTPs with a lower risk tolerance may opt to select a lower threshold within the range established by the Exchange, thereby optimizing the protection afforded by this proposed rule change, whereas OTPs with a higher risk tolerance may select the maximum

allowable parameter afforded by the proposed rule change. Moreover, because the Exchange would not be permitted to adjust the settings below the minimum or above the maximum proposed, the settings should remain at all times within a reasonable range. Finally, given that the risk settings would now be available for all order types, the Exchange believes it would be prudent to provide ample flexibility for setting the maximum thresholds.

Consistent with the ability to better manage risk, the Exchange anticipates that the proposed enhancement to the existing Risk Limitation Mechanism would likewise enhance the Exchange's overall market quality as a result of narrowed quote widths and increased liquidity for series traded on the Exchange, which would benefit investors and the public interest because they receive better prices and because it lowers volatility in the options market. Moreover, the Exchange believes that the proposal is consistent with the protection of investors and the public interests because it would permit OTPs to better manage the potential risks of multiple executions against an OTP's proprietary interest that, in today's highly automated and electronic trading environment, can occur simultaneously across multiple series and multiple option classes.

Finally, the Exchange believes that the proposed changes to streamline and clarify the rule text, including updated cross references that conform rule text to proposed changes, promotes just and equitable principles of trade, fosters cooperation and coordination among persons engaged in facilitating securities transactions, and removes impediments to and perfects the mechanism of a free and open market by ensuring that members, regulators and the public can more easily navigate the Exchange's rulebook and better understand the defined terms used by 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. The Exchange is proposing a market enhancement that would provide OTPs with greater control and flexibility over setting their risk tolerance and more protection over risk exposure, if the market moves in an unexpected direction. The Exchange believes the proposal would provide market participants with additional protection from unintended executions. The proposal is structured to offer the same

<sup>26</sup> 15 U.S.C. 78f(b).

<sup>27</sup> 15 U.S.C. 78f(b)(5).

enhancement to all OTPs, regardless of size, and would not impose a competitive burden on any participant. The Exchange does not believe that the proposed enhancement to the existing risk limitation mechanism would impose a burden on competing options exchanges. Rather, the availability of this mechanism may foster more competition. Specifically, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues. When an exchange offers enhanced functionality that distinguishes it from the competition and participants find it useful, it has been the Exchange's experience that competing exchanges will move to adopt similar functionality. Thus, the Exchange believes that this type of competition amongst exchanges is beneficial to the market place as a whole as it can result in enhanced processes, functionality, and technologies.

*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>28</sup> and Rule 19b-4(f)(6) thereunder.<sup>29</sup> Because the 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 prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6)(iii) thereunder.

At any time within 60 days of the filing of such 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 under Section 19(b)(2)(B)<sup>30</sup> of the Act 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 (<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-NYSEArca-2016-155 on the subject line.

*Paper Comments*

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090.
- All submissions should refer to File Number SR-NYSEArca-2016-155. 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 such 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-NYSEArca-2016-155, and should be submitted on or before December 30, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>31</sup>

**Eduardo A. Aleman,**

*Assistant Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-79467; File No. SR-BatsBZX-2016-81]

**Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to BZX Rule 11.23, Auctions, To Amend How the Official Auction Prices Are Calculated and Add Additional Specificity Regarding the Handling of RHO Orders During an Opening Auction for a BZX Listed Security**

December 5, 2016

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 30, 2016, Bats BZX Exchange, Inc. (the "Exchange" or "BZX") 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 Exchange. The Exchange has designated this proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder,<sup>4</sup> which renders it effective upon filing with the Commission. 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 filed a proposal to amend Exchange Rule 11.23, Auctions, to: (i) Amend how the official auction prices are calculated and make related changes to the definitions of Indicative Price and Auction Only Price; and (ii)

<sup>28</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>29</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>30</sup> 15 U.S.C. 78s(b)(2)(B).

<sup>31</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 5 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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

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