The Exchange is also proposing conforming changes throughout BX and Nasdaq Rules 4702(b)(4)(A) to reflect this change.

12 On BX, unlike on Nasdaq, executions in securities priced at or above $1 result in rebates for the accessor of liquidity and as such it is always in the best interest of the incoming Post-Only Order to execute in securities at or above $1.

13 This behavior related to the execution of the Post-Only Order is not changed by Nasdaq's proposal.

the value of the Order, or (ii) it is priced at $1.00 or more,12 or (ii) it is priced below $1.00 and the value of price improvement associated with executing against an Order on the Exchange Book (as measured against the original limit price of the Order) equals or exceeds $0.01 per share;13 and

- on BX, if (i) it is priced at $1.00 or more,12 or (ii) it is priced below $1.00 and the value of price improvement associated with executing against an Order on the Exchange Book (as measured against the original limit price of the Order) equals or exceeds the sum of fees charged for such execution and the value of any rebate that would be provided if the Order posted to the Exchange Book and subsequently provided liquidity.

Under the proposals,9 if the adjusted price of the Post-Only Order would lock or cross a non-displayed price on the respective Exchange’s Book, the Post-Only order would be posted in the same manner as a Price to Comply Order.10 However, the Post Only Order would execute:

- On Nasdaq if (i) it is priced below $1.00 and the value of price improvement associated with executing against an Order on the Nasdaq Book (as measured against the original limit price of the Order) equals or exceeds $0.01 per share;13 and

- on BX, if (i) it is priced at $1.00 or more,12 or (ii) it is priced below $1.00 and the value of price improvement associated with executing against an Order on the Exchange Book (as measured against the original limit price of the Order) equals or exceeds the sum of fees charged for such execution and the value of any rebate that would be provided if the Order posted to the Exchange Book and subsequently provided liquidity.

The Exchanges are also proposing conforming changes throughout BX and Nasdaq Rules 4702(b)(4)(A) to reflect this change.

According to BX and Nasdaq Rules 4702(b)(4)(A), if the entered limit price of a Price to Comply Order would lock or cross a Protected Quotation, the Price to Comply Order could not execute against an Order on the respective Exchange's Book at a price equal to or better than the price of the Protected Quotation, the Price to Comply Order will be displayed on the respective Exchange's Book at a price one minimum price increment lower than the best current Best Offer (for a Price to Comply Order to buy) or higher than the current Best Bid (for a Price to Comply Order to sell), but will also be ranked on the respective Exchange's Book with a non-displayed price equal to the current Best Offer (for a Price to Comply Order to buy) or the current Best Bid (for a Price to Comply Order to sell).

This behavior related to the execution of the Post-Only Order is not changed by Nasdaq’s proposal.

On BX, unlike on Nasdaq, executions in securities priced at or above $1 result in rebates for the accessor of liquidity and as such it is always in the best interest of the incoming Post-Only Order to execute in securities at or above $1.

This behavior related to the execution of the Post-Only Order is not changed by BX's proposal.
would be re-priced, ranked, and displayed at one minimum price increment below the current best-priced Order to sell on the respective Exchange’s Book (for bids) or above the current best-priced Order to buy on the respective Exchange’s Book (for offers). Under the proposals,14 if the Post-Only Order would not lock or cross a Protected Quotation but would lock or cross a Non-Displayed Order on the respective Exchange’s Book, the Post-Only Order would be posted, ranked, and displayed at its limit price.15 However, the Post Only Order would execute:

- On Nasdaq if (i) it is priced below $1.00 and the value of price improvement associated with executing against an Order on the Nasdaq Book equals or exceeds the sum of fees charged for such execution and the value of any rebate that would be provided if the Order posted to the Nasdaq Book and subsequently provided liquidity, or (ii) it is priced at $1.00 or more and the value of price improvement associated with executing against an Order on the Nasdaq Book equals or exceeds $0.01 per share;16 and
- on BX, if (i) it is priced at $1.00 or more,17 or (ii) it is priced below $1.00 and the value of price improvement associated with executing against an Order on the Exchange Book equals or exceeds the sum of fees charged for such execution and the value of any rebate that would be provided if the Order posted to the Exchange Book and subsequently provided liquidity.18

Currently, Nasdaq Rule 4702(b)(5)(A) provides that, if the NBBO is crossed, a Midpoint Peg Post-Only Order19 would nevertheless be priced at the midpoint between the NBBO. Currently, BX and Nasdaq Rules 4703(d) provide that, in the case of an Order with Midpoint Pegging,20 if the Inside Bid and Inside Offer are crossed, the Order would nevertheless be priced at the midpoint between the Inside Bid and the Inside Offer. Moreover, even if the Inside Bid and Inside Offer are crossed, an Order with Midpoint Pegging that crossed an Order on the respective Exchange’s Book would execute. Under the proposed amendments to Nasdaq Rule 4702(b)(5)(A), if the NBBO is crossed, any existing Midpoint Peg Post-Only Order would be cancelled and any new Midpoint Peg Post-Only Order would be rejected. Similarly, under the proposed amendments to BX and Nasdaq Rules 4703(d), if the Inside Bid and Inside Offer are crossed, any existing Order with Midpoint Pegging would be rejected and any new Order with Midpoint Pegging would be cancelled.

III. Summary of Comments and Response to Comments

The Commission received a comment letter opposing Nasdaq’s proposal and a response letter from Nasdaq.21 Regarding Nasdaq’s proposal, the commenter specifically questions whether allowing Post-Only Orders to lock Non-Displayed Orders would help or enhance price discovery.22 The commenter also questions whether allowing this locking behavior would undermine investors’ reliance on the public market of bids, offers, and trades to reflect the true price of an asset.23 Moreover, the commenter questions the impact of this proposal on the ban against locked and crossed markets.24 Finally, the commenter questions whether allowing a non-displayed locked market would maintain fair and orderly efficient markets, facilitate capital formation, and protect and serve the interests of investors.25

In response to these comments, Nasdaq states that its proposal to modify the processing of Post-Only Orders under a narrow set of conditions would ensure that the market operates as efficiently as possible, reduce information leakage, and improve execution quality.26 In addition, according to Nasdaq, posting Post-Only Orders at their limit price would result in tighter bid-ask spreads relative to the current re-pricing practice, and tighter spreads would reflect enhanced price discovery.27 Moreover, according to Nasdaq, many economists believe that a locked market is “the truest reflection of the price of an asset.”28 Therefore, Nasdaq believes that allowing buyers and sellers to reflect their true demand and supply prices, rather than re-pricing to an artificial price, would enhance investors’ experience on Nasdaq.29 Nasdaq notes that the proposal does not permit a locked market as defined by Rule 610 of Regulation NMS, as Rule 610 defines a locked market as the display of bids and offers at the same price, while Nasdaq’s proposal would involve only the display of a bid or an offer, but not both.30 Finally, Nasdaq states its belief that the proposal is consistent with maintaining fair and orderly markets, efficient capital formation, and the protection of investors.31 According to Nasdaq, the proposal would lead to tighter spreads, better execution prices, and lower information leakage for investors who currently quote and trade on Nasdaq.32 Nasdaq states that it anticipates that, as a result of the proposal, current members would quote and trade more actively and new members would commence quoting and trading, which would further enhance the quality of the Nasdaq market.33

IV. Commission Findings

After careful review, the Commission finds that the proposed rule changes, as modified by Amendments No. 1, are consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.34 In particular, the Commission finds that the proposed rule changes, as modified by Amendments No. 1, are consistent with Section 6(b)(5) of the Act,35 which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to

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14 The Exchanges are also proposing conforming changes throughout BX and Nasdaq Rules 4702(b)(4)(A) to reflect this change.
15 One effect of this proposal is that, when a Post-Only Order encounters a Non-Displayed Order that is a Midpoint Peg Order and posts at its limit price, the Post-Only Order would establish a new NBBO and the Midpoint Peg Order would either be cancelled or re-adjusted based on the change to the NBBO.
16 This behavior related to the execution of the Post-Only Order is not changed by Nasdaq’s proposal.
17 On BX, unlike on Nasdaq, executions in securities priced at or above $1 result in rebates for the accessor of liquidity and as such it is always in the best interest of the incoming Post-Only Order to execute in securities at or above $1.
18 This behavior related to the execution of the Post-Only Order is not changed by BX’s proposal.
19 According to Nasdaq Rule 4702(b)(5)(A), a Midpoint Peg Post-Only Order is an Order Type with a Non-Display Order Attribute that is priced at the midpoint between the NBBO and that would execute upon entry only in circumstances where economically beneficial to the party entering the Order.
20 According to BX and Nasdaq Rules 4703(d), Midpoint Pegging means Pegging with reference to the midpoint between the Inside Bid and the Inside Offer. The price to which an Order is pegged is referred to as the Inside Quotation, Inside Bid, or Inside Offer, as appropriate.
21 See supra notes 5 and 6.
22 See Themis Letter at 3.
23 See id.
24 See id. at 4.
25 See id. This commenter also urges the Commission to eliminate all post-only order types. See id. at 1. The Commission notes that the comment urging the elimination of all post-only orders types is beyond the scope of the proposals.
26 See Response Letter at 1–2.
27 See id. at 2.
28 See id. at 3.
29 See id.
30 See id.
31 See id.
32 See id.
33 See id.
34 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(d).
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.

The Commission notes that the Exchanges believe that the proposals related to the interaction between Post-Only Orders and Non-Displayed Orders would help to reduce the information leakage that can occur when a Post-Only Order-prices to avoid locking or crossing the price of a Non-Displayed Order resting on the respective Exchange’s book. Specifically, under the proposals, if a Post-Only Order would not lock or cross a Protected Quotation but would lock or cross a Non-Displayed Order on the respective Exchange’s Book, the Post-Only Order would be posted, ranked, and displayed at its limit price, rather than be re-priced. In addition, if the adjusted price of a Post-Only Order would lock or cross a non-displayed price on the respective Exchange’s Book, the Post-Only Order would be posted in the same manner as a Price to Comply Order (i.e., displayed at a price one minimum price increment lower than the current Best Offer (for a buy order) or higher than the current Best Bid (for a sell order); ranked with a non-displayed price equal to the current Best Offer (for a buy order) or the current Best Bid (for a sell order)).

The Commission notes that the Exchanges’ proposals to discontinue pricing and executing Midpoint Peg Post-Only Orders (Nasdaq only) and Orders with Midpoint Pegging when the NBBO is crossed would reflect that the midpoint of a crossed market is not a clear and accurate indication of a valid price and would avoid mispriced executions. The Commission also notes that this proposed behavior is similar to the rules of other exchanges.

Based on the foregoing and the Exchanges’ representations, the Commission believes that the proposed rule changes, as modified by Amendments No. 1, are consistent with the Act.

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule changes (SR–BX–2016–046 and SR–NASDAQ–2016–111), as modified by their respective Amendment No. 1, be, and they hereby are, approved.

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

Brent J. Fields,
Secretary.

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SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Adopting a Decommission Extension Fee for Receipt of the NYSE Order Imbalances Market Data Product

November 10, 2016.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”) and Rule 19b–4 thereunder, notice is hereby given that on October 28, 2016, New York Stock Exchange LLC (“NYSE” or the “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 adopt a Decommission Extension Fee for receipt of the NYSE Order Imbalances market data product. The proposed change is available on the Exchange’s Web site at 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 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to adopt a Decommission Extension Fee for receipt of the NYSE Order Imbalances market data product, as set forth on the NYSE Proprietary Market Data Fee Schedule (“Fee Schedule”). Recipients of NYSE Order Imbalances would continue to be subject to the already existing subscription fees currently set forth in the Fee Schedule. The proposed Decommission Extension Fee would apply only to those subscribers who decide to continue to receive the NYSE Order Imbalances feed in its legacy format for up to two months after which the feed will be distributed exclusively in the new format explained below.

The NYSE Order Imbalances is an NYSE-only market data feed of real-time order imbalances that accumulate prior to the opening of trading on the Exchange and prior to the close of trading on the Exchange. The Exchange distributes information about these imbalances in real-time at specified intervals prior to the opening and closing auction each day.

As part of the Exchange’s efforts to regularly upgrade systems to support more modern data distribution formats and protocols as technology evolves, the Commission notes that, in conjunction with these proposals, the Exchanges are adopting the Trade Now instruction, which is an Order Attribute that would allow a resting Order that becomes locked by an incoming Displayed Order to execute against the available size of the contra-side Orders as a liquidity taker. See Securities Exchange Act Release Nos. 79281 (November 10, 2016) (SR–BX–2016–059) and 79282 (November 10, 2016) (SR–NASDAQ–2016–111), as modified by their respective Amendment No. 1.

B. Self-Regulatory Organization’s Statement of the Reasonable Relation of the Proposed Rule Change to the Section of the Act Under Whose Authority It Is Approved

The Exchange proposes to adopt a Decommission Extension Fee for receipt of the NYSE Order Imbalances market data product. The proposed change is available on the Exchange’s Web site at www.nyse.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.